WITT UTILITY DISTRICT

AUDIT REPORT

SEPTEMBER 30, 2022

Witt Utility District
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September 30, 2022

CRAINE, THOMPSON & JONES, P.C.

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INDEPENDENT AUDITOR'S REPORT

Witt Utility District
Morristown, Tennessee

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of Witt Utility District (Utility), which comprise the proprietary fund balance sheets as of and for the years ended September 30, 2022 and 2021, and the related proprietary fund statements of revenues, expenses, and changes in net position and cash flows for the years ended, and the related notes to the financial statements, which collectively comprise Witt Utility District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Witt Utility District as of September 30, 2022 and 2021 and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

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 Witt Utility District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards* we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Witt Utility District's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Witt Utility District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 9 and the required supplementary information on pages 25 through 26 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.

Witt Utility District

Supplementary Information

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

The introductory section has not been subject to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express and opinion or provide and assurance on it.

Other Reporting Required By *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated November 6, 2023, on our consideration of Witt Utility District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 Witt Utility District's internal control over financial reporting and compliance.

Craine, Thompson, & Jones, P.C.

Morristown, Tennessee
November 6, 2023

Witt Utility District
Management's Discussion and Analysis
September 30, 2022

This discussion is intended to present a broad view of Witt Utility District's (the "District") financial position and activities for fiscal years ended September 30, 2022, 2021, and 2020. The information in this letter is provided to comply with standards issued by the Governmental Accounting Standards Board (GASB) No. 34 Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. The discussion and analysis included in this document contain information for Water, and Wastewater services provided by Witt Utility District.

Highlights

- The District's assets exceed its liabilities by $4,188,962 ("net position") for the fiscal year ended September 30, 2022. This compares to the previous fiscal years ended September 30, 2021 and 2020 when assets exceeded liabilities by $3,920,189 and $3,685,633, respectively.
- Total liabilities of the District at fiscal year ended September 30, 2022 increased by $1,307,568. Of the total increase in liabilities, $1,200,00 is a revenue bond obtained by the District for an infrastructure overhaul. Total liabilities of the District at fiscal year ended September 30, 2021 decreased by $58,803. This decrease is largely attributed to principal payments made on debt during the fiscal year ended September 30, 2021.
- Net position consists of the following:

    1. Capital assets, net of accumulated depreciation and debt owed, of $2,893,490, $2,396,561, and $2,277,787 for the fiscal years ended September 30, 2022, 2021, and 2020 respectively.
    2. Net position amounting to $351,907 in the fiscal year ended September 30, 2022, and $220,187 in each fiscal year ended September 30, 2021 and 2020, is restricted for use in servicing the District's debt obligations.
    3. Unrestricted net position of $943,565, $1,303,441, and $1,187,659 for the fiscal years ended September 30, 2022, 2021, and 2020, respectively, represent the portion available to maintain the District's continuing obligations.

- Witt Utility District billed 2,182 unique customers as of September 2022 compared to 2,060 for 2021 and 2,060 for 2020 which was a 5.9% increase and a 0.0% increase, respectively.

Using This Annual Report

This annual report consists of a series of financial statements. The Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position provide information about the District as a whole and present a long-term view of the District's finances.

Financial Statement Overview

One of the most important questions asked about the District's finances is "Is the District better off or worse off as a result of this year's activities?" The Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position report information about the District and about its activities that help answer this question. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. The current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

These two statements report the District's net position and changes in them. The District's net position - the differences between assets and liabilities - is one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position is one indicator of whether its financial health is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors in addition to the financial information provided in this report.

Witt Utility District
Management's Discussion and Analysis
September 30, 2022

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.

Table 1-Net Position

	2022	2021	Increase (Decrease)	%	2020	Increase (Decrease)	%
Current and Other Assets							
Current Assets	$1,405,148	$ 1,376,722	$ 28,426	2.06%	$1,422,914	$ (46,192)	-3.25%
Untility Plant, Net	7,720,422	6,100,376	1,620,046	26.56%	6,055,533	44,843	0.74%
Other Assets	232,618	304,737	(72,119)	-23.67%	128,293	176,444	137.53%
Total Current and Other Assets	9,358,188	7,781,835	9,183,093	20.26%	7,606,740	175,096	2.30%
Deferred Outflows Of Resources	937	903	34	3.77%	640	263	41.09%
Current and Other Liabilities							
Current Liabilities	497,628	230,744	266,884	115.66%	213,571	17,173	8.04%
Long Term Liabilities	4,669,665	3,628,981	1,040,684	28.68%	3,704,957	(75,976)	-2.05%
Total Current and Other Liabilities	5,167,293	3,859,725	1,307,568	33.88%	3,918,528	(58,803)	-1.50%
Deferred Inflows Of Resources	2,870	2,824	46	1.63%	3,219	(395)	12.27%
Net Position							
Net Investment in Capital Assets	2,893,490	2,396,561	496,929	20.74%	2,277,787	118,774	5.21%
Restricted for Debt Service	351,907	220,187	131,720	59.82%	220,187	-	0.00%
Unrestricted (Deficit)	943,565	1,303,441	(359,876)	-27.61%	1,187,659	115,782	9.75%
Total Net Position	$4,188,962	$ 3,920,189	$ 268,773	6.86%	$3,685,633	$ 234,556	6.36%

Table 2-Statement Of Revenues And Expenses And Changes In Net Position

	2022	2021	Increase (Decrease)	%	2020	Increase (Decrease)	%
Sales Revenue	$ 1,339,660	$ 1,242,092	$ 97,568	7.86%	$ 1,219,327	$ 22,765	1.87%
Misc. Service Revenue	536,098	475,726	60,372	12.69%	328,799	146,927	44.69%
Other Income	209,018	508,026	(299,008)	-58.86%	71,904	436,122	606.53%
Total Revenue	2,084,776	2,225,844	(141,068)	-6.34%	1,620,030	605,814	37.40%
Operating Expenses	1,439,941	1,612,774	(172,833)	-10.72%	1,001,720	611,054	61.00%
Depreciation Expenses	255,349	252,398	2,951	1.17%	230,908	21,490	9.31%
Total Expenses	1,695,290	1,865,172	(169,882)	-9.11%	1,232,628	632,544	51.32%
Operating Income	389,486	360,672	28,814	7.99%	387,402	(26,730)	-6.90%
Interest Income	2,295	2,265	30	1.32%	2,490	(225)	-9.04%
Gain On Sale Of Assets	20,307	17,889	2,418	13.52%	-	17,889	100.00%
Interest Expense	(143,315)	(146,270)	2,955	-2.02%	(150,040)	3,770	-2.51%
Total Non Operating Income	(120,713)	(126,116)	5,403	-4.28%	(147,550)	21,434	-14.53%
Change In Net Position	$ 268,773	$ 235,556	$ 34,217	14.59%	$ 239,852	$ (5,296)	-2.21%

Financial Information

The net assets are broken down into three categories. The net investment in capital assets is calculated by taking the cost of capital assets less depreciation less debt owed on capital assets. The restricted amount is assets restricted for payments on bonds and future expansions, if any. The amount of net position shows the District's ability to finance operations.

Net income for fiscal year 2022 is $268,773, an increase of $34,217 from fiscal year 2021. Net income for fiscal year 2021 is $234,556, a decrease of $5,296 from fiscal year 2020. The primary cause of the decrease in net income during fiscal year 2022 is the District's decrease in miscellaneous revenue. Net income in fiscal year 2021 was stable compared to fiscal year 2020.

Witt Utility District
Management's Discussion and Analysis
September 30, 2022

Capital Assets

At the end of fiscal year 2022, the District had $7.7 million (net of accumulated depreciation) invested in capital assets, including land and land rights, construction in progress, filter plant, water plant, equipment, and building. This amount represents an increase (including additions and deletions) of $1.6 million, or roughly 26.56 percent over fiscal year 2021. The new additions for current year included roof and gutter system for building, HVAC units at the water plant, and additions included in equipment consist of a vehicle, Peterbilt truck, aluminum semi trailer, Kohler generator, and a boring tool.

At the end of fiscal year 2021, the District had $6.1 million (net of accumulated depreciation) invested in capital assets, including land and land rights, construction in progress, filter plant, water plant, equipment, and building. This amount represents an increase (including additions and deletions) of $44.8 thousand, or roughly 0.74% over fiscal year 2020. The additions during fiscal year 2021 included land and land rights, various heavy equipment, and a vehicle.

	2022	2021	Increase (Decrease)	%	2020	Increase (Decrease)	%
Land	$ 218,850	$ 218,850	$ -	0.00%	$ 207,996	$ 10,854	5.22%
Construction In Progress	1,715,071	-	1,715,071	100.00%	-	-	0.00%
Total Capital Assets Not Depreciated	1,933,921	218,850	1,715,071	783.67%	207,996	10,854	5.22%
Water Plant	4,138,654	4,138,654	-	0.00%	4,138,654	-	0.00%
Building	467,033	421,042	45,991	10.92%	421,042	-	0.00%
Equipment	1,036,282	1,009,337	26,945	2.67%	817,297	192,040	23.50%
Filter Plant	4,443,797	4,411,267	32,530	0.74%	4,411,267	-	0.00%
Total Other Capital Assets	10,085,766	9,980,300	105,466	1.06%	9,788,260	192,040	1.96%
Less Accumulated Depreciation	(4,299,266)	(4,098,774)	(200,492)	4.89%	(3,940,723)	(158,051)	4.01%
Other Capital Assets, Net	5,786,500	5,881,526	(95,026)	-1.62%	5,847,537	33,989	0.58%
Utility Plant, Net	$7,720,421	$6,100,376	$1,620,045	26.56%	$ 6,055,533	$ 44,843	0.74%

Outstanding Debt

At the end of the fiscal year, the District had $4,826,932 million in outstanding debt. This amount represents an increase of $1,123,113 over fiscal year 2021. In fiscal year 2021 the District had $3,703,815 million in outstanding debt which was a decrease of $73,931 from the fiscal year 2020. The increase in debt for the current year is because the District took out a $1,200,00 revenue bond to help fund the District's ongoing infrastructure overhaul.

	2022	2021	Increase (Decrease)	%	2020	Increase (Decrease)	%
Notes From Direct Borrowings	$4,826,932	$3,703,815	$1,123,113	30.32%	$ 3,777,746	$(73,931)	-1.96%
Total Outstanding Debt	$4,823,932	$3,703,815	$1,123,113	30.32%	$ 3,777,746	$ (73,931)	-1.96%

Other Financial Information

The details of the financial report and management's discussion are intended to provide customers and interested parties with a general and detailed overview of Witt Utility District's financial position. Request for additional information should be addressed to Witt Utility District, Director of Finance & Accounting, PO Box 486, Morristown, Tennessee 37815-0486.

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

Witt Utility District
Statements of Net Position
September 30, 2022 and 2021

	2022	2021
Assets		
Current Assets:		
Cash and Cash Equivalents	$ 539,850	$ 757,273
Receivables	232,618	304,737
Materials and Supplies Inventory	293,983	193,583
Investments	427,030	425,865
Total current assets	1,493,481	1,681,458
Property, Plant and Equipment:		
Land and Land Rights	218,850	218,850
Plant in Service	10,085,767	9,980,301
Construction in Process	1,715,071	-
Less: Accumulated Depreciation	(4,299,266)	(4,098,774)
	7,720,422	6,100,377
Net Property, Plant, and Equipment	7,720,422	6,100,377
Deferred Outflows Of Resources:		
Deferred OPEB Cost	937	903
Total Deferred Outflows Of Resources	937	903
Total Assets	$ 9,214,840	$ 7,782,738

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

Witt Utility District
Statements of Net Position
September 30, 2022 and 2021

	2022	2021
Liabilities and Net Position		
Current Liabilities (payable from current assets):		
Trade Accounts Payable	$ 231,939	$ 54,356
Accrued Expenses	33,920	22,171
Customers' Deposits	72,047	77,582
Total Current Liabilities (payable from current assets)	337,906	154,109
Current Liabilities (payable from restricted assets):		
Current Installments of Long-Term Debt	159,724	76,635
Total Current Liabilities (payable from restricted assets)	159,724	76,635
Non Current Liabilities:		
Revenue Bonds and Revenue Refunding Bonds	4,667,206	3,627,180
Other Post Employment Benefits Obligations	2,457	1,801
Total Long-Term Liabilities	4,669,663	3,628,981
Deferred Inflows Of Resources:		
Deferred OPEB Cost	2,870	2,824
Total Deferred Inflows Of Resources	2,870	2,824
Net Position:		
Net Investment in Capital Assets	2,893,492	2,396,561
Restricted for Debt Service	351,907	220,187
Unrestricted	799,278	1,303,441
Total Net Position	4,044,677	3,920,189
Total Liabilities and Net Position	$ 9,214,840	$ 7,782,738

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

Witt Utility District
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended September 30, 2022 and 2021

	2022	2021
Operating revenues:		
Water sales	$ 1,339,660	$ 1,242,092
Sewer charges	295,448	271,728
NH3 surcharges	34,785	32,703
Storm water runoff	36,622	34,220
Fire protection	13,037	13,037
State fee	4,278	5,750
Garbage can fee	6,885	6,630
Penalties	26,681	25,592
Reconnection	16,095	16,891
Service charges	9,626	11,473
Tap fees	82,350	45,150
Credit card fees	10,291	12,552
Miscellaneous	209,018	508,026
Total operating revenues	2,084,776	2,225,844
Operating expenses:		
Purchased water	16,836	15,147
Salaries and wages	495,434	369,885
Vacation/sick pay	6,408	1,280
Materials and supplies	109,325	206,647
Tools	5,550	2,077
Truck expense	34,993	79,878
Postage	13,743	10,316
Returned checks	(1,742)	(2,912)
Phone	13,000	10,726
Lab supplies	4,220	3,847
Office expense	20,641	46,813
Electric	133,887	117,046
Heating fuel	2,298	398
Legal and accounting	85,248	77,200
Insurance	35,227	31,757
Payroll taxes	38,968	29,885
Dues and subscriptions	4,799	6,193
Uniforms	7,172	3,038
Contract labor	7,675	43,648
Employee benefits	87,425	64,494
Repairs/maintenance	57,418	92,916
City of Morristown and White Pine	358,554	324,712
Employee retirement	16,066	27,742
Miscellaneous	31,081	50,041
Depreciation and amortization	255,349	252,398
Total operating expenses	1,839,575	1,865,172
Operating income	245,201	360,672

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

Witt Utility District
Statements of Revenues, Expenses and Changes in Net Position (Continued)
For the Years Ended September 30, 2022 and 2021

	2022	2021
Non-operating revenue (expenses):		
Interest income	2,295	2,265
Gain on sale of assets	20,307	17,889
Interest expense	(143,315)	(146,270)
Total non-operating revenue (expenses)	(120,713)	(126,116)
Net income	124,488	234,556
Net position:		
Beginning of year	3,920,189	3,685,633
End of year	$ 4,044,677	$ 3,920,189

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

Witt Utility District
Statements of Cash Flows
For the Years Ended September 30, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Receipts from customers and users	$ 2,156,895	$ 2,049,400
Payments to suppliers	(1,005,398)	(1,174,419)
Payments to employees	(494,764)	(369,885)
Other receipts (payments)	-	(132,390)
Net cash provided by (used in) operating activities	656,733	372,706
Cash flows from capital and related financing activities:		
Acquisitions and construction of capital assets		
Additions to plant	(1,930,538)	(325,224)
Proceeds from additions to notes payable	1,200,000	-
Principal paid on notes payable & capitalized leases	(76,885)	(73,930)
Interest paid on bonds, notes & capitalized leases	(143,315)	(146,270)
Sale of capital assets	75,450	27,721
Net cash provided by (used in) capital and related financing activities	(875,288)	(517,703)
Cash flows from investing activities:		
Interest from cash management activities	1,130	2,265
Net cash provided by (used in) investing activities	1,130	2,265
Net increase (decrease) in cash and cash equivalents	(217,425)	(142,732)
Cash and cash equivalents at beginning of year	757,275	900,007
Cash and cash equivalents at end of year	$ 539,850	$ 757,275
Summary of cash and cash equivalents at end of year:		
Cash - non-interest bearing	$ 539,850	$ 757,275
Total	$ 539,850	$ 757,275

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

Witt Utility District
Statements of Cash Flows (Continued)
For the Years Ended September 30, 2022 and 2021

	2022	2021
Reconcilation of operating income to net cash provided by operating activities:		
Operating income	$ 245,201	$ 360,672
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation and amortization	255,349	252,398
Gain on sale of assets	-	17,889
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	72,119	(176,444)
(Increase) decrease in inventories	(100,400)	54,265
(Increase) decrease in other assets	(35)	(150,805)
Increase (decrease) in accounts payable	177,583	25,704
Increase (decrease) in accrued liabilities	12,405	(6,703)
Increase (decrease) in deferred inflows	46	(395)
Increase (decrease) in customer deposits	(5,535)	(3,875)
Net cash provided by (used in) operating activities	$ 656,733	$ 372,706

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

Witt Utility District
Notes to Financial Statements
September 30, 2022

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

General

In 1959, a meeting was held to discuss the need for potable water for the Witt community. From this meeting, Witt Utility District was established. In 1999, Witt Utility expanded into Jefferson County to merge with several small water systems, including the City of Baneberry. By 2001, Witt constructed its new office and work center. Growing water operations led to the need of a new water treatment plant to serve current and any future needs which led to the construction of the new 5.5 million gallon per day facility, which features three independent raw water sources. The facility also has backup power generators for the water plant and all other pumping stations for the preparation of any future power losses.

The accounting and reporting policies of Witt Utility District (District or Utility) included in the accompanying financial statements conform to accounting principles generally accepted in the United States of America that are applicable to state and local governments. Accounting principles generally accepted in the United States of America for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and by the Financial Accounting Standards Board, when applicable.

The financial statements are presented on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America and general practices in the water industries. Operating revenues and expenses generally result from providing water services in connection with the District's ongoing operations. Operating expenses include the cost of personnel, contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Net position is classified into the following three components, as applicable:

Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation, 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.

Restricted For Debt Service – This component of net position consists of restricted assets reduced by liabilities related to those assets.

Unrestricted – This component of net position is the net amount of the assets and liabilities that are not included in the determination of net investment in capital assets or restricted components of net position.

Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Utility's operations are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the enterprise fund are included on the balance sheet. Fund equity (i.e. total net position) consists of retained earnings. Operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in total net position.

Fiscal Year-End

The Board operates on a fiscal year ending September 30. All references in these notes refer to the fiscal year-end unless otherwise specified.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

The Utility considers all demand deposits and short-term, highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

The Utility has no formal policy regarding interest rate risk. Deposits are structured in a manner that ensures sufficient cash is available to meet anticipated liquidity needs. Selection of deposit maturities must be consistent with the cash requirements of the Utility in order to avoid the forced redemption of deposits prior to maturity.

Investments

Investments are recorded at fair value as determined by quoted market prices at the balance sheet date. The Utility has not formally adopted an investment policy and places no limit on the amount that may be invested in any one issuer. State statutes authorize the Utility to invest in certificates of deposit, U.S. Treasury Obligations, U.S. Agency Issues and the State local government investment pool. As of September 30, 2022, the Utility only has certificate of deposit type of investments.

Income Taxes

Whereas the Utility is a nontaxable entity, no provision for income taxes is reflected in the accompanying financial statements.

Materials and Supplies Inventories

Materials and supplies inventories are stated at a weighted average cost and expensed using a weighted average cost method.

Capital Assets

Capital assets are carried at historical cost, including applicable general and administrative costs and payroll related costs such as pensions, taxes and other employee benefits. All material renewals and betterments are capitalized in accordance with the Utility's capitalization policy. The policy is to capitalize items with a total cost of $2,500 or greater. When property is retired or otherwise disposed of, its average cost, together with its cost of removal less salvage, is charged to accumulated depreciation; no gain or loss is recognized.

Capital assets are depreciated using the straight-line method, which amortizes costs over the estimated useful lives of the assets. The estimated useful lives of capital assets are as follows:

Buildings	20 to 50 years
Improvements	20 to 50 years
Furniture, fixtures, and equipment	2 to 15 years

The cost of maintenance and repairs is charged to expense as incurred.

Witt Utility District
Notes to Financial Statements
September 30, 2022

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences

The Utility recognizes the cost of vacation pay and sick leave benefits when earned by the employees. In the event of termination or retirement, an employee is paid for unused vacation days. In general, accumulated sick days are limited to one hundred and eighty days. Employees are paid their accumulated sick leave upon retirement, but not in the event of termination.

Reclassifications

Certain amounts reported in prior years' financial statements have been reclassified to conform to the classification used in the current year.

Use of Estimates

The preparation of financial statements in conformity with generally accepted governmental accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Operating and Non-Operating Revenues and Expenses

Operating revenues and expenses consist of those revenue and expenses that result from ongoing principal operations. Non-operating revenues and expenses are defined as revenues and expenses from non-exchange transactions or ancillary activities. This includes interest income.

Restricted and Unrestricted Resources

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Utility currently has two items that qualify for reporting in this category: Pension net difference between expected and actual experience and change in assumptions.
In addition to liabilities, the statement of financial 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 that time. The Utility currently has two items that qualify for reporting in this category: Pension net difference between expected and actual experience and change in assumptions.

NOTE 2 - PENSION PLAN

A simplified pension plan is offered to all employees. Employees are eligible for participation after six months of employment. Voya Financial is the plan administrator and the benefits are not held in a trust. The Utility matches up to 8% of contributions for employees. The employees have the option to contribute up to 10% of gross pay. Employer contributions for the fiscal years 2022 and 2021 were $16,066 and $27,742, respectively.

Witt Utility District
Notes to Financial Statements
September 30, 2022

NOTE 3 – LONG-TERM DEBT

The Utility uses Rural Development bonds to repair and/or replace aging infrastructure.

A summary of changes in long term debt by individual issue is as follows:

	As Of September 30, 2021	Additions During Period	Retirements During Period	As Of September 30, 2022	Due in One Year
Bonds payable:					
Rural Development					
91-07 - 4.37% interest rate, issued in 2008, payable in varying amounts 2008 to 2048.	$ 1,395,928	$ -	$ 32,018	$ 1,363,910	$ 32,970
91-08 - 4.00% interest rate, issued in 2010, payable in varying amounts 2010 to 2048.	1,150,811	-	24,204	1,126,607	25,417
91-11 - 3.25% interest rate, issued in 2016, payable in varying amounts 2016 to 2054.	1,157,078	-	20,663	1,136,415	21,337
91-22 - 4.31% interest rate, issued in 2022, payable in varying amounts 2023 to 2027.		1,200,000		1,200,000	80,000
Total bonds payable	$ 3,703,817	$ 1,200,000	$ 76,885	$ 4,826,932	$ 159,724

The annual requirements to amortize the Utility's long-term debt outstanding as of September 30, 2022 are as follows:

	Public Imp. Bonds Series 2007	
September 30,	Principal	Interest
2023	$ 32,970	$ 59,478
2024	34,447	58,015
2025	35,989	56,459
2026	37,600	54,848
Thereafter	1,222,904	619,408
Total	$ 1,363,910	$ 848,208

Witt Utility District
Notes to Financial Statements
September 30, 2022

NOTE 3 – LONG-TERM DEBT (CONTINUED)

	Public Imp. Bonds Series 2022	
September 30,	Principal	Interest
2023	$ 80,000	$ 51,720
2024	80,000	48,272
2025	80,000	44,824
2026	80,000	41,376
Thereafter	880,000	227,568
Total	$ 1,200,000	$ 413,760

	Public Imp. Bonds Series 2009	
September 30,	Principal	Interest
2023	$ 25,417	$ 44,363
2024	26,453	43,327
2025	27,531	42,249
2026	28,653	41,127
Thereafter	1,018,553	505,131
Total	$ 1,126,607	$ 676,197

	Public Imp. Bonds Series 2011	
September 30,	Principal	Interest
2023	$ 21,337	$ 36,622
2024	22,041	35,918
2025	22,768	35,191
2026	23,519	34,440
Thereafter	1,046,752	532,389
Total	$ 1,136,417	$ 674,560

	Total Bonds	
September 30,	Principal	Interest
2023	$ 159,724	$ 192,183
2024	162,941	185,532
2025	166,288	178,723
2026	169,772	171,791
Thereafter	4,168,207	1,884,496
Total	$ 4,826,932	$ 2,612,725

Witt Utility District
Notes to Financial Statements
September 30, 2022

NOTE 4 – CAPITAL ASSETS

	Balance Oct 1, 2021	Additions	Dispositions	Balance Sept 30, 2022	Depreciation Expense
Capital assets, not being depreciated:					
Land and land rights	$ 218,850	$ -	$ -	$ 218,850	$ -
Construction in progress	-	1,715,071	-	1,715,071	-
Total capital assets, not being depreciated	218,850	1,715,071	-	1,933,921	-
Capital assets, being depreciated:					
Water plant	4,138,654	-	-	4,138,654	104,781
Building	421,042	45,991	-	467,033	11,824
Equipment	1,009,337	136,946	110,000	1,036,283	26,236
Filter plant	4,411,267	32,530	-	4,443,797	112,507
Total capital assets, being depeciated	9,980,300	215,467	110,000	10,085,767	255,348
Less - accumulated depreciation	(4,098,774)	(255,349)	(54,857)	(4,299,266)	-
Net capital assets, being depreciated	5,881,526	(39,882)	55,143	5,786,501	255,348
Net capital assets	$ 6,100,376	$ 1,675,189	$ 55,143	$ 7,720,422	$ 255,348

Depreciation expense for the years ending September 30, 2022 and 2021 was $255,349 and $252,398, respectively.

NOTE 5 – RISK MANAGEMENT

The Utility is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions, natural disasters; and injuries of employees for which the Utility caries commercial insurance purchased from independent third parties. The Utility has not experienced an insurance settlement in excess of insurance coverage in any of the past three fiscal years. The Utility bears the risk of loss up to the deductible amounts.

NOTE 6 - SUBSEQUENT EVENTS

The Utility has evaluated all events subsequent to the balance sheet date of September 30, 2022, through November 6, 2023, which is the date these financial statements were issued and have determined, except as set forth below, that there are no material subsequent events that require recognition or disclosure.

On May 17, 2023, the Tennessee Comptroller of the Treasury released an investigative report on the Witt Utility District. The report can be viewed at http://www.comptroller.tn/ia/.

On May 15, 2023, the Hamblen County Grand Jury indicted General Manager Benjamin Harris for one count of Theft of Property over $10,000, one count of Theft of Property $1,000 or less, and three counts of Official Misconduct.

On May 15, 2023, the Hamblen County Grand Jury indicted employee Joseph Harris for one count of Official Misconduct.

On July 27, 2023, the Tennessee Board of Utility Regulation initiated ouster proceedings against Board members Michael Rouse and Michael Phagan.

Witt Utility District
Notes to Financial Statements
September 30, 2022

NOTE 6 - SUBSEQUENT EVENTS (CONTINUED)

Although Board Member Mike Rouse's term expired on March 1, 2023, he kept serving and voting on the board. At the August 21, 2023 Board meeting, Mike Rouse resigned at the outset of the meeting. The remainder of the Board took action to fire General Manager, Benjamin Harris.

Michael Phagan has been serving as acting Board chairman and General Manager since August 21, 2023.

Board member Michael Phagan submitted his resignation effective October 12, 2023.

NOTE 7 – NET POSITION

Net position consists of the following as of September 30, 2022:

	September 30, 2022	September 30 2021
Net investment in capital assets consists of the following:		
Net capital assets	$ 7,720,422	$6,100,377
Less related liabilities:		
Current portion of long term debt	159,724	76,635
Long term debt, less current portion	4,667,206	3,627,180
Total related liabilities	4,826,930	3,703,815
Net investment in capital assets	$ 2,893,492	$2,396,562

	September 30, 2022	September 30 2021
Restricted for debt service:		
Restricted cash and cash equivalents	$ 351,907	$ 220,187

Unrestricted net position consists of $799,278 for 2022 and $1,303,441 for 2021.

NOTE 8 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan description - Employees of Witt Utility District are provided with pre-65 retiree health insurance benefits through the Local Government OPEB Plan (LGOP) administered by the Tennessee Department of Finance and Administration. This plan is considered to be multiple-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB). However, for accounting purposes, this plan will be treated as a single-employer plan. All eligible pre-65 retired employees and disability participants of local governments, who choose coverage, participate in the LGOP.

Benefits provided – The Witt Utility District offers the LGOP to provide health insurance coverage to eligible pre-65 retirees and disabled participants of local governments. Insurance coverage is the only postemployment benefit provided to retirees. An insurance committee created in accordance with TCA 8-27-701 establishes and amends the benefit terms of the LGOP. All members have the option of choosing between the premier preferred provider organization (PPO), standard PPO, limited PPO or the wellness health savings consumer-driven health plan (CDHP) for healthcare benefits. Retired plan members, of the LGOP, receives the same plan benefits as active employees, at a blended premium rate that considers the cost of all participants. This creates an implicit subsidy for retirees. Participating employers determine their own policy related to direct subsidies provided for the retiree premiums. The LGOP is funded on a pay-as-you-go basis and there are no assets accumulating in a trust that meets the criteria of paragraph 4 of GASB Statement No. 75.

Witt Utility District
Notes to Financial Statements
September 30, 2022

NOTE 8 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

Employees covered by benefit terms - At July 1, 2021, the following employees of Witt Utility District was covered by the benefit terms of the LGOP:

	2022	2021
Inactive employees currently receiving benefit payments	-	-
Inactive employees entitiled to but not yet receiving benefit payments	-	-
Active employees	7	6
Total	7	6

An insurance committee, created in accordance with TCA 8-27-701, establishes the required payments to the LGOP by member employers and employees through the blended premiums established for active and retired employees. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates.

Changes In The Total OPEB Liability

	2022	2021
	Total OPEB Liability (a)	Total OPEB Liability (a)
Total OPEB liability - beginning balance	1,801	879
Changes for the year:		
Service cost	926	493
Interest	60	48
Changes of benefit terms	-	-
Differences between expected and actual experience	172	80
Change in assumptions	(502)	301
Benefit payments	-	-
Net changes	656	922
Total OPEB liability - ending balance	2,457	1,801

Methods and Assumptions Used to Determine Total OPEB Liability

Actuarial assumptions - The total OPEB liability in the June 30, 2021, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

NOTE 8 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

Inflation	2.25%
Salary increases	Graded salary ranges from 3.44 to 8.72 percent based on age, including inflation, averaging 4 percent
Healthcare cost trend rates	7.36% for pre-65 in 2021, decreasing annually over a 7 year period to an ultimate rate of 4.50%. 7.32% for post-65 in 2021, decreasing annually over an 8 year period to an ultimate rate of 4.50%.
Retiree's share of benefit-related costs	Members are required to make monthly contributions in order to maintain their coverage. For the purpose of this Valuation a weighted average has been used with weights derived from the current distribution

Unless noted otherwise, the actuarial demographic assumptions used in the June 30, 2021, valuations were the same as those employed in the July 1, 2020, Pension Actuarial Valuation of the Tennessee Consolidated Retirement System (TCRS). These assumptions were developed by TCRS based on the results of an actuarial experience study for the period July 1, 2016 - June 30, 2020. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. The mortality rates employed in this valuation are taken from the RP-2014 Healthy Participant Mortality Table for Annuitants for non-disabled post-retirement mortality, with mortality improvement projected to all future years using Scale MP-2016. Post-retirement tables are Blue Collar and adjusted with a 6% load for males and a 14% load for females. Mortality rates for impaired lives are the same as those used by TCRS and are taken from a gender distinct table published in the IRS Ruling 96-7 for disabled lives with a 10% load.

Discount rate - The discount rate used to measure the total OPEB liability was 2.16 percent. This rate reflects the interest rate derived from yields on 20-year, tax-exempt general obligation municipal bonds, prevailing on the measurement date, with an average rating of AA/Aa as shown on the Bond Buyer 20-Year Municipal GO AA index.

Changes in assumptions - The discount rate was changed from 2.21% as of the beginning of the measurement period to 2.16% as of June 30, 2021. This change in assumption increased the total OPEB liability. Other changes in assumptions include adjustments to initial per capita costs and health trend rates.

Sensitivity of total OPEB liability to changes in the discount rate - The following presents the total OPEB liability related to the LGOP, as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate.

	1% Decrease (1.16%)	Discount Rate (2.16%)	1% Increase (3.16%)
Total OPEB liability	$ 2,809	$ 2,457	$ 2,141

NOTE 8 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

Sensitivity of total OPEB liability to changes in the healthcare cost trend rate - The following presents the total OPEB liability related to the LGOP, as well as what the total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rate.

	1% Decrease (6.36%/6.32% decreasing to 3.50%)	Healthcare Cost Trend Rates (7.36%/7.32% decreasing to 4.50%)	1% Increase (8.36%/8.32% decreasing to 5.50%)
Total OPEB liability	$ 1,945	$ 2,457	$ 3,106

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB expense – For the fiscal year ended September 30, 2022, Witt Utility District recognized OPEB expense of $669.

Deferred outflows of resources and deferred inflows of resources - For the fiscal year ended September 30, 2022, Witt Utility District reported deferred outflows of resources and deferred inflows of resources related to OPEB benefits in the LGOP from the following sources:

	Deferred Outflows of resources	Deferred Inflows of resources
Differences between actual and expected experience	$ 615	$ 2,403
Changes of assumptions	$ 322	$ 467
Employer payments subsequent to the measurement date	-	-
Total	$ 937	$ 2,870

The amounts shown above for "Employer payments subsequent to the measurement date" will be recognized as a reduction to total OPEB liability in the following measurement period.

Amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

NOTE 8 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

For the year ended June 30:	
2023	$ (317)
2024	(317)
2025	(308)
2026	(306)
2027	(309)
Thereafter	(376)

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

REQUIRED SUPPLEMENTAL INFORMATION

Schedule of Changes in Total OPEB Liability and Related Ratios Measurement Year Ended September 30, 2022.

Total OPEB liability

	2022	2021	2020	2019	2018
Service cost	$ 926	$ 493	$ 1,273	$ 996	$ 1,011
Interest	60	48	154	75	34
Changes of benefit terms	-	-	-	-	-
Differences between expected and actual experience	172	80	(3,558)	707	-
Changes of assumptions	(502)	301	32	78	(79)
Benefit payments	-	-	(1)	(1)	-
Net change in total OPEB liability	$ 656	$ 922	$ (2,100)	$ 1,855	$ 966
Total OPEB liability - beginning	1,801	879	2,979	1,124	158
Total OPEB liability - ending (a)	$ 2,457	$ 1,801	$ 879	$ 2,979	$ 1,124
Estimated Covered Employee Payroll	**$ 495,434**	**$339,885**	**$343,220**	**$320,717**	**$ 350,303**
Total OPEB Liability as a Percentage of Covered Employee Payroll	**0.50%**	**0.53%**	**0.26%**	**0.93%**	**0.32%**

Notes to Schedule

There are no assets accumulating in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, related to this OPEB plan.

The amounts reported for each fiscal year were determined as of the prior fiscal year end.

This schedule is intended to display ten years of information. Additional years will be displayed as they become available.

OTHER SUPPLEMENTAL INFORMATION

Witt Utility District
List of Utility Officials
September 30, 2022

Board Members

Mike Rouse	President/Chair
Michael Phagan	Member
Bradley Kaufman	Member
Ben Harris	Manager

Witt Utility District
Schedule of Bond and Interest Requirements
September 30, 2022

Year Ended	Series 2007		Series 2022	
September 30,	Principal	Interest	Principal	Interest
2023	$ 32,970	$ 59,478	$ 80,000	$ 51,720
2024	34,447	58,015	80,000	48,272
2025	35,989	56,459	80,000	44,824
2026	37,600	54,848	80,000	41,376
2027	39,284	53,164	80,000	37,928
2028	41,043	51,405	80,000	34,480
2029	42,880	49,568	80,000	31,032
2030	44,800	47,648	80,000	27,584
2031	46,806	45,642	80,000	24,136
2032	48,902	43,546	80,000	20,688
2033	51,091	41,357	80,000	17,240
2034	53,378	39,070	80,000	13,792
2035	55,769	36,679	80,000	10,344
2036	58,265	34,183	80,000	6,896
2037	60,874	31,574	80,000	3,448
2038	63,599	28,849		
2039	66,447	26,001		
2040	69,422	23,026		
2041	75,868	16,580		
2042	72,531	19,917		
2043	79,171	13,277		
2044	82,715	9,733		
2045	86,419	6,029		
2046	83,640	2,160		
2047				
2048				
2049				
2050				
2051				
2052				
2053				
2054				
2055				
	$ 1,363,910	$ 848,208	$ 1,200,000	$ 413,760

Witt Utility District
Schedule of Bond and Interest Requirements (CONTINUED)
September 30, 2022

Year Ended	Series 2009		Series 2011		Totals	
September 30,	Principal	Interest	Principal	Interest	Principal	Interest
2023	$ 25,417	$ 44,363	$ 21,337	$ 36,622	$ 159,724	$ 192,183
2024	26,453	43,327	22,041	35,918	162,941	185,532
2025	27,531	42,249	22,768	35,191	166,288	178,723
2026	28,653	41,127	23,519	34,440	169,772	171,791
2027	29,820	39,960	24,295	33,664	173,399	164,716
2028	31,035	38,745	25,097	32,862	177,175	157,492
2029	32,299	37,481	25,925	32,034	181,104	150,115
2030	33,615	36,165	26,780	31,179	185,195	142,576
2031	34,984	34,796	27,663	30,296	189,453	134,870
2032	36,410	33,370	28,576	29,383	193,888	126,987
2033	37,893	31,887	29,519	28,440	198,503	118,924
2034	39,437	30,343	30,492	27,467	203,307	110,672
2035	41,044	28,736	31,498	26,461	208,311	102,220
2036	42,716	27,064	32,537	25,422	213,518	93,565
2037	44,456	25,324	33,611	24,348	218,941	84,694
2038	46,267	23,513	34,720	23,239	144,586	75,601
2039	48,152	21,628	35,865	22,095	150,464	69,724
2040	50,114	19,666	37,048	20,911	156,584	63,603
2041	52,156	17,624	38,270	19,689	166,294	53,893
2042	54,281	15,499	39,533	18,426	166,345	53,842
2043	56,492	13,288	40,837	17,122	176,500	43,687
2044	58,794	10,986	42,184	15,775	183,693	36,494
2045	61,189	8,591	43,576	14,383	191,184	29,003
2046	63,682	6,098	45,013	12,946	192,335	21,204
2047	66,277	3,503	46,498	11,461	112,775	14,964
2048	57,440	864	48,032	9,927	105,472	10,791
2049			49,617	8,342	49,617	8,342
2050			51,253	6,706	51,253	6,706
2051			52,944	5,015	52,944	5,015
2052			54,691	3,268	54,691	3,268
2053			56,495	1,464	56,495	1,464
2054			7,092	32	7,092	32
2055			7,089	32	7,089	32
	$1,126,607	$ 676,197	$ 1,136,415	$ 674,560	$ 4,826,932	$ 2,612,725

Witt Utility District
Schedule of Utility Rates
September 30, 2022

First 1,000 gallons - minimum bill	$ 24.00
Excess over 1,000 gallons	$ 7.50
Water tap fee	$ 1,050.00
Activation fee	125.00
Service charge fee	50.00
Number of customers	2,182

Witt Utility District
Schedule of Long Term Debt By Individual Issue
September 30, 2022

Description of Indebtedness		Original Amount of Issue	Interest Rate	Date of Issuance	Last Maturity Date		Outstanding September 30, 2021		Issued Durring Period		Paid and/or Matured		Refunded During Period		Outstanding September 30, 2022
Bonds Payable															
2007 Series Waterworks Revenue Bonds	$	1,800,000	4.37%	2008	2046		1,395,928		-		32,018		-		1,363,910
2009 Series Waterworks Revenue Bonds	$	1,500,000	4.00%	2010	2048		1,150,811		-		24,204		-		1,126,607
2011 Series Waterworks Revenue Bonds	$	1,261,000	3.25%	2011	2054		1,157,078		-		20,663		-		1,136,415
2022 Series Waterworks Revenue Bonds	$	1,200,000	4.31%	2022	2037		-		1,200,000		-		-		1,200,000
Total Bonds Payable						$	3,703,817	$	1,200,000	$	76,885	$	-	$	4,826,932

CRAINE, THOMPSON & JONES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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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*

Witt Utility District
Harriman, 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 Witt Utility District which comprise the proprietary fund balance sheets as of and for the years ended September 30, 2022 and 2021, and the related proprietary fund statements of revenues, expenses, and changes in net position and cash flows for the years ended, and the related notes to the financial statements, which collectively comprise Witt Utility District's basic financial statements, and have issued our report thereon dated November 6, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Witt Utility 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 Witt Utility District's internal control. Accordingly, we do not express an opinion on the effectiveness of Witt Utility District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the schedule of findings and questioned costs as items 2022-002,2022-003,2022-004,2022-005,2022-006,2022-007,and 2022-009 to be material weaknesses.

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. We consider the deficiencies described in the schedule of findings and questioned costs as items 2022-001 and 2022-008 to be significant deficiencies.

JAMES W. CRAINE, CPA
MIRA J. CRAINE, CPA

WHITNEY D. MCGOWAN, CPA

Witt Utility District

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Witt Utility District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Witt Utility District's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Witt Utility District's response to the findings identified in our engagement and described in the accompanying management responses and corrective action plan. Witt Utility 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.

Morristown, Tennessee
November 6, 2023

Witt Utility District
Schedule of Findings and Questioned Costs
September 30, 2022

2022-001 – Accounting Records Not Closed Within 60 Days

Criteria:

TCA Section 9-2-102(b) states, "It is the duty of all local governments that are subject to the audit requirements of the comptroller of the treasury and that handle public funds to close their official accounting records and to have those records available for audit no later than two months after the close of their fiscal year."

Condition:

Auditors were not presented with requested audit information 60 days after the close of the fiscal year. Therefore, the accounting records were not properly closed and available for audit within 60 days after the close of the fiscal year.

Cause:

Lack of understanding of state guidelines by accounting staff and management.

Effect:

The accounting records presented to the auditors were not ready to be audited. Violation of state requirement.

Recommendation:

We recommend that the Board take appropriate steps to ensure that management and accounting staff have the proper awareness of state guidelines. This could include mandatory continuing education events to help with state utility guidelines.

2022-002 – The Inventory Account Was Not Reconciled Properly At Year End

Criteria:

Standard accounting procedures and properly established internal controls require that general ledger balances are reconciled and supported by appropriate underlying documentation. At a minimum, these reconciliations should be prepared monthly.

Condition:

Inventory was not reconciled to supporting documentation and other associated ledgers as of September 30, 2022, which may result in inventory being misstated. Controls should ensure that all balances are reconciled monthly to the underlying subsidiary ledgers and supporting documentation in a timely manner. Control processes and procedures to accomplish these reconciliations on a monthly and year-end basis were not in place.

Cause:

The Board and General Manager hired an outside accounting firm to help with year end balance reconciliations, but inventory was not reconciled at the end of the fiscal year. The accounting staff lacks the proper understanding of what it means to have all account balances properly reconciled, which can lead to material misstatements. There is no management approval process in place.

Effect:

Lack of proper controls resulted in errors and misstatements that were not detected and resolved in a timely manner requiring material adjustments.

Recommendation:

We recommend that the Board take appropriate steps to ensure that controls are in place and operating effectively to reconcile all balances to subsidiary ledgers and supporting documentation on a monthly basis. These controls should include monthly review procedures which verify and take responsibility for the agreement of the balances.

2022-003 – Multiple Cash Disbursements Missing Proper Authorization and/or Support

Criteria:

The Tennessee Audit Manual, page C-2, requires adequate supporting documentation, such as prenumbered receipts, billing stubs, invoices, etc., to document all transactions. All cash disbursements should have sufficient authorization and support to ensure proper usage of public funds. This includes all expenditures made by credit cards.

Condition:

Some cash expenditures that were examined did not have proper proof of authorization to indicate that the expenditure was approved. Further, multiple cash expenditures examined did not have sufficient supporting documentation to indicate the purpose of the expenditure. The items that are material are as follows:

- Check #19842 to Vulcan Materials on 3/7/22 for $3,382.29.
- Check #20098 to Commercial Bank Visa for $5,807.78.
- Check #19551 to Tyler Blankenship on 10/6/21 for $90,000.
- Check #20031 to Innovation Home Improvement on 6/3/22 for $25,700.00

Cause:

Internal control procedures are not being followed by the General Manager and Board to ensure public utility funds are properly expended.

Effect:

When internal controls over expenditures are not followed consistently, an environment where fraud could occur exists.

Recommendation:

The General Manager and Board should ensure proper internal control policies are in place and followed consistently. The Board should also ensure management and staff receive training on the proper functioning of internal control over expenditures.

2022-004 – Purchase Orders Dated After Purchase and Not Properly Authorized

Criteria:

Purchase orders are used to authorize and plan expenditures. A purchase order should be issued when a purchase is authorized and it will include the date of authorization, a description of the purchase, the amount of the purchase, and the proper authorization.

Condition:

There were multiple instances where either a purchase order was not issued, or was dated and issued after the purchase was made. The purchase orders were missing proper authorization by the General Manager.

Cause:

Items were purchased that were not properly authorized or were authorized after the fact.

Effect:

Items may be purchased by the utility that are not properly authorized and could foster an environment for fraud.

Recommendation:

Follow internal control policies to ensure all items purchased by the utility are valid and necessary and do not foster an environment of fraud.

2022-005 – Bid Policy Not Followed Consistently

Criteria:

The Utility has not formally adopted it's own purchasing policy or adhered to MTAS's purchasing guide as formulated under the T.C.A. S 12-3-1207, T.C.A. S 12-3-1209, T.C.A. S 12-4-107, and Municipal Purchasing Law of 1983

Condition:

Due to a lack of controls and purchasing policy there were (3) instances noted where competitive bidding should have been done but was not during the fiscal year. One instance noted was an equipment purchase for a large dollar amount from a private seller.

Cause:

A pattern was noted that large equipment purchases were always made as suggestions to the Board with no specific reasoning for the purchase, very few specifications given, only specific equipment models/makes mentioned, and an absence of any initial bid/quote work completed for potential vendors. Major renovations or repairs of the Utility's buildings had no competitive bidding support.

Effect:

Internal controls over bidding and purchasing not being followed harbors an environment of negligent spending of rate payers' funds.

Recommendation:

Establish a thorough purchasing policy that adheres to state law with strict enforcement by the Board.

2022-006 – General Manager Overtime Does Not Have Sufficient Documentation

Criteria:

All hourly employees are required to use a time clock to track their work hours, including overtime.

Condition:

From October 2021 until mid August of 2022, the General Manager was an hourly employee and subject to the guidelines for hourly employees. From January 2022 until mid August 2022, the General Manager was paid approximately $67,000 for overtime hours. Witt Utility could not produce any time clock documents or any other written documents to verify these overtime hours.

Cause:

The General Manager did not use the time clock consistently, if at all. All time recorded in the time and pay register was called in to the accounting office by the General Manager with no supporting documentation.

Effect:

The General Manager was violating the policy and procedures for hourly employees related to hours worked. This can lead to the misappropriation of public utility funds since there was no documentation authorizing or describing the nature of the overtime pay.

Recommendation:

In mid August 2022, the Board made the General Manager a salaried employee. However, Witt Utility should consistently follow policies and procedures for all employee hours worked.

2022-007 – Unable To Track and Verify Job Materials Due To Lack of Proper Documentation

Criteria:

All water jobs and projects should have proper documentation and authorizations that show the materials and labor used.

Condition:

Witt Utility was unable to provide a list of water jobs that occurred during the fiscal year. Further, there was no documentation showing the materials and labor used on those jobs.

Cause:

Work orders are not being used for water jobs. It is impossible to track material in inventory or used in projects.

Effect:

When work orders are not used to track materials used for water jobs, it can lead to the misappropriation of assets.

Recommendation:

Witt Utility should use work orders for all water jobs to ensure the reduction of the risk of misappropriation of assets.

2022-008 – Board Oversight of General Manager and Policies and Procedures Should Be Strengthened

Criteria:

It is the Board's responsibility to maintain and oversee the Utility's policies and procedures to reduce the potential for misappropriation of assets and other fraud.

Condition:

We provided management points to the Board and General Manager from the prior year audit. These included updating the policies and procedures manual from 2002, making sure books are maintained on an accrual basis, improving purchase and bid procedures, making sure any property or machinery that is used by Witt Utility but is owned by someone other than the Utility is documented in writing, and improving the detail contained in Board minutes.

Cause:

Board is not consistently performing their fiduciary duties.

Effect:

When the Board does not maintain strong oversight of the Utility it can lead to an environment where fraud and misappropriation could occur.

Recommendation:

The Board should be consistent and vigilant in their oversight duties.

2022-009 – Investigative Report

Criteria:

On May 17, 2023, the Tennessee Comptroller of the Treasury issued a report on its investigation of the Utility.

Condition:

The investigative report disclosed the following findings:

1. The General Manager misappropriated Utility funds totaling at least $12,000.
2. The General Manager and other employees used Utility funds and other assets for private purposes.
3. The Utility made questionable overtime payments to the General Manager of at least $67,392.
4. Questionable disbursements of at least $5,243 were identified.
5. The Utility did not solicit competitive sealed bids for multiple purchases and projects.

The investigative report disclosed the following internal control deficiencies:

1. The Board did not sufficiently oversee projects, manager decisions, and expenses.
2. Utility management did not adequately account for consumable assets.
3. The Board and management failed to properly oversee district operations, which contributed to multiple purchasing deficiencies.
4. Management failed to properly over see Utility operations, which contributed to multiple payroll deficiencies.
5. The Utility did not issue official consecutively prenumbered receipts for some collections.
6. The Board did not authorize a formal written agreement with another utility district for work performed.

The investigative report can be viewed at http://www.comptroller.tn/ia/.

Cause:

The Board did not properly exercise fiduciary duties.

Effect:

Due to the Board not properly exercising its fiduciary duties, a poor environment exists that fosters potential misappropriation and fraud.

Recommendation:

The Board and General Manager should review the report, work to eliminate all deficiencies and take steps to ensure these are not findings and deficiencies in the future.

Witt Utility District
Summary Schedule of Prior Year Findings
September 30, 2022

Financial Statement Findings

Prior Year Finding Number	Finding Title	Status/Current Year Finding Number
2021-001	Accounting Records Not Closed Within 60 Days	Repeated/2022-001
2021-002	Some General Ledger Balances Were Not Reconciled Properly At Year End	Partially Corrected/2022-002

11/6/2023

WITT UTILITY DISTRICT

Witt Utility District
Management Responses and Corrective Action Plan
September 30, 2022

<u>Finding 2022-001</u>: Accounting Records Not Closed Within 60 Days

Management concurs taking only partial exception to the stated Cause. As this was a finding in the previous year's audit, the Board agreed that the General Manager should engage an outside accounting firm. The purposes of the engagement were to evaluate the accounting operations and assist in making necessary improvements, assist and educate Management and the bookkeeping staff in proper maintenance of the books and records, ensure proper closing of the books at year end within the 60 day requirement, and assist in preparation of appropriate financial reporting. This finding was repeated because the General Manager nor the outside accounting firm ensured the purposes of the engagement were fulfilled.

<u>Planned Corrective Action:</u> The Board has ended the employment of the General Manager and terminated the engagement with the outside accounting firm. The Board has engaged directly with a different outside accounting firm to follow through on the purposes not completed in the previous engagement.

Finding 2022-002: The Inventory Account Was Not Reconciled Properly At Year End

Management concurs. As this was a finding in the previous year's audit, the Board agreed that the General Manager should engage an outside accounting firm. The purposes of the engagement were to evaluate the accounting operations and assist in making necessary improvements, assist and educate Management and the bookkeeping staff in proper maintenance of the books and records, ensure proper closing of the books at year end within the 60 day requirement, and assist In preparation of appropriate financial reporting. This finding was repeated because the General Manager nor the outside accounting firm ensured the purposes of the engagement were fulfilled.

<u>Planned Corrective Action:</u> The Board has ended the employment of the General Manager and terminated the engagement with the outside accounting firm. The Board has engaged directly with a different outside accounting firm to follow through on the purposes not completed in the previous engagement.

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Finding 2022-003: Some Cash Disbursements Missing Proper Authorization and/or Support

Management concurs.

Planned Corrective Action: Management will coordinate with the Board to ensure that necessary policies are instituted, and all proper approval procedures are in place and followed in the future.

Finding 2022-004: Purchase Orders Dated After Purchase and Not Properly Authorized

Management concurs.

Planned Corrective Action: Management will coordinate with the Board to ensure that necessary policies are instituted, and that purchase requisition/orders are properly utilized and approved in accordance with established policies.

Findings 2022-005-008: Bid Policy Not Followed Consistently, General Manager Overtime Does Not Have Sufficient Documentation, Unable To Track and Verify Job Materials Due To Lack of Proper Documentation, Board Oversight of General Manager and Policies and Procedures Should Be Strengthened

See Finding 2022-009 for planned corrective action related to these findings.

Finding 2022-009: Investigative Report

Planned Corrective Action: The Board engaged an independent accounting firm to perform agreed upon procedures to provide added insight into the findings in the Investigative Report. Based on information gathered during the agreed upon procedures engagement that seemed to corroborate certain items within the Investigative Report and illuminate other issues, the General Manager was relieved of his duties at the August 21, 2023, Board meeting.

Regarding the overtime finding, the General Manager was initially paid on an hourly basis for a temporary period. The Board was monitoring the organizational payroll expenses to ensure the overall payroll budget was not exceeded. As the Board is not involved in the daily operations of the Utility, there was no framework for it to monitor and approve overtime. The General Manager oversees and approves all overtime. While the General Manager was not properly documenting his timesheets, there was actually less payroll expense incurred during this temporary period for the duties the General Manger was assigned. Subsequently, the General Manager was converted to a salaried employee based on information provided by the Utility's General Counsel about a salary appropriate for a manager of a district this size. However, due to other concerns, the General Manager was relieved of his duties at the August Board meeting. In the future, the General Manager will be hired as a salaried employee and overtime will not be an issue.

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As for the other findings, Management and the Board are working to implement/update policies, procedures, and operational systems to achieve an appropriate organizational culture for a special purpose governmental entity. The Board has already installed new purchasing and leak adjustment policies. In addition, the Board has developed/updated policies for the following:

Code of Ethics

Conflicts of Interest

Internal Controls

Personnel

Nepotism

Audit Services

Legal Services

Accounting Operations

Management will ensure adherence to the enacted policies and procedures once they are finalized and adopted by the Board.

The Board has purchased an upgraded Enterprise Management System that will provide for enhanced internal controls, better accounting/business operations, improved inventory management, as well as greater operational efficiency and resource utilization through an automated work order system and other components.

The next General Manager will be required to provide more detailed information on the operation of the district to the Board at regularly scheduled meetings.

Michael Phagan
General Manager
Witt Utility District

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