

**CALHOUN-CHARLESTON UTILITY DISTRICT
OF McMINN AND BRADLEY COUNTIES, TENNESSEE**

AUDIT REPORT

FOR YEARS ENDED SEPTEMBER 30, 2023 AND 2022

**Harting, Bishop & Arrendale, PLLC
Certified Public Accountants
Cleveland, Tennessee 37312**

INTRODUCTORY SECTION

Calhoun-Charleston Utility District of McMinn and Bradley Counties, Tennessee

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September 30, 2023 and 2022

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Calhoun-Charleston Utility District of McMinn and Bradley Counties, Tennessee
Roster of Board of Commissioners and Management
September 30, 2023

Roy Shelton, President

Frankie McCartney, Secretary/Vice President

J.W. Lee, Member

David Lattimore, Member

Johnny Stokes, Member

Tyler Richesin, Maintenance Supervisor

Amanda Liner, Office Manager

FINANCIAL SECTION

HARTING, BISHOP & ARRENDALE, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

KELVIN W. BISHOP, CPA
THOMAS H. ARRENDALE, CPA, MBA
JANICE L. HAYES, CPA

MEMBER
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
TENNESSEE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Calhoun-Charleston Utility District of McMinn and Bradley Counties, Tennessee

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Calhoun-Charleston Utility District of McMinn and Bradley Counties, Tennessee as of and for the years ended September 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise Calhoun-Charleston Utility District of McMinn and Bradley Counties, Tennessee'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 Calhoun-Charleston Utility District of McMinn and Bradley Counties, Tennessee as of September 30, 2023 and 2022, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 Calhoun-Charleston Utility District of McMinn and Bradley Counties, Tennessee, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Calhoun-Charleston Utility District of McMinn and Bradley Counties, Tennessee'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 Calhoun-Charleston Utility District of McMinn and Bradley Counties, Tennessee'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 Calhoun-Charleston Utility District of McMinn and Bradley Counties, Tennessee's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-7 be presented to supplement the basic financial statements. Such information, 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.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory section, supplemental information presented on pages 15-16, and management's corrective action plans but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated December 21, 2023 on our consideration of Calhoun-Charleston Utility District of McMinn and Bradley Counties, Tennessee'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 Calhoun-Charleston Utility District of McMinn and Bradley Counties, Tennessee'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 Calhoun-Charleston Utility District of McMinn and Bradley Counties, Tennessee's internal control over financial reporting and compliance.

Martiny, Bishop + Arendale, PLLC

Cleveland, Tennessee
December 21, 2023

CALHOUN-CHARLESTON UTILITY DISTRICT
OF McMINN AND BRADLEY COUNTIES
CHARLESTON, TENNESSEE

Management's Discussion and Analysis

Our discussion and analysis of Calhoun-Charleston Utility District of McMinn and Bradley Counties, Tennessee's financial performance provides an overview of the District's financial activities for the fiscal years ended September 30, 2023 and 2022. This should be read in conjunction with the District's financial statements which may be found elsewhere in this document.

Using This Annual Report

This annual report consists of a series of financial statements. The statements of net position and statements of revenues, expenses and changes in net position provide information about the activities of the District as a whole and present an overview of the District's finances.

The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about any entity's finances is "How did the District do financially this year?" The statements of net position and statements of revenues, expenses and changes in net position report information in a way that helps answer this question. These statements include all assets and liabilities using accrual basis accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net position and changes in net position. Net position – the difference between assets and liabilities – are one way to measure the District's financial health, or its financial position. Over time, increases or decreases to the District's net position is an indicator of whether its financial health is improving or deteriorating. An analysis of net position and changes in net position are as follows:

	<u>2023</u>	<u>2022</u>
Net Position		
Current and non-current assets	\$ 2,197,925	\$ 1,940,570
Capital assets	<u>2,792,341</u>	<u>2,917,034</u>
Total assets	4,990,266	4,857,604
Current liabilities	<u>60,745</u>	<u>62,665</u>
Net Position	<u>\$ 4,929,521</u>	<u>\$ 4,794,939</u>
Summary of net position-		
Investment in capital assets	\$ 2,792,341	\$ 2,917,034
Unrestricted	<u>2,137,180</u>	<u>1,877,905</u>
Total Net Position	<u>\$ 4,929,521</u>	<u>\$ 4,794,939</u>
Change in Net Position		
Operating revenues	\$ 996,087	\$ 1,058,105
Operating expenses	<u>881,414</u>	<u>845,445</u>
Operating income / (expense)	114,673	212,660
Other revenues / (expenses)	<u>19,909</u>	<u>(4,328)</u>
Change in net position	134,582	208,332
Net Position	<u>4,794,939</u>	<u>4,586,607</u>
Net Position - ending	<u>\$ 4,929,521</u>	<u>\$ 4,794,939</u>

Analysis of Financial Position and Results of Operations

The District sold 78,235,044 gallons of water during fiscal year 2023 at an average price of \$9.96 per 1000 gallons for regular customers and \$6.77 per 1000 gallons for large customers.

Operating revenues for fiscal year 2023 decreased 6% over 2022. This decrease in revenues was primarily due to a decrease in sewer sales.

Operating expenses for fiscal year 2023 increased 4% over 2022. This increase was primarily due to increases in water purchased, salaries, professional services, and employee benefits.

Capital Asset Activity


As of year-end, the Utility District had \$4,628,180 invested in a variety of capital assets, \$2,792,341 net of depreciation. This represents a net decrease of \$124,693 due to depreciation expense.

The District's Net Position

The change in net position was \$144,674. The total change in net position was a result of a decrease in net position invested in capital assets of \$124,693 and an increase in unrestricted net position of \$269,367. Unrestricted net position is that which can be used to finance day-to-day operations of the system.

Financial Activity and Plans for Future Needs

The District is currently planning on applying for a CBDG Grant to replace the old water tank in Charleston, TN. The District has been awarded ARP money designated for interconnections in Calhoun, TN and GIS mapping in Calhoun and Charleston, TN



Tyler Richesin General Manager

Calhoun-Charleston Utility District of McMinn and Bradley Counties, Tennessee

Statements of Net Position
September 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
Current Assets		
Cash	\$ 1,989,442	\$ 1,768,475
Accounts receivable	131,584	126,794
Accounts receivable - grants	12,100	-
Accounts receivable - other	1,328	821
Inventory	46,346	39,207
Prepaid expense	<u>17,125</u>	<u>5,273</u>
Total current assets	<u>2,197,925</u>	<u>1,940,570</u>
Non-Current Assets		
Capital Assets		
Plant and equipment	4,610,220	4,610,220
Accumulated depreciation	<u>(1,835,839)</u>	<u>(1,711,146)</u>
Capital assets being depreciated, net	2,774,381	2,899,074
Land	<u>17,960</u>	<u>17,960</u>
Capital assets, net	<u>2,792,341</u>	<u>2,917,034</u>
Total non-current assets	<u>2,792,341</u>	<u>2,917,034</u>
Total Assets	<u>\$ 4,990,266</u>	<u>\$ 4,857,604</u>
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts payable	\$ 27,820	\$ 25,064
Accrued liabilities	4,325	8,880
Customer deposits	<u>28,600</u>	<u>28,721</u>
Total current liabilities	<u>60,745</u>	<u>62,665</u>
Net Position		
Investment in capital assets	2,792,341	2,917,034
Unrestricted net position	<u>2,137,180</u>	<u>1,877,905</u>
Total net position	<u>4,929,521</u>	<u>4,794,939</u>
Total Liabilities and Net Position	<u>\$ 4,990,266</u>	<u>\$ 4,857,604</u>

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

Calhoun-Charleston Utility District of McMinn and Bradley Counties, Tennessee
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended September 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
OPERATING REVENUES		
Water revenues	\$ 719,512	\$ 713,226
Sewer revenue	219,079	285,056
Tapping charges	25,555	19,516
Penalties	23,903	25,403
Other fees	8,038	14,904
Total operating revenues	<u>996,087</u>	<u>1,058,105</u>
OPERATING EXPENSES		
Operating salary	143,795	157,967
Water purchased	166,856	149,346
Operating expense	8,640	11,564
Sewer processing charges	89,908	120,603
Sewer utilities expense	2,500	3,830
Repairs and maintenance	71,248	63,884
Tap fees	25,555	19,516
Travel expense	720	-
Truck expense	6,577	7,720
Depreciation	124,693	118,140
Administrative salary	103,692	62,199
Payroll taxes	18,933	16,843
Employee benefits	45,378	38,223
Office expense	12,449	25,714
Professional services	25,735	22,726
Utilities	3,536	2,131
Telephone	5,153	4,493
Insurance	24,312	18,472
Bank fees	1,204	1,206
Miscellaneous	530	868
Total operating expenses	<u>881,414</u>	<u>845,445</u>
Operating income	<u>114,673</u>	<u>212,660</u>
OTHER REVENUES (EXPENSES)		
Loss on disposal of assets	-	(2,066)
Interest income	1,902	1,166
Plant costs recovered through contributions in aid of construction:		
Contributions from other governments	12,100	-
Tap fees (over) / under cost	5,907	(3,428)
Total other revenues (expenses)	<u>19,909</u>	<u>(4,328)</u>
Change in net position	134,582	208,332
Net position, beginning of year	<u>4,794,939</u>	<u>4,586,607</u>
Net position, end of year	<u>\$ 4,929,521</u>	<u>\$ 4,794,939</u>

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

Calhoun-Charleston Utility District of McMinn and Bradley Counties, Tennessee

Statements of Cash Flows

For the Years Ended September 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 990,668	\$ 1,108,470
Payments to suppliers for goods and services	(461,845)	(494,500)
Payments for payroll, related taxes and benefits	<u>(315,665)</u>	<u>(284,895)</u>
Net cash provided by operating activities	<u>213,158</u>	<u>329,075</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Additions to capital assets	-	(343,612)
Proceeds received (used) for contributions in aid of construction	<u>5,907</u>	<u>(3,428)</u>
Net cash provided (used) by capital and related financing activities	<u>5,907</u>	<u>(347,040)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	<u>1,902</u>	<u>1,166</u>
Net cash provided by investing activities	<u>1,902</u>	<u>1,166</u>
Net increase (decrease) in cash and cash equivalents	220,967	(16,799)
Cash and cash equivalents at beginning of year	<u>1,768,475</u>	<u>1,785,273</u>
Cash and cash equivalents at end of year	<u>\$ 1,989,442</u>	<u>\$ 1,768,475</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net operating income	\$ 114,673	\$ 212,660
Adjustments to reconcile net operating revenues to net cash provided by operating activities:		
Depreciation	124,693	118,140
Accounts receivable	(4,790)	50,571
Accounts receivable - other	(507)	(166)
Inventory	(7,139)	(11,917)
Prepaid insurance	(11,852)	(104)
Accounts payable	2,756	(36,817)
Accrued liabilities	(4,555)	(3,253)
Customer deposits	<u>(121)</u>	<u>(39)</u>
Net cash provided by operating activities	<u>\$ 213,158</u>	<u>\$ 329,075</u>

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

NOTE 1 – Summary of Significant Accounting Policies

General – Calhoun Charleston Utility District of McMinn and Bradley Counties, Tennessee was incorporated under the provision of The Utility District Act of 1937, Chapter 248 Public Acts of Tennessee, 1937 as amended. The District embraces the southwest area of McMinn County and provides water service to the residents and businesses of that area.

The District has five commissioners who serve five-year terms. Upon the expiration of their respective terms, death, or resignation, their successor is selected by the remaining current commissioners.

Basis of Accounting – The accompanying financial statements have been prepared using the economic resources measurement focus and accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources (whether current or noncurrent) are included in the statements of net position. The statements of revenue, expenses and change in net position present increases (revenue) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenue is recognized in the period in which it is earned while expenses are recognized in the period in which the liability is incurred. Revenue is recorded when billed to their customers, based on a monthly meter reading cycle.

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing water service and related fees. Operating expenses include the cost of water, labor, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The financial statements of the District are prepared in accordance with generally accepted principles (GAAP). The District's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Resources are required to be classified for accounting purposes into the following three net position groups:

1. Net investment in capital assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net position – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or (2) law through constitutional provisions or enabling legislation.
3. Unrestricted net position – Net position that does not meet the definition of restricted or invested in capital assets, net of related debt.

Contributions in Aid of Construction – In accordance with governmental accounting standards the District recovers plant costs through future regulatory rates and therefore, recognizes tap fees as a net increase in other revenues.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition – Revenues are recognized based on billings to customers on a monthly meter-reading cycle. Unbilled revenue approximated at \$21,458 in 2023 and \$20,879 in 2022. The effect of recording unbilled revenue was not material to the financial statements.

Calhoun-Charleston Utility District of McMinn and Bradley Counties, Tennessee
Notes to Financial Statements
September 30, 2023 and 2022

NOTE 1 – Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents – It is the District’s policy to invest excess cash only in certificates of deposit or interest-bearing accounts with local depository institutions as authorized by its Board of Commissioners. At September 30, 2023, the District’s deposits were covered by the Federal Depository Insurance Corporation (FDIC) up to \$250,000 and the remainder through collateral held by the State of Tennessee Collateral Pool for Public Deposits.

Cash and cash equivalents include cash on hand, deposits in banks, and highly liquid investments with maturity of three months or less at the time of purchase.

Use of Restricted Assets – It is the District’s policy, when applicable, to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Financial Instruments – The carrying values of cash and cash equivalents, accounts receivable, and various current liabilities are reasonable estimates of their fair value because of the short maturity of these financial instruments.

Materials and Supplies – Materials and supplies inventory is valued at the lower of cost or market using the first-in first-out basis.

NOTE 2 – Capital Assets

Capital assets are stated at original cost. When property subject to depreciation is retired or otherwise disposed of in the normal course of business, its cost, together with the cost of removal less salvage, is charged to accumulated depreciation. The district charges maintenance and repairs, including the cost of renewals of minor items of property, to maintenance expense accounts. Replacements of property (exclusive of minor items of property) are charged to capital asset accounts. Interest costs are expensed when incurred on debt where proceeds were used to finance construction of assets. Depreciation expense recognized for the years ended September 30, 2023 and 2022, was \$124,693 and \$118,140 respectively.

Depreciation is provided on a straight-line basis per the estimated useful of the capital assets as follows:

Water system	10 to 50 years
Sewer system	50 years
Buildings	15 to 25 years
Furniture & equipment	5 to 10 years
Tools	5 years
Transportation equipment	5 years
Fence	10 years
Computer	5 years
Software	3 years

Calhoun-Charleston Utility District of McMinn and Bradley Counties, Tennessee
Notes to Financial Statements
September 30, 2023 and 2022

NOTE 2 – Capital Assets (continued)

Capital asset activity for the years ended September 30, 2023 and 2022 were as follows:

	September 30, 2022	Additions	Retirements	September 30, 2023
Capital assets not being depreciated:				
Land	\$ 17,960	\$ -	\$ -	\$ 17,960
Total capital assets not being depreciated	<u>17,960</u>	<u>-</u>	<u>-</u>	<u>17,960</u>
Capital assets being depreciated:				
Utility plant	4,159,879	-	-	4,159,879
Buildings	353,008	-	-	353,008
Equipment	88,203	-	-	88,203
Fence	5,285	-	-	5,285
Software	<u>3,845</u>	<u>-</u>	<u>-</u>	<u>3,845</u>
Total capital assets being depreciated	4,610,220	-	-	4,610,220
Less accumulated depreciation	<u>(1,711,146)</u>	<u>(124,693)</u>	<u>-</u>	<u>(1,835,839)</u>
Total capital assets being depreciated, net	<u>2,899,074</u>	<u>(124,693)</u>	<u>-</u>	<u>2,774,381</u>
Total capital assets, net	<u>\$ 2,917,034</u>	<u>\$ (124,693)</u>	<u>\$ -</u>	<u>\$ 2,792,341</u>
	September 30, 2021	Additions	Retirements	September 30, 2022
Capital assets not being depreciated:				
Land	\$ 17,960	\$ -	\$ -	\$ 17,960
Total capital assets not being depreciated	<u>17,960</u>	<u>-</u>	<u>-</u>	<u>17,960</u>
Capital assets being depreciated:				
Utility plant	4,159,879	-	-	4,159,879
Buildings	21,272	343,612	(11,876)	353,008
Equipment	88,203	-	-	88,203
Fence	5,285	-	-	5,285
Software	<u>3,845</u>	<u>-</u>	<u>-</u>	<u>3,845</u>
Total capital assets being depreciated	4,278,484	343,612	(11,876)	4,610,220
Less accumulated depreciation	<u>(1,602,816)</u>	<u>(118,140)</u>	<u>9,810</u>	<u>(1,711,146)</u>
Total capital assets being depreciated, net	<u>2,675,668</u>	<u>225,472</u>	<u>(2,066)</u>	<u>2,899,074</u>
Total capital assets, net	<u>\$ 2,693,628</u>	<u>\$ 225,472</u>	<u>\$ (2,066)</u>	<u>\$ 2,917,034</u>

Calhoun-Charleston Utility District of McMinn and Bradley Counties, Tennessee
Notes to Financial Statements
September 30, 2023 and 2022

NOTE 3 – Retirement Plan

During September 30, 2002, the District established a Saving Incentive Match Plan for Employees of Small Employers (SIMPLE), which is a defined contribution pension plan. The plan is administered through Hartford Mutual Funds. It provides retirement benefits to employees who expect to receive \$5,000 in compensation for the calendar year and received \$5,000 in compensation in the previous calendar year. The District matches an employee's salary reduction contribution up to 3% of the employee's compensation. Contributions by the employees, employer, and earnings on contributions are immediately vested under the plan, therefore there are no forfeitures to be recognized in pension expense. Retirement expense vested for the years ended September 30, 2023 and 2022, was \$6,697 and 5,128, respectively.

NOTE 4 – Sick Leave

Employees can accumulate fourteen days of sick leave per year. Sick leave can be used if sickness occurs, with remaining days accumulated to be paid at retirement. The accumulated days are not paid upon termination of employment other than retirement. According to GASB 43, the payment of the leave must be probable before it is recorded as a liability. Since employees are well below retirement age, the number of days probable to be paid cannot be estimated.

NOTE 5 – Commitments and Contingencies

The District operates under a purchase contract with Hiwassee Utility Commission to purchase all water used by the District. The District also contracts with Cleveland Utilities for the acceptance and treatment of wastewater from the City of Charleston.

NOTE 6 – Risk Management

The District is exposed to various risks of loss related to torts; damage to, or destruction of assets; error and omissions; and natural disaster. The District maintains commercial insurance coverage to manage these various risks. Exposure is limited to claims in excess of standard policy limitations. There were no claims in excess of insurance coverage during the last three years.

NOTE 7 – Subsequent Events

Subsequent events were evaluated through December 21, 2023, which is the date the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

Calhoun-Charleston Utility District of McMinn and Bradley Counties, Tennessee
Schedule of Insurance Coverage
September 30, 2023

<u>Insurer</u>	<u>Type of Coverage</u>	<u>Amount of</u>
SteadPoint Insurance	Workers' Compensation	Statutory
Grange Mutual Casualty Co.	Auto Liability and Physical Damage	\$ 1,000,000
Grange Mutual Casualty Co.	Commercial Property	
	Buildings	\$ 368,000
	Contents	\$ 79,000
	Water Tower	\$ 500,000
	Sewer Pumping Station	\$ 141,000
	Tank	\$ 500,000
Grange Mutual Casualty Co.	General Liability	
	Aggregate	\$ 2,000,000
	Occurrence	\$ 1,000,000
Grange Mutual Casualty Co.	Cyber Coverage	
	Aggregate	\$ 50,000
CNA Surety	Surety Bond	\$ 10,000

Calhoun-Charleston Utility District of McMinn and Bradley Counties, Tennessee
Schedule of Rates in Force
September 30, 2023

WATER SERVICE

Residential

First 2,000 gallons (Minimum billing)	\$ 20.25
All over 2,000 gallons	\$ 8.72/1000 gallons

Commercial

First 250,000 gallons (Minimum billing)	\$ 1,245.86
All over 250,000 gallons	\$ 7.37/1000 gallons

The District billed 1,138 customers at September 30, 2023 and 1,135 customers at September 30, 2022. There were no water service rate changes during the fiscal year.

SEWER SERVICE

Residential- One and one-third times water bill. (\$ 27.04 minimum)

Commercial- Pre-determined fixed rates.

The District billed 175 customers at September 30, 2023 and 177 customers at September 30, 2022. There were sewer service rate decreases during the fiscal year.

**INTERNAL CONTROL
AND COMPLIANCE SECTION**

HARTING, BISHOP & ARRENDALE, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

KELVIN W. BISHOP, CPA
THOMAS H. ARRENDALE, CPA, MBA
JANICE L. HAYES, CPA

MEMBER
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
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*

To the Board of Commissioners
Calhoun-Charleston Utility District of McMinn and Bradley Counties, 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 Calhoun-Charleston Utility District of McMinn and Bradley Counties, Tennessee, as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 21, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Calhoun-Charleston Utility District of McMinn and Bradley Counties, Tennessee'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 Calhoun-Charleston Utility District of McMinn and Bradley Counties, Tennessee's internal control. Accordingly, we do not express an opinion on the effectiveness of Calhoun-Charleston Utility District of McMinn and Bradley Counties, Tennessee's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as item 2023-001 that we consider to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Calhoun-Charleston Utility District of McMinn and Bradley Counties, Tennessee'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 financial statements. 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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The District's Response to Findings

Calhoun-Charleston Utility District of McMinn and Bradley Counties, Tennessee response to the findings identified in our audit and described in the accompanying schedule of findings and responses. Calhoun-Charleston Utility District of McMinn and Bradley Counties, Tennessee'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.

Harting, Bishop + Arundale, PLLC

Cleveland, Tennessee
December 21, 2023

Calhoun-Charleston Utility District of McMinn and Bradley Counties, Tennessee
Schedule of Findings and Responses
For the Fiscal Year Ended September 30, 2023

The findings and responses as a result of the audit of the Calhoun-Charleston Utility District of McMinn and Bradley Counties, Tennessee are presented below. Findings 2023-001 is repeated from the prior year ended September 30, 2022.

2023-001: Segregation of Duties

Original Finding Number: 2009-001

Condition and Criteria: Staff job functions should be segregated so that errors and fraud will be detected by employees in the normal course of their work, in a timely manner. The relatively small size of Calhoun-Charleston Utility District of McMinn and Bradley Counties, Tennessee administrative staff prevents this proper segregation of duties. Segregation of duties should be in place that allows errors and fraud to be detected by employees in the normal course of their work.

Effect: Lack of segregation of duties prevents errors and fraud to be detected by employees in the normal course of their work.

Cause: This occurred due to the small size of the District.

Recommendation: Segregation of duties should be implemented as staff size increases.

Management Response: We agree with the auditors' findings and recommendations.

Calhoun-Charleston Utility District of McMinn and Bradley Counties, Tennessee
Schedule of Prior Year Audit Findings
For the Fiscal Year Ended September 30, 2023

Financial Statement Findings:

Prior Year Finding Number	Finding Title	Status / Current Year Finding Number
2022-001	Segregation of Duties (Original Finding Number: 2009-001)	Repeated / 2023-001

CALHOUN-CHARLESTON UTILITY DISTRICT
OF McMINN AND BRADLEY COUNTIES
CHARLESTON, TENNESSEE

Management's Corrective Action Plan

Financial Statement Findings:


2023-001 Segregation of Duties

Recommendation: Segregation of duties should be implemented as staff size increases.

Action Taken: Currently, the general ledger is maintained by an employee of Calhoun Charleston Utility District, with the Board reviewing financial statements at meetings. The accounting process does not lend itself to an appropriate segregation of duties and oversight of transactions. The District added a new administrative position in fiscal year 2023, which allowed the District to expand segregation of duties among staff members. The District will implement a proper segregation of duties during fiscal year 2024.

Name of Contact Person: Tyler Richesin, General Manager

Anticipated Completion Date: Ongoing



Tyler Richesin, General Manager