

**AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

**SPARTA ELECTRIC SYSTEM
(A Proprietary Fund of the City of Sparta, Tennessee)
SPARTA, TENNESSEE**

Year ended June 30, 2021

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INTRODUCTORY SECTION (UNAUDITED)

**SPARTA ELECTRIC SYSTEM
OFFICERS OF ADMINISTRATION
June 30, 2021**

Tonya R. Tindle, Accountant and City Recorder

Belva Bess, Electric Utilities Manager

Jim Oakes, Superintendent of Operations

Brad Hennessee, City Administrator

FINANCIAL SECTION

ALBERT R. DICUS

Certified Public Accountant

Member: AICPA; TSCPA

***Telephone (931) 836-2205
or (931) 836-2248
Fax (931) 836-3529***

***P.O. Box 176
131 South Main Street
Sparta, Tennessee 38583***

INDEPENDENT AUDITOR'S REPORT

Board of Mayor and Aldermen
City of Sparta
Sparta, Tennessee

Report on the Financial Statements

I have audited the accompanying financial statements of Sparta Electric System, a proprietary fund of the City of Sparta, Tennessee, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Sparta Electric System, as of June 30, 2021, and the 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.

Reporting Unit

As discussed in Note A, the financial statements present only the Sparta Electric System, a proprietary fund of the City of Sparta, Tennessee, and do not purport to, and do not, present fairly the financial position of the City of Sparta, Tennessee as of June 30, 2021, and the changes in its financial position and cash flows, where applicable, for the year ended in conformity with accounting principles generally accepted in the United States of America. My opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of changes in net pension liability (asset) and related ratios based on participation in the public employee pension plan of TCRS and the schedule of contributions based on participation in the public employee pension plan of TCRS on pages 9 through 15 and pages 40 through 42, respectively, 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. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Sparta Electric System's basic financial statements. The information described as the "Introductory Section," "Supplemental Information," and the "Other Financial

Information” in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The information described as “Supplemental Information” in the table of contents 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 audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information described as “Supplemental Information” in the table of contents is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The information described as the “Introductory Section” and “Other Financial Information” in the table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated December 17, 2021 on my consideration of the Sparta Electric System’s internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report solely is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Sparta Electric System'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 Sparta Electric System’s internal control over financial reporting and compliance.



Certified Public Accountant

Sparta, Tennessee
December 17, 2021

SPARTA ELECTRIC SYSTEM
545 E. BOCKMAN WAY
SPARTA, TENNESSEE 38583

MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of the financial statements allows management an opportunity to discuss and analyze the financial condition of the Sparta Electric System of Sparta, Tennessee (the System). Summary financial statement data, key financial and operational indicators used in the System’s budget, bond resolutions and other management tools were used for this analysis. This information should be read in conjunction with the accompanying financial statements and report of the independent auditor, Albert R. Dicus, CPA.

SUMMARY OF ORGANIZATION AND BUSINESS

The System provides electricity to the corporate city limits of Sparta, Tennessee.

The System is governed by a Mayor and Board of Alderman composed of seven citizens who live or own real estate within the corporate City limits of Sparta, Tennessee. Board members serve a term of four years and are elected by the citizens of Sparta, Tennessee, unless there is an alderman that resigns, at which time the City of Sparta Mayor appoints a new member.

The System’s capital assets consist primarily of the System’s substation, electric lines, transformers and the buildings and equipment to maintain these lines.

The System receives no financial support from the City of Sparta, Tennessee and has no taxing authority. The System’s revenues are derived from electric based upon metered electric consumption of customers. The electric rates are established by the Mayor and Board of Alderman with the help of the System’s consultant.

THE ANNUAL FINANCIAL STATEMENTS

The financial statements report information about the System using full accrual accounting methods as utilized by similar business activities in the private sector. However, rate regulated accounting principles applicable to the private sector utilities are not used by government utilities.

The financial statements include a statement of net position; a statement of revenues, expenses, and changes in net position; a statement of cash flows; and notes to the financial statements. The statement of net position presents the financial position of the System on a full accrual basis of accounting. While the statement of net position provides information about the nature and amount of resources and obligations at year-end, the statement of revenues, expenses and changes in net position presents the results of the business activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless

of the timing of related cash flows. The statement also provides certain information about the System's recovery of its costs. The System's rates are based on a cost-of-service rate study that is updated periodically with the help of the System's consultant.

The statement of cash flows presents changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the System's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

The following comparative condensed financial statements and other selected information provides key financial data and indicators for management, monitoring, and planning.

**SPARTA ELECTRIC SYSTEM
OF SPARTA, TENNESSEE
CONDENSED STATEMENT OF NET POSITION
June 30, 2021 and June 30, 2020**

ASSETS	2021	2020	Variance	
			Amount	%
Current Assets	\$ 7,439,908.99	\$ 5,800,382.32	\$ 1,639,526.67	28.27%
Capital Assets	5,976,521.02	5,556,946.96	419,574.06	7.55%
Other Assets	24,011.69	31,634.88	(7,623.19)	-24.10%
	<u>13,440,441.70</u>	<u>11,388,964.16</u>	<u>2,051,477.54</u>	<u>18.01%</u>
Total Assets	\$ 13,440,441.70	\$ 11,388,964.16	\$ 2,051,477.54	18.01%
Deferred Outflows of Resources	311,753.00	187,624.49	124,128.51	66.16%
	<u>311,753.00</u>	<u>187,624.49</u>	<u>124,128.51</u>	<u>66.16%</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 13,752,194.70</u>	<u>\$ 11,576,588.65</u>	<u>\$ 2,175,606.05</u>	<u>18.79%</u>
LIABILITIES				
Current Liabilities	\$ 2,048,258.32	\$ 1,221,286.37	\$ 826,971.95	67.71%
Noncurrent Liabilities	148,583.14	21,142.95	127,440.19	602.76%
	<u>2,196,841.46</u>	<u>1,242,429.32</u>	<u>954,412.14</u>	<u>76.82%</u>
Total Liabilities	\$ 2,196,841.46	\$ 1,242,429.32	\$ 954,412.14	76.82%
Deferred Inflows of Resources	31,671.00	78,126.38	(46,455.38)	-59.46%
	<u>31,671.00</u>	<u>78,126.38</u>	<u>(46,455.38)</u>	<u>-59.46%</u>
NET POSITION				
Investment in capital assets	\$ 5,976,521.02	\$ 5,556,946.96	\$ 419,574.06	7.55%
Restricted	0.00	6,883.41	(6,883.41)	100.00%
Unrestricted	5,547,161.22	4,692,202.58	854,958.64	18.22%
	<u>11,523,682.24</u>	<u>10,256,032.95</u>	<u>1,267,649.29</u>	<u>12.36%</u>
Total Net Position	11,523,682.24	10,256,032.95	1,267,649.29	12.36%
Total Liabilities, Net Position and Deferred Inflows of Resources	<u>\$ 13,752,194.70</u>	<u>\$ 11,576,588.65</u>	<u>\$ 2,175,606.05</u>	<u>18.79%</u>

SPARTA ELECTRIC SYSTEM
CONDENSED STATEMENTS OF REVENUES, EXPENSES & CHANGE IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2021 and JUNE 30, 2020

	2021	2020	Variance	
			Amount	%
Operating revenues:				
Sale of electric energy	\$ 11,424,233.57	\$ 11,200,172.72	\$ 224,060.85	2.00%
Forfeited discounts	46,987.33	39,696.89	7,290.44	18.37%
Miscellaneous service revenue	40,401.14	56,214.68	(15,813.54)	-28.13%
Rents	263,759.82	228,990.47	34,769.35	15.18%
Total operating revenues	\$ 11,775,381.86	\$ 11,525,074.76	\$ 250,307.10	2.17%
Non-operating revenues:				
Interest income	\$ 5,065.39	\$ 48,499.66	\$ (43,434.27)	-89.56%
Other non-operating income	2,835.50	4,277.32	(1,441.82)	-33.71%
Total non-operating income	7,900.89	52,776.98	(44,876.09)	-85.03%
Total Revenues	\$ 11,783,282.75	\$ 11,577,851.74	\$ 205,431.01	1.77%
Operating expenses:				
Purchased power	\$ 8,633,534.08	\$ 8,703,578.93	\$ (70,044.85)	-0.80%
Operation expenses	815,452.91	905,661.37	(90,208.46)	-9.96%
Maintenance expenses	634,539.78	628,194.32	6,345.46	1.01%
Provision for depreciation	275,111.04	253,600.30	21,510.74	8.48%
Taxes and tax equivalents	49,359.17	51,250.77	(1,891.60)	-3.69%
Total operating expenses	\$ 10,407,996.98	\$ 10,542,285.69	\$ (134,288.71)	-1.27%
Non-operating expenses:				
Donations	\$ 185.73	\$ 811.54	(625.81)	100.00%
Interest expense	1,735.07	10,200.51	(8,465.44)	-82.99%
Total Expenses	\$ 10,409,917.78	\$ 10,553,297.74	\$ (143,379.96)	-1.36%
Increase in Net Position Before Capital Contributions, Grants and Operating Transfers	\$ 1,373,364.97	\$ 1,024,554.00	\$ 348,810.97	34.05%
Operating transfers out	(105,715.68)	(105,715.68)	\$ -	0.00%
Increase in Net Position	\$ 1,267,649.29	\$ 918,838.32	\$ 348,810.97	37.96%
Net position at July 1	10,256,032.95	9,337,194.63	918,838.32	9.84%
Net position at June 30	\$ 11,523,682.24	\$ 10,256,032.95	\$ 1,267,649.29	12.36%

FINANCIAL ANALYSIS

The System's financial condition improved from the prior year with adequate liquid assets and a reasonable level of unrestricted net position. The System has no bonded debt. The current financial condition, staff capabilities, and operating plans to meet future electric needs are well balanced and under control. Management believes the following information presented is important to understand the financial statements:

- Total assets and deferred outflows of resources at year-end were \$13,752,195 and exceeded liabilities and deferred inflows of resources (net position) by \$11,523,682. Of the total net position, \$5,547,161 was unrestricted and available to support short-term operations.
- Total assets and deferred outflows of resources increased from 2020 to 2021 by \$2,175,606 (18.79%). Total net position increased from 2020 to 2021 by \$1,267,649 (12.36%) and unrestricted net position increased \$854,959 (18.22%).
- Accounts receivable at year-end were 9.36% more than the fiscal year 2020, an increase of \$100,644. At 2021 year-end, the majority of accounts receivable were current within 30 days.
- There was no grant income for the year 2021.

Results of Operations

Revenues from operations fall into four general categories: electric service, penalties and fees, miscellaneous service income and rents. The System has three classes of electric customers: residential, commercial, and street and athletic. The following information is the analysis of operations:

- The System increased electric rates to reflect TVA's fuel cost adjustment.
- The System delivered 122.1 million kilowatts of electric, representing an increase of less than 2.5% from the previous year.
- Operating revenues were \$11,775,382, an increase of \$250,307 or 2.17%, from 2020.
- Operating expenses before depreciation decreased by \$155,799 a decrease of 7.21% compared to 2020.
- Operating income for the year was \$1,367,385, representing an 39.13% increase from 2020. Operating expenses increased at a slightly slower rate than operating revenues. The increase in the change in net position is \$348,811 (37.96%) when compared to 2020.

- The ratios of operating income to total operating revenues were 11.61% for 2021 and 8.53% for 2020.

Capital Contributions

The System collects electric connection fees in order to ensure that current customers do not bear the burden of growth. These fees are paid by new customers and represent the cost of electric capacity of the new customer. These fees are paid at the time a new customer meter is connected to the system.

Expenses

Operating expenses, excluding depreciation and amortization, decreased by \$155,799 in 2021. This was a result of significant changes in:

	2021	2020	Difference
Salaries and payroll taxes	\$ 785,792	\$ 813,104	\$ (27,312)
Electricity purchased	8,633,534	8,703,579	(70,045)
Repairs and maintenance	257,410	247,853	9,557
Other operating expenses	456,150	524,149	(67,999)
	<u>\$ 10,132,886</u>	<u>\$ 10,288,685</u>	<u>\$ (155,799)</u>

Depreciation expense of the Sparta Electric System's system increased by \$21,511 or 8.48%. For the year ended June 30, 2021, \$275,111 of depreciation was charged to depreciation expense and \$114,688 was allocated plant and transportation expense based on usage.

CAPITAL ASSETS

During 2021 continued improvements were made to the System's substation, including a new transformer and relays, as well as several key areas in the City's overhead lines. The System continues to update and maintain its physical inventory of plant. More detailed information about the System's capital assets is described in Note C in the accompanying notes to the financial statements.

DEBT

At June 30, 2021, the System has no long-term debt payable.

GENERAL TRENDS AND SIGNIFICANT EVENTS

Customer growth in the System has remained constant. The System's average number of electric customers (billing units) increased slightly during 2021.

CONTACTING THE SYSTEM

The analysis is designed to provide our customers, creditors and regulatory agencies with a general overview of the System's finances. If additional information is needed, you may contact the System at:

Sparta Electric System
545 E. Bockman Way
Sparta, TN 38583
931-738-2281

BASIC FINANCIAL STATEMENTS

**SPARTA ELECTRIC SYSTEM
STATEMENT OF NET POSITION
June 30, 2021**

ASSETS

NONCURRENT ASSETS

Capital assets in service - Note C	\$ 12,566,952.45	
Less accumulated depreciation	6,619,696.93	
	\$ 5,947,255.52	
Construction in progress	29,265.50	\$ 5,976,521.02
Noncurrent receivables		24,011.69

CURRENT ASSETS

Cash and cash equivalents - Note B	\$ 5,622,776.35	
Accounts receivable - customers, less allowance for doubtful accounts of \$6,150.19	1,175,777.93	
Unbilled revenue	287,265.95	
Other receivables	62,440.01	
Inventory of materials and supplies	250,649.63	
Due from other funds	26.26	
Prepaid expenses	40,972.86	7,439,908.99

TOTAL ASSETS \$ 13,440,441.70

DEFERRED OUTFLOWS OF RESOURCES - Pension plan 311,753.00

TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES \$ 13,752,194.70

See notes to financial statements.

**SPARTA ELECTRIC SYSTEM
STATEMENT OF NET POSITION (CONT'D)
June 30, 2021**

NET POSITION

NET POSITION

Investment in capital assets	\$ 5,976,521.02	
Unrestricted	5,547,161.22	\$ 11,523,682.24

LIABILITIES

NONCURRENT LIABILITIES -

Advances from TVA for home weatherization loans	\$ 12,385.82	
Net pension liability	136,197.32	148,583.14

CURRENT LIABILITIES

Accounts payable	\$ 650,151.97	
Accounts payable - capital assets	86,600.00	
Due to water and sewer	713,886.47	
Customer deposits	467,515.00	
Tennessee sales tax payable	26,443.00	
Accrued salaries and wages	9,075.92	
Accrued vacation	73,583.45	
Other current liabilities	21,002.51	2,196,841.46

<u>DEFERRED INFLOWS OF RESOURCES</u> - Pension plan		31,671.00

TOTAL NET POSITION, LIABILITIES, AND DEFERRED INFLOWS OF RESOURCES		\$ 13,752,194.70

SPARTA ELECTRIC SYSTEM
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Year ended June 30, 2021

Operating revenues:

Sale of electric energy (net of bad debts, \$7,195.83)		\$ 11,424,233.57
Forfeited discounts		46,987.33
Miscellaneous service revenue		40,401.14
Rents		263,759.82

TOTAL OPERATING REVENUE \$ 11,775,381.86

Operating expenses:

Purchased power	\$ 8,633,534.08	
Operation expenses	815,452.91	
Maintenance expenses	634,539.78	
Provision for depreciation	275,111.04	
Taxes and tax equivalents	49,359.17	10,407,996.98

OPERATING INCOME \$ 1,367,384.88

Non-operating revenue (expenses):

Interest income	\$ 5,065.39	
Other non-operating income	2,835.50	
Donations	(185.73)	
Interest expense	(1,735.07)	5,980.09

**INCREASE IN NET POSITION BEFORE CAPITAL
CONTRIBUTIONS, GRANTS AND TRANSFERS**

\$ 1,373,364.97
(105,715.68)

Operating transfers out

CHANGE IN NET POSITION \$ 1,267,649.29

Net position - July 1, 2020

10,256,032.95

NET POSITION - JUNE 30, 2021 \$ 11,523,682.24

See notes to financial statements.

**SPARTA ELECTRIC SYSTEM
STATEMENT OF CASH FLOWS
Year ended June 30, 2021**

Cash flows from operating activities:		
Receipts from customers and users		\$ 12,003,055.73
Payments to suppliers		(9,210,537.56)
Payments to employees		<u>(461,238.80)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		\$ 2,331,279.37
Cash flows from noncapital financing activities -		
Net decrease in energy service loan advances from TVA	\$ (8,757.13)	
Transfers to other funds	(105,715.68)	
Other non-operating income	<u>2,835.50</u>	
NET CASH USED IN NONCAPITAL FINANCING ACTIVITIES		(111,637.31)
Cash flows from capital and related financing activities:		
Additions to plant	\$ (734,908.98)	
Removal cost	(34,825.89)	
Salvage	<u>3,061.26</u>	
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES		(766,673.61)
Cash flows from investing activities:		
Interest income	\$ 5,065.39	
Advance on CSA loan	(1,133.94)	
Net payments on energy service loans	<u>8,757.13</u>	
NET CASH PROVIDED BY INVESTING ACTIVITIES		<u>12,688.58</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		\$ 1,465,657.03
Cash and cash equivalents at July 1, 2020		<u>4,157,119.32</u>
CASH AND CASH EQUIVALENTS AT JUNE 30, 2021		<u><u>\$ 5,622,776.35</u></u>

See notes to financial statements.

**SPARTA ELECTRIC SYSTEM
STATEMENT OF CASH FLOWS (CONT'D)
Year ended June 30, 2021**

Reconciliation of Operating Income

to Net Cash Provided by Operating Activities

Operating income	\$ 1,367,384.88
Adjustments to reconcile operating income to net cash provided by operating activities:	
Provision for depreciation	389,799.55
Change in net pension liability (asset)	143,080.73
Change in deferred outflows - pension expense	(124,128.51)
Change in deferred inflows - pension expense	(46,455.38)
Interest paid on customer deposits	(1,735.07)
Donations	(185.73)
Bad debts	7,195.83
Changes in current and deferred items:	
Accounts receivable	(119,698.36)
Inventory of materials and supplies	(51,161.91)
Prepayments and other current assets	(17,062.35)
Accounts payable	482,889.27
Due to other funds	267,083.23
Customer deposits	15,450.00
Retirement payable	16,841.63
Other current liabilities	1,981.56
	1,981.56
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 2,331,279.37

SPARTA ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE A – Sparta Electric System is a proprietary fund of the City of Sparta, Tennessee. The System was established to provide electric service within the boundaries of the City of Sparta. The System’s significant accounting policies are summarized below:

(1) Basis of Accounting

The System uses the accrual method of accounting to prepare its financial statements.

All activities of the System are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The accounting and financial reporting treatment applied to the System is determined by its measurement focus. The transactions of the System are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations are included on the statement of net position. Net position (i.e. total assets net of total liabilities) are segregated into net investment in capital assets, restricted for capital activity and debt service; and unrestricted components.

(2) Inventory of Materials and Supplies

Inventory of materials and supplies are valued at average cost accumulated in perpetual inventory records, which are periodically adjusted to physical counts.

SPARTA ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2021

NOTE A - (Cont'd):

(3) Capital Assets

The capital assets in service are carried at cost and are depreciated over the estimated useful life of the asset using the straight-line method of depreciation. Cost consists of all direct costs related to construction or acquisition of capital assets. Depreciation is not considered until the assets are actually put into use.

Expenditures for maintenance, repairs and renewals which do not significantly extend the value or life of the utility plant are charged to operations as they are incurred.

Capitalization policy for the System is items purchased or betterments, not repairs, in excess of \$2,500.00 and having a useful life of one year or more will be capitalized.

The System eliminates the original cost from the property accounts for properties retired with cost of removal being charged to the allowance for depreciation and salvage value, if any, being credited to the allowance for depreciation.

Provision for depreciation of capital assets is provided on a basis considered adequate to amortize the cost of depreciable assets over their estimated useful lives, generally by the straight-line method, as follows:

Distribution plant in service	12.5 - 50 years
General plant in service	10 - 25 years

SPARTA ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2021

NOTE A - (Cont'd):

(4) Receivables and Revenue

Revenues are billed monthly; sales of electricity are recognized when power is delivered to customers.

Operating income includes revenues and expenses related to the primary, continuing operations of the system. Principal operating revenues for proprietary funds are charges to customers for sales or services which are billed monthly. Other revenues and expenses are classified as non-operating in the financial statements.

The System records unbilled electric sales at year-end in an effort to appropriately match the cost of power delivered by TVA and the revenue associated with those costs.

(5) Expenses

Operating expenses consist of the cost of purchasing electricity, repairs and maintenance on the lines and storage facilities, customer billing, administrative and general, and depreciation of capital assets.

(6) Cash Equivalents

For purposes of the statement of cash flows, the System considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

(7) Credit Risk

Sparta Electric System provides electric services for residential, commercial and industrial customers in the City of Sparta, Tennessee.

SPARTA ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2021

NOTE A - (Cont'd):

(8) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date, and reported amounts of revenues and expenses during the reporting period. Estimates are used to determine depreciation expense and certain claims and judgment liabilities, among other accounts. Accordingly, actual results could differ from those estimates.

(9) Net Position

Net position contains the various net earnings from operating and non-operating revenues, expenses, and contributions of capital. Net position is classified as net investment in capital assets, restricted for capital activity and debt service; and unrestricted net position. Net investment in capital assets, is all capital assets, net of accumulated depreciation and outstanding debt attributable to the acquisition, construction or improvement of the assets; debt related to unspent proceeds or other restricted cash and investments is not included in this determination. Restricted for capital activity and debt service includes net assets restricted by external parties such as lenders, grantors, contributors, laws, regulations, and enabling legislation, including self-imposed legal mandates. Unrestricted is the net position that does not meet the definition of net investment in capital assets or restricted for capital activity and debt service.

(10) Provision for Uncollectible Accounts

Management has made an allowance for uncollectible accounts receivable. The allowance is based on prior years' experience.

(11) Compensated Absences

The City allows employees to accumulate unused vacation and sick leave. An employee terminated from service is not paid accumulated sick leave; therefore, sick leave has not been accrued. Earned vacation time can be accrued up to certain maximums based upon years of service.

SPARTA ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2021

NOTE A - (Cont'd):

(12) Contributions in Aid of Construction and Capital Contributions

Contributions in aid of construction are cash collections from customers or others for a particular purpose, generally the construction of new facilities to serve new customers in excess of the investment Sparta Electric System is willing to make for a particular incremental revenue source. Sparta Electric System reduces the plant account balances to which contributions relate by the actual amount of the contribution and recognizes the contributions as non-operating revenue in accordance with FAS 71, *Accounting for the Effects of Certain Types of Regulation*.

Capital contributions represent contributions of utility plant infrastructure constructed by developers and others in industrial parks and other developments and transferred to Sparta Electric System upon completion of construction and the initiation of utility service. In accordance with GASB 33, *Accounting and Financial Reporting for Nonexchange Transactions*, such contributions are recognized as revenues and capital assets upon receipt.

(13) Net position flow assumption

Sometimes the system will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position a flow assumption must be made about the order in which the resources are considered to be applied.

It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

(14) Deferred outflows/inflows of resources

In addition to assets, the statement of financial 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(s) and so will *not* be recognized as an outflow of resources (expense) until then.

SPARTA ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2021

NOTE A - (Cont'd):

(14) Deferred outflows/inflows of resources (Continued)

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time.

(15) Pensions

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

SPARTA ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2021

NOTE B - Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The System's deposit policy for custodial risk is as follows:

All deposits with financial institutions must be secured by one of two methods. One method involves financial institutions that participate in the bank collateral pool administered by the state treasurer. Participating banks determine the aggregate balance of their public accounts for the State of Tennessee and its political subdivisions. The amount of collateral required to secure these public deposits must equal at least 105 percent of the average daily balance of public deposits held. Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the state treasurer on behalf of the bank collateral pool.

The securities pledged to protect these accounts are pledged in the aggregate rather than against each account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

For deposits with financial institutions that do not participate in the bank collateral pool, state statutes require that all deposits be collateralized with collateral whose market value is equal to 105 percent of the uninsured amount of the deposits. The collateral must be placed by the depository bank in an escrow account in a second bank for the benefit of the System.

Bank balance at June 30, 2021	\$2,391,896.87
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Statutes authorize the City to invest in direct obligations of the United States Treasury, its agencies and instrumentalities; money market funds; and, the state treasurer's investment pool (Tennessee Local Government Investment Pool), prime commercial paper, bankers' acceptance notes and certificates of deposit. The state treasurer's investment pool (LGIP) is not registered with the Securities and Exchange Commission (SEC) but does operate in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940. Accordingly, the City's investments in the pool have been based on the pool's share price. The City's amounts included in the pool are reported at the fair value of its position in the pool, which approximates the value of the shares of amortized cost.

Local government investment pool balance at June 30, 2021	\$3,054,410.80
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SPARTA ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2021

NOTE C – Capital assets activity during the year was as follows:

Capital Assets Not Being Depreciated:				
Land	\$ 36,130.00	\$ -	\$ -	\$ 36,130.00
Construction in progress	4,610.89	24,654.61	-	29,265.50
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	\$ 40,740.89	\$ 24,654.61	\$ -	\$ 65,395.50
Capital Assets Being Depreciated:				
Structures and improvements	\$ 964,632.21	\$ -	\$ 0.03	\$ 964,632.18
Transportation equipment	1,328,092.67	277,763.97	-	1,605,856.64
Plant and improvements	9,225,533.80	386,392.43	128,341.31	9,483,584.92
Furniture and equipment	236,134.24	-	-	236,134.24
Machinery and equipment	151,816.47	88,798.00	-	240,614.47
TOTAL CAPITAL ASSETS BEING DEPRECIATED	\$ 11,906,209.39	\$ 752,954.40	\$ 128,341.34	\$ 12,530,822.45
Less Accumulated Depreciation for:				
Structures and improvements	(700,400.30)	(38,585.29)	-	(738,985.59)
Transportation equipment	(956,378.92)	(114,688.50)	-	(1,071,067.42)
Plant and improvements	(4,395,573.16)	(227,757.42)	(160,105.94)	(4,463,224.64)
Furniture and equipment	(220,648.60)	(1,798.07)	-	(222,446.67)
Machinery and equipment	(117,002.34)	(6,970.27)	-	(123,972.61)
TOTAL ACCUMULATED DEPRECIATION	\$ (6,390,003.32)	\$ (389,799.55)	\$ (160,105.94)	\$ (6,619,696.93)
TOTAL CAPITAL ASSETS BEING DEPRECIATED, Net	\$ 5,516,206.07	\$ 363,154.85	\$ (31,764.60)	\$ 5,911,125.52
CAPITAL ASSETS, NET	\$ 5,556,946.96	\$ 387,809.46	\$ (31,764.60)	\$ 5,976,521.02

Provision for depreciation for the year totaled \$389,799.55 of which \$275,111.04 was charged to depreciation expense and \$114,688.51 was allocated to plant and transportation expense based on usage.

**SPARTA ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2021**

NOTE C - (Cont'd):

CONSTRUCTION IN PROGRESS

Construction in progress at June 30, 2021 consisted of:

	<u>Actual to date</u>	<u>Remainder</u>
Substation modification and upgrade	\$ 29,265.50	\$ 4,610.89

This project is being funded with existing reserves.

NOTE D - GENERAL INFORMATION ABOUT THE PENSION PLAN

Plan Description. Employees of Sparta Electric System are provided a defined benefit plan through the Public Employee Retirement Plan, an agent multi-employer pension plan administered by the TCRS. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at <https://treasury.tn.gov/Retirement/Boards-and-Governance/Reporting-and-Investment-Policies>.

Benefits provided. Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Members are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's service credit. Reduced benefits for early retirement are available at age 55 and vested. Members vest with five years of service credit. Service-related disability benefits are provided regardless of length of service. Five years of service is required for nonservice-related disability eligibility. The service related and nonservice-related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

**SPARTA ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2021**

NOTE D - (Cont'd):

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

Employees covered by benefit terms. At the measurement date of June 30, 2020, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	9
Inactive employees entitled to but not yet receiving benefits	2
Active employees	11
	22
	22

Contributions. Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5 percent of salary. Sparta Electric System makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2021, employer contributions for Sparta Electric System were \$103,014, based on a rate of 14.00 percent of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept Sparta Electric System's state shared taxes if required employer contributions are not remitted. The employer's actuarially determined contribution (ADC) and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Liability (Asset)

Sparta Electric System's net pension liability (asset) was measured as of June 30, 2020, and the total pension liability used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date.

SPARTA ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2021

NOTE D - (Cont'd):

Actuarial assumptions. The total pension liability as of June 30, 2020 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

Inflation	2.5 percent
Salary increases	Graded salary ranges from 8.72 to 3.44 percent based on age, including inflation, averaging 4.00 percent
Investment rate of return	7.25 percent, net of pension plan investment expenses, including inflation
Cost-of-living adjustment	2.25 percent

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

The actuarial assumptions used in the June 30, 2020 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012 through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2016 actuarial experience study. A blend of future capital market projections and historical market returns was used in a building-block method in which a best-estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best-estimates are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.5 percent. The best estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major asset class are summarized in the following table:

**SPARTA ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2021**

NOTE D - (Cont'd):

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation</u>
U.S. equity	5.69%	31.00%
Developed market international equity	5.29%	14.00%
Emerging market international equity	6.36%	4.00%
Private equity and strategic lending	5.79%	20.00%
U.S. fixed income	2.01%	20.00%
Real estate	4.32%	10.00%
Short-term securities	0.00%	1.00%
		100.00%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.25 percent based on a blending of the three factors described above.

Discount rate. The discount rate used to measure the total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from Sparta Electric System will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**SPARTA ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2021**

NOTE D - (Cont'd):

Changes in the Net Pension Liability (Asset)

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balance at 06/30/19	\$ 2,949,765	\$ 2,956,648	\$ (6,883)
Changes for the year:			
Service cost	\$ 56,986	\$ -	\$ 56,986
Interest	215,804	-	215,804
Differences between expected and actual experience	160,353	-	160,353
Changes in assumptions	-	-	-
Contributions - employer	-	106,592	(106,592)
Contributions - employees	-	38,069	(38,069)
Net investment income	-	146,748	(146,748)
Benefit payments, including refunds of employee contributions	(160,370)	(160,370)	-
Administrative expense	-	(1,346)	1,346
Net changes	<u>272,773</u>	<u>129,693</u>	<u>143,080</u>
Balance at 06/30/20	\$ 3,222,538	\$ 3,086,341	\$ 136,197

**SPARTA ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2021**

NOTE D - (Cont'd):

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability (asset) of Sparta Electric System calculated using the discount rate of 7.25 percent, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Sparta Electric System's net pension liability (asset)	\$ 555,125	\$ 136,197	\$ (211,537)

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

Pension expense. For the year ended June 30, 2021, Sparta Electric System recognized pension expense of \$75,580.

Deferred outflows of resources and deferred inflows of resources. For the year ended June 30, 2021, Sparta Electric System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**SPARTA ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2021**

NOTE D - (Cont'd):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 156,069	\$ 31,671
Net difference between projected and actual earnings on pension plan investments	22,145	-
Changes in assumptions	30,528	
Contributions subsequent to the measurement date of June 30, 2020	<u>103,011</u>	<u>(not applicable)</u>
Total	<u><u>\$ 311,753</u></u>	<u><u>\$ 31,671</u></u>

The amount shown above for "Contributions subsequent to the measurement date of June 30, 2020," will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period.

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

Year Ended June 30:

2022	\$ 24,391
2023	47,269
2024	34,259
2025	44,426
2026	26,726
Thereafter	-

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

Payable to the Pension Plan

At June 30, 2021, Sparta Electric System reported \$16,841.63 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2021.

SPARTA ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2021

NOTE E - The City's risks of loss relating to general liability, property and casualty and workers' compensation are covered by participation in a public entity risk pool. The City joined the Tennessee Municipal League Risk Management Pool, which is a public entity risk pool established by the Tennessee Municipal League, an association of member municipalities. The City pays an annual premium to the TML Pool for its insurance coverage. The creation of the TML Pool provides for it to be self-sustaining through member premiums.

The City continues to carry commercial insurance for surety bond coverage. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE F – MULTIPLE EMPLOYER DEFINED CONTRIBUTIONS PLANS

Tennessee State Deferred Compensation Plan and Trust – 457(b) & 401(k)

Participation in either of these plans is optional and is 100% funded by the participant's elective contributions. The Board does not make employer contributions to these plans. Plan benefits are dependent solely on amounts contributed by participants plus investment earnings. Employees are eligible to participate on the first day of employment.

At June 30, 2021, there is 1 active participant in each plan. During the year, participant contributions totaled \$1,915.

**SPARTA ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2021**

NOTE G - SCHEDULE OF INTERFUND RECEIVABLES AND PAYABLES

Due from:

	<u>Electric Fund</u>	<u>General Fund</u>
<u>Due to:</u>		
General Fund	\$ -	\$ 26.26
Water and Sewer	<u>713,886.47</u>	<u>-</u>
TOTAL	<u>\$ 713,886.47</u>	<u>\$ 26.26</u>

Interfund receivables and payables are the result of transactions, including the receipt of grant money, purchase or construction of capital assets, collection of customer payments, and payment of trade accounts payable, which are paid for or received in one fund on behalf of a different fund.

NOTE H – INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2021, were as follows:

Transfer from:

	<u>Electric System</u>
<u>Transfer to:</u>	
General	\$ 105,715.68

Transfers between the general and electric funds are made for payments in lieu of tax from the proprietary fund.

REQUIRED SUPPLEMENTARY INFORMATION

**Schedules of Changes in Sparta Electric System's Net
Pension Liability (Asset) and Related Ratios Based on Participation in the
Public Employee Pension Plan of TCRS
Last Fiscal Year ending June 30**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Total pension liability							
Service cost	\$ 53,121	\$ 54,215	\$ 46,478	\$ 47,699	\$ 51,897	\$ 57,400	\$ 56,986
Interest	171,430	186,418	174,696	175,246	193,664	201,876	215,804
Changes in benefit terms	-						
Differences between actual & expected experience	38,827	11,691	(25,263)	17,770	(53,062)	24,955	160,353
Change of assumptions	-			82,667	-		
Benefit payments including refunds of employee contributions	(125,321)	(157,792)	(137,962)	(135,313)	(143,908)	(156,939)	(160,370)
Net change in total pension liability	<u>\$ 138,057</u>	<u>\$ 94,532</u>	<u>\$ 57,949</u>	<u>\$ 188,069</u>	<u>\$ 48,591</u>	<u>\$ 127,292</u>	<u>\$ 272,773</u>
Total pension liability - beginning	2,295,275	2,433,332	2,527,864	2,585,813	2,773,882	2,822,473	2,949,765
Total pension liability - ending (a)	<u><u>\$ 2,433,332</u></u>	<u><u>\$ 2,527,864</u></u>	<u><u>\$ 2,585,813</u></u>	<u><u>\$ 2,773,882</u></u>	<u><u>\$ 2,822,473</u></u>	<u><u>\$ 2,949,765</u></u>	<u><u>\$ 3,222,538</u></u>
Plan fiduciary net position							
Contributions - employer	\$ 71,236	\$ 71,746	\$ 64,828	\$ 71,436	\$ 80,418	\$ 95,305	\$ 106,592
Contributions - employee	30,758	31,831	28,761	27,475	28,716	34,037	38,069
Net investment income	338,498	75,891	59,265	245,488	208,772	205,072	146,748
Benefit payments, including refunds of employee contributions	(125,321)	(157,792)	(137,962)	(135,313)	(143,908)	(156,939)	(160,370)
Administrative expense	(661)	(816)	(1,081)	(1,127)	(1,373)	(1,327)	(1,346)
Net change in plan fiduciary net position	<u>\$ 314,510</u>	<u>\$ 20,860</u>	<u>\$ 13,811</u>	<u>\$ 207,959</u>	<u>\$ 172,625</u>	<u>\$ 176,148</u>	<u>\$ 129,693</u>
Plan fiduciary net position - beginning	2,050,734	2,365,244	2,386,106	2,399,917	2,607,876	2,780,500	2,956,648
Plan fiduciary net position - ending (b)	<u><u>\$ 2,365,244</u></u>	<u><u>\$ 2,386,104</u></u>	<u><u>\$ 2,399,917</u></u>	<u><u>\$ 2,607,876</u></u>	<u><u>\$ 2,780,501</u></u>	<u><u>\$ 2,956,648</u></u>	<u><u>\$ 3,086,341</u></u>
Net Pension Liability (asset) - ending (a) - (b)	<u><u>\$ 68,088</u></u>	<u><u>\$ 141,760</u></u>	<u><u>\$ 185,896</u></u>	<u><u>\$ 166,006</u></u>	<u><u>\$ 41,972</u></u>	<u><u>\$ (6,883)</u></u>	<u><u>\$ 136,197</u></u>
Plan fiduciary net position as a percentage of total pension liability	97.20%	94.39%	92.81%	94.02%	98.51%	100.23%	95.77%
Covered-employee payroll	\$ 615,164	\$ 636,614	\$ 608,092	\$ 549,505	\$ 574,392	\$ 680,739	\$ 761,371
Net pension liability (asset) as a percentage of covered-employee payroll	11.07%	22.27%	30.57%	30.21%	7.31%	-1.01%	17.89%

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

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

Schedule of Sparta Electric System's Contributions
Based on Participation in the Public Employee Pension Plan of TCRS
 Last Fiscal Year ending June 30

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Actuarially determined contribution	\$ 71,236	\$ 71,746	\$ 68,532	\$ 61,929	\$ 74,728	\$ 88,564	\$ 87,634	\$ 84,692
Contributions in relation to the actuarially determined contribution	<u>71,236</u>	<u>71,746</u>	<u>68,532</u>	<u>71,436</u>	<u>80,415</u>	<u>95,303</u>	<u>106,588</u>	<u>103,014</u>
Contribution deficiency (excess)	-	-	-	\$ (9,507)	\$ (5,687)	\$ (6,739)	\$ (18,954)	\$ (18,322)
 Covered-employee payroll	 \$ 615,164	 \$ 636,614	 \$ 608,092	 \$ 549,505	 \$ 574,392	 \$ 680,739	 \$ 761,371	 \$ 735,812
Contributions as a percentage covered-employee payroll	11.58%	11.27%	11.27%	13.00%	14.00%	14.00%	14.00%	14.00%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

Notes to Schedule

Valuation date : Actuarially determined contribution rates for 2021 were calculated based on the June 30, 2019 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed (not to exceed 20 years)
Remaining amortization period	Varies by year
Asset valuation	10-year smoothed within a 20 percent corridor to market value
Inflation	2.5 percent
Salary increases	Graded salary ranges from 8.72 to 3.44 percent based on age, including inflation, averaging 4.00 percent
Investment rate of return	7.25 percent, net of investment expense, including inflation
Retirement age	Pattern of retirement determined by experience study
Mortality	Customized table based on actual experience including an adjustment for some anticipated improvement
Cost of living adjustments	2.25 percent

Changes in assumptions. In 2017, the following assumptions were changed: decreased inflation rate from 3.00 percent to 2.50 percent; decreased the investment rate of return from 7.50 percent to 7.25 percent; decreased the cost-of-living adjustment from 2.50 percent to 2.25 percent; decreased salary growth graded ranges from an average of 4.25 percent to an average of 4.00 percent; and modified mortality assumptions.

SUPPLEMENTAL INFORMATION

**SPARTA ELECTRIC SYSTEM
OPERATION EXPENSES
Year ended June 30, 2021**

Distribution:

Supervision and engineering	\$ 131,139.18
Overhead line expense	25,537.98
Underground line expense	480.27
Street lighting expense	625.70
Meter expense	9,294.72
Rent	1,346.59
Miscellaneous distribution expense	59,426.94

TOTAL DISTRIBUTION \$ 227,851.38

Customer accounts:

Meter reading	\$ 27,152.86
Customer records and collections	116,737.70

TOTAL CUSTOMER ACCOUNTS \$ 143,890.56

Sales expense

\$ 20,578.75

Administrative and general:

Salaries	\$ 73,539.21
Office supplies and expense	67,468.59
Outside services	19,406.75
Property insurance	16,414.44
Injuries and damages	42,402.57
Employee benefits	196,406.11
Duplicate charges (deductions)	(3,982.57)
Miscellaneous general expenses	11,477.12

TOTAL ADMINISTRATIVE AND GENERAL \$ 423,132.22

TOTAL OPERATION EXPENSE \$ 815,452.91

**SPARTA ELECTRIC SYSTEM
MAINTENANCE EXPENSES
Year ended June 30, 2021**

Distribution:

Equipment	\$ 30,657.03
Overhead lines	347,227.91
Tree trimming	68,059.50
Street lights	57,842.60
Meters	70,687.00
Line transformers	9,135.48
Underground lines	10,774.23
Security lights	9,708.15
Miscellaneous distribution plant	<u>8,015.38</u>

TOTAL DISTRIBUTION \$ 612,107.28

Administrative and general -

General plant maintenance	<u>\$ 22,432.50</u>
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TOTAL MAINTENANCE EXPENSE \$ 634,539.78

OTHER FINANCIAL INFORMATION (UNAUDITED)

**SPARTA ELECTRIC SYSTEM
STATISTICAL DATA
Year ended June 30, 2021**

<u>Class of Service</u>	<u>Sales of Power</u>	
	Amount	Kilowatt Hours
Residential	\$ 2,752,354.91	25,256,022
General Power - 50 kilowatt hours and under	1,345,687.49	10,571,897
General Power - over 50 kilowatt hours	6,999,010.65	83,420,255
Street and athletic	144,719.04	1,451,863
Outdoor lighting	177,798.60	1,439,893
Increase in unbilled revenue	11,858.71	
	TOTAL	122,139,930
Kilowatt hours for own use		139,685
		122,279,615

	<u>Purchased Power</u>	
	Amount	Kilowatt Hours
Purchased from Tennessee Valley Authority (including facilities rental)	\$ 8,633,534.08	125,981,618
Kilowatt hours sold and used (as above)		122,279,615
Line losses and kilowatt-hours unaccounted for		3,702,003
Percent of losses to purchases		2.94%

<u>Class of Service</u>	<u>Number of Customers June 30, 2020</u>
Residential	2,215
General Power - 50 kilowatt hours and under	677
General Power - over 50 kilowatt hours	102
Street and athletic	32
Outdoor lighting	3
	TOTAL
	3,029

**SPARTA ELECTRIC SYSTEM
INSURANCE
June 30, 2021**

	<u>Amounts of Insurance</u>	<u>Expiration Date</u>
General liability:		
Bodily injury and property damage	\$ 750,000	1/1/2022
Excess public liability - catastrophes	2,500,000	
Automobile liability:		
Liability	1,000,000	1/1/2022
Medical	2,000	
Uninsured motorist	300,000	
Workmen's compensation	Statutory	1/1/2022
Fire insurance:		
Building and contents	1,500,000	1/1/2022
Transformers	1,600,000	
Public officials errors and omissions	1,000,000	1/1/2022
Public employee dishonesty	500,000	1/1/2022
Forgery alterations	500,000	
Money and securities	500,000	
Other property	500,000	
Computer fraud	500,000	
Counterfeit currency	500,000	

**SPARTA ELECTRIC SYSTEM
SCHEDULE OF UTILITY RATES
June 30, 2021**

RESIDENTIAL RATE - SCHEDULE RS

Customer charge \$ 21.50 per month less \$1.60 Hydro allocation credit
Energy charge All kWh per month at 0.09061 per kWh

GENERAL POWER RATE - SCHEDULE GSA

PART 1.

Customer charge 1 \$ 22.32 per delivery point per month (< 500 kWh)
Customer charge 2 \$ 40.00 per delivery point per month (> 500 kWh)
Energy charge All kWh per month at 0.10516 per kWh

PART 2. (< 1,000 kWh)

Customer charge \$ 135.00 per delivery point per month
Demand charge First 50 kW of billing demand per month, at \$6.00 per kWh
 Excess over 50 kW of billing demand per month, at \$12.69 per kW
Energy charge All 15,000 kWh per month at 0.08277 per kWh
 Additional kWh per month at 0.05934 per kWh

PART 3. (1,000 - 5,000 kW)

Customer charge \$ 570.00 per delivery point per month
Demand charge First 1,000 kW of billing demand per month, at \$13.10 per kW
 Excess over 1,000 kW of billing demand per month, at \$15.47 per kW
Energy charge All kWh per month at 0.06302 per kWh

OUTDOOR LIGHTING RATE - SCHEDULE LS

Energy charge 0.07111 per kWh

COMPLIANCE

ALBERT R. DICUS

Certified Public Accountant

Member: AICPA; TSCPA

Telephone (931) 836-2205

or (931) 836-2248

Fax (931) 836-3529

P.O. Box 176

131 South Main Street

Sparta, Tennessee 38583

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*

Independent Auditor's Report

Mayor and Board of Aldermen
City of Sparta
Sparta, Tennessee

I have audited, in accordance with the auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Sparta Electric System, a proprietary fund of the City of Sparta, Tennessee, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise Sparta Electric System's basic financial statements and have issued my report thereon dated December 17, 2021.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Sparta Electric System's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of Sparta Electric System's internal control. Accordingly, I do not express an opinion on the effectiveness of Sparta Electric System'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 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.

Mayor and Board of Aldermen
City of Sparta
Sparta, Tennessee
Page 2

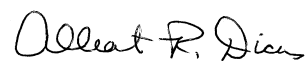
My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not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

Compliance and Other Matters

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

Purpose of this Report

This purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Certified Public Accountant

Sparta, Tennessee
December 17, 2021

SPARTA ELECTRIC SYSTEM
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
June 30, 2021

I: SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unmodified opinion on the financial statements of Sparta Electric System.
2. No significant deficiencies were disclosed during the audit of the financial statements.
3. No instances of noncompliance that are required to be reported under *Government Auditing Standards* were disclosed during the audit.

**SPARTA ELECTRIC SYSTEM
SCHEDULE OF PRIOR YEAR FINDINGS
June 30, 2021**

No prior year findings.