

**AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

**SPARTA WATER AND SEWER 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 WATER AND SEWER SYSTEM
OFFICERS OF ADMINISTRATION
June 30, 2021**

Tonya R. Tindle, Accountant and City Recorder

Dillard Quick, Public Works Director

Brad Hennessee, City Administrator

FINANCIAL SECTION

ALBERT R. DICUS

Certified Public Accountant

Member: AICPA; TSCPA

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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 Water and Sewer 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 Water and Sewer 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 Water and Sewer 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 42 through 44, 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 Water and Sewer 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 January 19, 2022 on my consideration of the Sparta Water and Sewer 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 Water and Sewer 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 Water and Sewer System’s internal control over financial reporting and compliance.



Certified Public Accountant

Sparta, Tennessee
January 19, 2022

SPARTA WATER AND SEWER 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 Water and Sewer 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 water and sewer service to the corporate city limits of Sparta, Tennessee, as well as water service to Doyle, Tennessee and sewer service to several manufacturing facilities outside the 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 water and sewer plants, distribution and collections lines, pumps stations 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 water and sewer based upon metered water consumption of customers. The water rates are established by the Mayor and Board of Alderman with the help of the System’s consultant. The sewer rates are set at 130% of water rates.

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 WATER AND SEWER SYSTEM
OF SPARTA, TENNESSEE
CONDENSED STATEMENTS OF NET POSITION
June 30, 2021 and June 30, 2020**

ASSETS	2021	2020	Variance	
			Amount	%
Current Assets	\$ 5,760,841.18	\$ 5,249,524.91	\$ 511,316.27	9.74%
Capital Assets	20,993,049.39	20,887,973.55	105,075.84	0.50%
Total Assets	\$ 26,753,890.57	\$ 26,137,498.46	\$ 616,392.11	2.36%
Deferred Outflows of Resources	413,279.00	249,308.00	163,971.00	65.77%
Total Assets & Deferred Outflows of Resources	\$ 27,167,169.57	\$ 26,386,806.46	\$ 780,363.11	2.96%
LIABILITIES				
Current Liabilities	\$ 914,772.12	\$ 985,735.87	\$ (70,963.75)	-7.20%
Noncurrent Liabilities	4,822,012.96	5,172,273.01	(350,260.05)	-6.77%
Total Liabilities	\$ 5,736,785.08	\$ 6,158,008.88	\$ (421,223.80)	-6.84%
Deferred Inflows of Resources	43,327.00	110,415.00	(67,088.00)	-60.76%
NET POSITION				
Net investment in capital assets	\$ 15,821,089.23	\$ 15,193,296.36	\$ 627,792.87	4.13%
Restricted for debt service	243,071.70	241,347.16	1,724.54	0.71%
Restricted for pensions	-	18,672.75	(18,672.75)	100.00%
Unrestricted	5,322,896.56	4,665,066.31	657,830.25	14.10%
Total Net Postion	21,387,057.49	20,118,382.58	1,268,674.91	6.31%
Total Liabilities, Net Position and Deferred Inflows of Resources	\$ 27,167,169.57	\$ 26,386,806.46	\$ 780,363.11	2.96%

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

	<u>2021</u>	<u>2020</u>	<u>Variance</u>	
			<u>Amount</u>	<u>%</u>
Operating revenues:				
Sale of water	\$ 2,833,556.18	\$ 2,683,946.62	\$ 149,609.56	5.57%
Sale of sewer	1,405,821.53	1,380,585.63	25,235.90	1.83%
Forfeited discounts	30,656.10	34,708.57	(4,052.47)	-11.68%
Miscellaneous service revenue	81,671.30	86,988.17	(5,316.87)	-6.11%
Tap fees	<u>36,604.80</u>	<u>17,621.00</u>	<u>18,983.80</u>	<u>107.73%</u>
Total operating revenues	\$ 4,388,309.91	\$ 4,203,849.99	\$ 184,459.92	4.39%
Non-operating revenues:				
Interest income	<u>5,125.08</u>	<u>52,457.67</u>	<u>(47,332.59)</u>	<u>-90.23%</u>
Total Revenues	\$ 4,393,434.99	\$ 4,256,307.66	\$ 137,127.33	3.22%
Operating expenses:				
Water operation expenses	\$ 1,768,823.19	\$ 1,714,234.82	\$ 54,588.37	3.18%
Sewer operation expenses	<u>1,562,405.39</u>	<u>1,714,121.07</u>	<u>(151,715.68)</u>	<u>-8.85%</u>
Total operating expenses	\$ 3,331,228.58	\$ 3,428,355.89	\$ (97,127.31)	-2.83%
Non-operating expenses:				
Interest expense	\$ 150,184.70	\$ 165,068.82	\$ (14,884.12)	-9.02%
Loss on sale of capital assets	<u>17,999.50</u>	<u>7,290.02</u>	<u>10,709.48</u>	<u>100.00%</u>
Total non-operating expenses	<u>168,184.20</u>	<u>172,358.84</u>	<u>(4,174.64)</u>	<u>-2.42%</u>
Total Expenses	\$ 3,499,412.78	\$ 3,600,714.73	\$ (101,301.95)	-2.81%
Change in Net Position Before Transfers and Capital Contributions	\$ 894,022.21	\$ 655,592.93	\$ 238,429.28	36.37%
Transfers and capital contributions:				
Operating transfers out	(31,999.92)	(31,999.92)	-	0.00%
Grant income	<u>406,652.62</u>	<u>83,363.23</u>	<u>323,289.39</u>	<u>387.81%</u>
Increase in Net Position	\$ 1,268,674.91	\$ 706,956.24	\$ 561,718.67	79.46%
Net position at July 1	<u>20,118,382.58</u>	<u>19,411,426.34</u>	<u>706,956.24</u>	<u>3.64%</u>
Net position at June 30	<u>\$ 21,387,057.49</u>	<u>\$ 20,118,382.58</u>	<u>\$ 1,268,674.91</u>	<u>6.31%</u>

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 maintained good debt service coverage and was in compliance with all debt covenants. The current financial condition, staff capabilities, operating plans and upgrade plans to meet future water quality requirements 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 \$27,167,170 and exceeded liabilities and net inflows of resources (net position) by \$21,387,057. Of the total net position, \$243,072 was restricted for debt service and \$5,322,897 was unrestricted and available to support short-term operations.
- Total assets increased from 2020 to 2021 by \$616,392 (2.36%). Total net position increased from 2020 to 2021 by \$1,268,675 (6.31%), with unrestricted net position increasing by \$657,830 (14.108%).
- Grant income was received in 2021 and 2020.
- The System received some financial assistance from the state in 2021 in the way of grant income; therefore, the costs of certain projects were shared with the System's customers.

Results of Operations

Revenues from operations fall into three general categories: water service, penalties and fees, and other income. The System has six classes of water customers: residential and commercial inside the city limits, residential and commercial outside the city limits, industrial and utility districts. The following information is the analysis of operations:

- The System did not increase water rates in 2021.
- The System produced 883.9 million gallons of water, representing a increase of 6.9% from the previous year.
- Operating revenues were \$4,388,310, an increase of \$184,460 or 4.39% from 2020.
- Operating expenses before depreciation were \$2,584,355, a decrease of \$93,333 or 3.48% compared to 2020.
- Operating income for the year was \$1,057,081, representing an increase of \$281,587 or 36.31% increase from 2020. Operating revenues and expenses both decreased. The increase in net position was \$1,268,675 for 2020, an increase of 79.46% from 2020. This was due primarily to decreased revenues and in increase in expenses.

- The ratios of operating income to total operating revenues were 24.09% for 2021 compared to 18.45% for 2020.

Capital Contributions

The System collects water 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 water capacity of the new customer. These fees are paid at the time a new customer meter is connected to the system. In addition, the System accepts new water lines that are donated by residential and commercial real estate developers. There are several new developments being constructed that will affect future financial statements.

Expenses

Operating expenses, excluding depreciation, decreased by \$93,333 in 2021. This was a result of significant changes in:

	2021	2020	Difference
Salaries and payroll taxes	\$ 1,481,450	\$ 1,479,659	\$ 1,791
Materials and supplies	82,873	68,252	14,621
Repairs and maintenance	129,286	130,162	(876)
Utilities	344,787	345,189	(402)
Other expenses	545,959	654,426	(108,467)
	<u>\$ 2,584,355</u>	<u>\$ 2,677,688</u>	<u>\$ (93,333)</u>

Depreciation expense of the Sparta Water and Sewer System's utility plant decreased by \$3,795 or .51%.

CAPITAL ASSETS

During 2021, the system continued with the sewer upgrades through the 2018 CDBG grant and the upgrade to the Wilson Sporting Goods pump station through the ARC grant. The system bought some new equipment and replaced several meters, as well as, valve insertions and line extensions. 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 \$5,148,308 in long-term notes and bonds payable, a net decrease of \$522,404 from June 30, 2020. The System paid \$150,733 in interest on long-term debt. More detailed information about the System's debt is described in Note D in the accompanying notes to the financial statements.

The long-term debt to total assets ratio changed from 21.70% at June 30, 2020 to 19.24% at June 30, 2021.

GENERAL TRENDS AND SIGNIFICANT EVENTS

Customer growth in the System has remained constant. The System's number of water customers billed for June, 2021 increased by 38 total customers.

CONTACTING THE DISTRICT

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 Water and Sewer System
545 E. Bockman Way
Sparta, TN 38583
931-738-2281

BASIC FINANCIAL STATEMENTS

**SPARTA WATER AND SEWER SYSTEM
STATEMENT OF NET POSITION
June 30, 2021**

ASSETS

CURRENT ASSETS

Cash and cash equivalents - Note B	\$	4,325,403.84
Restricted cash and cash equivalents - Note B		272,790.57
Due from Sparta Electric System		713,886.47
Unbilled revenue		196,860.75
Inventory of materials and supplies		181,975.26
Grants receivable		10,391.52
Prepaid expenses		59,532.77
		59,532.77

TOTAL CURRENT ASSETS \$ 5,760,841.18

NONCURRENT ASSETS

Capital assets - Note C	\$	37,395,404.80	
Less accumulated depreciation		16,447,769.84	
Total capital assets in service	\$	20,947,634.96	
Construction in progress		45,414.43	20,993,049.39

TOTAL ASSETS \$ 26,753,890.57

DEFERRED OUTFLOWS OF RESOURCES - Pension plan 413,279.00

TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES \$ 27,167,169.57

See the notes to financial statements.

**SPARTA WATER AND SEWER SYSTEM
STATEMENT OF NET POSITION
June 30, 2021**

LIABILITIES

CURRENT LIABILITIES

Accounts payable - trade	\$	75,000.99
Accounts payable - construction		1,103.75
Accrued salaries and wages		10,186.06
Accrued vacation pay		54,763.96
Customer deposits		170,420.00
Tennessee sales tax payable		11,952.00
Accrued interest payable		29,718.87
Due to other funds		2,485.58
Other current liabilities		22,193.68
Portion of long-term debt due within one year		<u>536,947.23</u>
TOTAL CURRENT LIABILITIES	\$	914,772.12

NONCURRENT LIABILITIES

Notes payable, including bond premium - Note D shown as current liability	\$	5,170,856.41	
		<u>(536,947.23)</u>	
Net pension liability	\$	4,633,909.18	
		<u>188,103.78</u>	<u>4,822,012.96</u>
TOTAL LIABILITIES	\$		5,736,785.08

DEFERRED INFLOWS OF RESOURCES - Pension plan 43,327.00

NET POSITION

Net investment in capital assets	\$	15,821,089.23	
Restricted for construction and debt service		243,071.70	
Unrestricted		<u>5,322,896.56</u>	<u>21,387,057.49</u>
TOTAL LIABILITIES DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$		<u>27,167,169.57</u>

SPARTA WATER AND SEWER SYSTEM
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
Year ended June 30, 2021

Operating revenues:		
Water revenue billings	\$	2,833,556.18
Sewer revenue billings		1,405,821.53
Forfeited discounts		30,656.10
Water tap fees		31,604.80
Sewer tap fees		5,000.00
Miscellaneous water revenue		29,702.71
Miscellaneous sewer revenue		<u>51,968.59</u>
TOTAL OPERATING REVENUE		\$ 4,388,309.91
 Operating expenses:		
Water operation and maintenance expenses	\$ 1,768,823.19	
Sewer operation and maintenance expenses	<u>1,562,405.39</u>	<u>3,331,228.58</u>
OPERATING INCOME		\$ 1,057,081.33
 Other income (expense):		
Interest income	\$ 5,125.08	
Loss on disposal of capital assets	(17,999.50)	
Interest expense	<u>(150,184.70)</u>	<u>(163,059.12)</u>
INCREASE IN NET POSITION BEFORE CAPITAL CONTRIBUTIONS		\$ 894,022.21
 Operating transfers out		
	\$ (31,999.92)	
ARC Grant	10,391.52	
Community Development Block Grant	<u>396,261.10</u>	<u>374,652.70</u>
CHANGE IN NET POSITION		\$ 1,268,674.91
Net Position at July 1, 2020		<u>20,118,382.58</u>
NET POSITION AT JUNE 30, 2021		<u>\$ 21,387,057.49</u>

Provision for depreciation was computed by the straight-line method and totaled \$746,873.18.

See the notes to financial statements.

SPARTA WATER AND SEWER SYSTEM
STATEMENT OF CASH FLOWS
Year ended June 30, 2021

Cash flows from operating activities:		
Receipts from customers and users		\$ 3,988,797.67
Payments to suppliers		(1,151,075.17)
Payments to employees		<u>(1,491,772.84)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		\$ 1,345,949.66
Cash flows from noncapital financing activities:		
Transfers to other funds		(31,999.92)
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	\$ (870,063.86)	
Grant proceeds	480,673.10	
Principal paid on revenue bonds and notes	(522,404.19)	
Interest paid on revenue bonds and notes	<u>(152,427.58)</u>	
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES		(1,064,222.53)
Cash flows from investing activities:		
Interest on investments		<u>5,125.08</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		\$ 254,852.29
Cash at July 1, 2020		<u>4,343,342.12</u>
CASH AND CASH EQUIVALENTS AT JUNE 30, 2021		<u><u>\$ 4,598,194.41</u></u>

See the notes to financial statements.

**SPARTA WATER AND SEWER SYSTEM
STATEMENT OF CASH FLOWS
Year ended June 30, 2021**

Cash and cash equivalents at June 30, 2021 consists of:

Current cash and cash equivalents	\$ 4,325,403.84
Restricted cash and cash equivalents	<u>272,790.57</u>

\$ 4,598,194.41

**Reconciliation of Operating Income
to Net Cash Provided by Operating Activities**

Operating income	\$ 1,057,081.33
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Adjustments to reconcile operating income to
net cash provided by operating activities:

Provision for depreciation	746,873.18
Increase in net pension liability	206,776.53
Increase in deferred outflows - pension expense	(163,971.00)
Decrease in deferred inflows - pension expense	(67,088.00)
Interest paid on customer deposits	(631.97)
Change in current assets and current liabilities:	
Increase in due from Sparta Electric System	(339,312.83)
Increase in unbilled revenue	(7,071.51)
Decrease in materials and supplies	1,261.99
Increase in prepaid expenses	(4,034.86)
Decrease in accounts payable	(45,396.60)
Decrease in due to other funds	(46,692.13)
Increase in customer deposits	9,840.00
Decrease in accrued payroll and vacation	(5,195.20)
Decrease in unearned income	(15,604.80)
Increase in other current liabilities	<u>19,115.53</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES \$ 1,345,949.66

SPARTA WATER AND SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE A - Sparta Water and Sewer System is a proprietary fund of the City of Sparta, Tennessee. The System was established to provide water and sewer service within the boundaries of the City of Sparta, and various surrounding areas. 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) is segregated into net investment in capital assets; restricted for capital activity and debt service; and unrestricted components.

(2) Inventory

Inventory of materials and supplies are valued at lower of cost or market using the first-in, first-out method.

SPARTA WATER AND SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2021

NOTE A - (Cont'd):

(3) Capital Assets

The capital assets are carried at cost and are depreciated over the estimated useful lives of the assets using the straight-line method, as follows:

Water plant in service	4-50 years
Sewer plant in service	4-50 years
Dams – engineer’s estimate	100 years

Cost consists of all direct costs related to the construction or acquisition of capital assets. Assets contributed by developers are included at the developer’s cost or estimated cost. Depreciation is not considered until the assets are actually put into use.

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.

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.

(4) Receivables and Revenues

The System records water and sewer revenues as billed to customers on a monthly cycle basis. Revenue for all routes is accrued for water delivered but not billed at June 30.

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 are classified as non-operating in the financial statements.

(5) Expenses

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

Non-operating expenses consist of interest on long-term liabilities and amortization of bond costs.

SPARTA WATER AND SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2021

NOTE A - (Cont'd):

(6) Cash Equivalents

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

(7) Credit Risk

Sparta Water and Sewer System provides water and sewer services for residential, commercial and industrial customers in and adjacent to the City of Sparta, Tennessee.

(8) Restricted Assets

Restricted assets represent cash and investments maintained in accordance with bond resolutions, loan agreements, grant awards, and other resolutions and formal actions of the System or by agreement for the purpose of funding certain debt service payments, depreciation and contingency activities, and improvements and extensions to the system. Restricted assets are generally not available for current operating expenses.

(9) Uses 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 statement of net position 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.

(10) Contributions

Contributions are recognized in the Statement of Revenues, Expenses, and Changes in Net Position when earned. Contributions include developer contributed utility systems, capacity and other supplemental support by other utilities and industrial customers and federal, state, and local grants in support of system improvements.

SPARTA WATER AND SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2021

NOTE A - (Cont'd):

(11) 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 assets. 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.

(12) 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.

(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.

SPARTA WATER AND SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2021

NOTE A - (Cont'd):

(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.

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 Water and Sewer System's participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System (TCRS), and additions to/deductions from Sparta Water and Sewer 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 WATER AND SEWER 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 \$1,088,217.52

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 \$3,524,888.88

SPARTA WATER AND SEWER 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	\$ 229,282.11	\$ -	\$ -	\$ 229,282.11
Construction in progress	137,457.10	488,551.31	580,593.98	45,414.43
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	\$ 366,739.21	\$ 488,551.31	\$ 580,593.98	\$ 274,696.54

Capital Assets Being Depreciated:

Structures and improvements	\$ 4,650,439.24	\$ 4,587.93	\$ -	\$ 4,655,027.17
Transportation equipment	1,314,999.62	27,997.25	-	1,342,996.87
Plant and improvements	29,705,504.36	925,805.81	28,282.22	30,603,027.95
Furniture and equipment	110,324.57	-	-	110,324.57
Machinery and equipment	451,146.13	3,600.00	-	454,746.13
TOTAL CAPITAL ASSETS BEING DEPRECIATED	\$ 36,232,413.92	\$ 961,990.99	\$ 28,282.22	\$ 37,166,122.69

Less Accumulated Depreciation for:

Structures and improvements	(2,786,527.42)	(100,476.26)	-	(2,887,003.68)
Transportation equipment	(1,085,564.69)	(43,888.05)	-	(1,129,452.74)
Plant and improvements	(11,370,822.97)	(577,602.91)	(10,282.92)	(11,938,142.96)
Furniture and equipment	(84,769.43)	(4,631.44)	-	(89,400.87)
Machinery and equipment	(383,495.07)	(20,274.52)	-	(403,769.59)

TOTAL ACCUMULATED DEPRECIATION	\$ (15,711,179.58)	\$ (746,873.18)	\$ (10,282.92)	\$ (16,447,769.84)
TOTAL CAPITAL ASSETS BEING DEPRECIATED, Net	\$ 20,521,234.34	\$ 215,117.81	\$ -	\$ 20,718,352.85
CAPITAL ASSETS, NET	\$ 20,887,973.55	\$ 703,669.12	\$ 580,593.98	\$ 20,993,049.39

Provision for depreciation for the year totaled \$746,873.18.

**SPARTA WATER AND SEWER 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:

	Actual to date	Remaining Commitment
Wilson Sporting lift station	45,414.43	427,585.57

The Wilson Sporting lift station is funded with ARC funds.

NOTE D - A description of long-term debt is as follows:

Bonds are issued to provide funds for the acquisition and construction of capital assets. All bonds are direct placements by the City.

Changes in long-term indebtedness of Sparta Water and Sewer System consists of:

	<u>Amount at July 1</u>	<u>Amount Issued</u>	<u>Amount Retired</u>	<u>Amount at June 30</u>	<u>Current Portion</u>
Water and Sewer, Series 2017 Bond	\$ 3,555,000.00	\$ -	\$ 170,000.00	\$ 3,385,000.00	\$ 175,000.00
General Obligation Refunding Bonds, Series 2012A	463,920.00	-	229,060.50	234,859.50	234,859.50
General Obligation Note, Series 2012B	193,000.00	-	95,000.00	98,000.00	98,000.00
Water and Sewer Revenue and Tax Bonds, Series 2011	1,458,792.53	-	28,343.69	1,430,448.84	29,087.73
TOTAL NOTES & BONDS	\$ 5,670,712.53	\$ -	\$ 522,404.19	\$ 5,148,308.34	\$ 536,947.23
			Unamortized premium	22,548.07	
			TOTAL NOTES AND BONDS PAYABLE	\$ 5,170,856.41	

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

NOTE D - (Cont'd):

	<u>Amount Issued</u>	<u>Amount Outstanding</u>	<u>Interest Rate</u>	<u>Payment</u>
General Obligation Refunding Bonds, Series 2012A (matures 2022)	\$ 2,110,836.00	\$ 234,859.50	2.43%	annual
General Obligation Note, Series 2012B (matures 2022)	876,000.00	98,000.00	2.43%	annual
Water and Sewer, Series 2017 Bond	3,850,000.00	3,385,000.00	varies	annual
Water and Sewer Revenue and Tax Bond, Series 2011 (matures 2052)	1,590,000.00	1,430,448.84	2.625%	\$5,553.08 (monthly)
	Unamortized premium	<u>22,548.07</u>		
TOTAL NOTES & BONDS		<u><u>\$ 5,170,856.41</u></u>		

Long-term debt activity during the year ended June 30, 2021 was as follows:

Balance at July 1, 2020	\$ 5,670,712.53
Principal payments	(522,404.19)
Amortized premium	<u>22,548.07</u>
Balance at June 30, 2021	<u><u>\$ 5,170,856.41</u></u>
Due within one year	\$ 536,947.23

A schedule showing maturities and debt-service requirements of Sparta Water and Sewer System's outstanding bonds and interest-bearing notes is included in the supplementary information section of this report.

The \$234,859.50 was the portion drawn by Sparta Water and Sewer System on the \$3.64 million General Obligation Refunding Bonds, Series 2012A. The bonds are owed jointly with the City of Sparta, and the Water and Sewer System drew 57.99% of the total proceeds. This money was borrowed on January 25, 2014 to refinance the 2006 and 2008 TML bond pool notes.

SPARTA WATER AND SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2021

NOTE D - (Cont'd):

The \$98,000.00 is the balance of the \$876,000.00 General Obligation Note, Series 2012B, issued by Sparta Water and Sewer System for the purpose of refurbishing the water tanks.

The \$1,430,448.84 was the balance of a \$1,590,000 Water and Sewer Revenue and Tax Bond, Series 2011.

The \$3,385,000.00 was the balance of the \$3,850,000 Water and Sewer Revenue Bond, Series 2017.

Amounts required to amortize long-term debt outstanding as of June 30, 2021 are as follows:

<u>Fiscal year ending</u>				
<u>June 30,</u>	<u>Principal</u>		<u>Interest</u>	<u>Total</u>
2022	\$ 536,947.23		\$ 140,172.76	\$ 677,119.99
2023	209,851.28		128,170.72	338,022.00
2024	210,634.86		123,967.14	334,602.00
2025	216,439.03		119,562.97	336,002.00
2026	222,264.29		114,852.71	337,117.00
2027-2031	1,194,479.05		486,115.95	1,680,595.00
2032-2036	1,393,613.69		292,216.31	1,685,830.00
2037-2041	486,086.74		115,288.26	601,375.00
2042-2046	257,359.90		75,825.10	333,185.00
2047-2051	292,958.92		40,226.08	333,185.00
2052-2053	127,673.35		5,041.60	132,714.95
	<hr/>		<hr/>	<hr/>
TOTAL	\$ 5,148,308.34		\$ 1,641,439.60	\$ 6,789,747.94
Unamortized premium	22,548.07			
	<hr/> <hr/>			
	\$ 5,170,856.41			

In the event of default on any of the above bonds, all sums unpaid become immediately due and payable.

Interest paid in cash during the year amounted to \$152,427.58

SPARTA WATER AND SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2021

NOTE E - GENERAL INFORMATION ABOUT THE PENSION PLAN

Plan Description. Employees of Sparta Water and Sewer 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-Investing-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 years of service credit. Reduced benefits for early retirement are available at age 55 and vested. Members vest with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 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.

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

NOTE E - (Cont'd):

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	18
Inactive employees entitled to but not yet receiving benefits	16
Active employees	22
	56
	56

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 Water and Sewer 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 Water and Sewer System were \$127,715.67, 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 Water and Sewer 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 Water and Sewer System's net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate net pension liability was determined by an actuarial valuation as of that date.

SPARTA WATER AND SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2021

NOTE E - (Cont'd):

Actuarial assumptions. The total pension liability as of the 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 WATER AND SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2021**

NOTE E - (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 Water and Sewer 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 WATER AND SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2021

NOTE E - (Cont'd):

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 06/30/19	\$ 4,041,893	\$ 4,060,566	\$ (18,673)
Changes for the year:			
Service cost	\$ 77,959	\$ -	\$ 77,959
Interest	295,225	-	295,225
Differences between expected and actual experience	219,367	-	219,367
Changes in assumptions	-	-	-
Contributions - employer	-	134,782	(134,782)
Contributions - employees	-	48,136	(48,136)
Net investment income	-	204,697	(204,697)
Benefit payments, including refunds of employee contributions	(219,390)	(219,390)	-
Administrative expense	-	(1,841)	1,841
Net changes	<u>373,161</u>	<u>166,384</u>	<u>206,777</u>
Balance at 06/30/20	\$ 4,415,054	\$ 4,226,950	\$ 188,104

SPARTA WATER AND SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2021

NOTE E - (Cont'd):

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability (asset) of Sparta Water and Sewer 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 Water and Sewer System's net pension liability (asset)	\$ 766,692	\$ 188,104	\$ (292,157)

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

Pension expense. For the year ended June 30, 2021, Sparta Water and Sewer System recognized pension expense of \$103,395.

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

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

NOTE E - (Cont'd):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 213,506	\$ 43,327
Net difference between projected and actual earnings on pension plan investments	30,296	-
Changes in Assumptions	41,763	
Contributions subsequent to the measurement date of June 30, 2020	127,714	(not applicable)
Total	\$ 413,279	\$ 43,327

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	33,368
2023	64,665
2024	46,868
2025	60,776
2026	36,561
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 Water and Sewer System reported a payable of \$19,147.27 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2021.

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

NOTE F - MULTIPLE-EMPLOYER DEFINED CONTRIBUTIONS PLANS

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

Participation in this plan is optional and is 100% funded by participant's elective contributions. The Board does not make employer contributions to this plan. 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 are 3 active participants in the 457(b) plan and 2 active participants in the 401(k) plan. During the year participant contributions amounted to \$4,720.00.

NOTE G - 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 H - SCHEDULE OF INTERFUND RECEIVABLES AND PAYABLES

Due from:

	<u>Electric Fund</u>	<u>Water and Sewer</u>	<u>Total</u>
<u>Due to:</u>			
General	\$ -	\$ 2,485.58	\$ 2,485.58
Water and Sewer	713,886.47	-	713,886.47
TOTAL	<u>\$ 713,886.47</u>	<u>\$ 2,485.58</u>	<u>\$ 716,372.05</u>

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

NOTE H – (Cont'd)

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 I – INTERFUND TRANSFERS

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

<u>Transfer from:</u>	Water & Sewer
<u>Transfer to:</u>	
General	\$ 31,999.92

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

REQUIRED SUPPLEMENTARY INFORMATION

**Schedules of Changes in Sparta Water and Sewer 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	\$ 71,949	\$ 72,653	\$ 67,103	\$ 74,888	\$ 75,003	\$ 81,123	\$ 77,959
Interest	232,191	246,146	253,078	269,681	279,886	285,308	295,225
Changes in benefit terms	-	-	-	-	-		
Differences between actual & expected experience	52,589	15,667	(36,474)	27,346	(75,267)	31,390	219,367
Change of assumptions	-	-	-	127,212	-		
Benefit payments including refunds of employee contributions	(169,739)	(211,455)	(199,184)	(208,228)	(207,978)	(221,799)	(219,390)
Net change in total pension liability	<u>\$ 186,990</u>	<u>\$ 123,011</u>	<u>\$ 84,523</u>	<u>\$ 290,899</u>	<u>\$ 71,644</u>	<u>\$ 176,022</u>	<u>\$ 373,161</u>
Total pension liability - beginning	<u>3,108,805</u>	<u>3,295,795</u>	<u>3,418,805</u>	<u>3,503,328</u>	<u>3,794,227</u>	<u>3,865,871</u>	<u>4,041,893</u>
Total pension liability - ending (a)	<u><u>\$ 3,295,795</u></u>	<u><u>\$ 3,418,806</u></u>	<u><u>\$ 3,503,328</u></u>	<u><u>\$ 3,794,227</u></u>	<u><u>\$ 3,865,871</u></u>	<u><u>\$ 4,041,893</u></u>	<u><u>\$ 4,415,054</u></u>
Plan fiduciary net position							
Contributions - employer	\$ 104,149	\$ 96,146	\$ 93,597	\$ 109,930	\$ 120,180	\$ 123,837	\$ 134,782
Contributions - employee	44,970	42,656	41,525	42,281	42,921	44,227	48,136
Net investment income	447,500	101,700	85,565	377,775	301,719	289,824	204,697
Benefit payments, including refunds of employee contributions	(169,739)	(211,455)	(199,184)	(208,228)	(207,978)	(221,799)	(219,390)
Administrative expense	(895)	(1,092)	(1,562)	(1,735)	(1,984)	(1,874)	(1,841)
Net change in plan fiduciary net position	<u>\$ 425,985</u>	<u>\$ 27,955</u>	<u>\$ 19,941</u>	<u>\$ 320,023</u>	<u>\$ 254,858</u>	<u>\$ 234,215</u>	<u>\$ 166,384</u>
Plan fiduciary net position - beginning	<u>2,777,589</u>	<u>3,203,574</u>	<u>3,231,529</u>	<u>3,251,470</u>	<u>3,571,493</u>	<u>3,826,351</u>	<u>4,060,566</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 3,203,574</u></u>	<u><u>\$ 3,231,529</u></u>	<u><u>\$ 3,251,470</u></u>	<u><u>\$ 3,571,493</u></u>	<u><u>\$ 3,826,351</u></u>	<u><u>\$ 4,060,566</u></u>	<u><u>\$ 4,226,950</u></u>
Net Pension Liability (asset) - ending (a) - (b)	<u><u>\$ 92,221</u></u>	<u><u>\$ 187,277</u></u>	<u><u>\$ 251,858</u></u>	<u><u>\$ 222,734</u></u>	<u><u>\$ 39,520</u></u>	<u><u>\$ (18,673)</u></u>	<u><u>\$ 188,104</u></u>
Plan fiduciary net position as a percentage of total pension liability	97.20%	94.52%	92.81%	94.13%	98.98%	100.46%	95.74%
Covered-employee payroll	\$ 899,389	\$ 779,300	\$ 831,042	\$ 845,614	\$ 858,429	\$ 884,548	\$ 962,726
Net pension liability (asset) as a percentage of covered-employee payroll	10.25%	24.03%	30.31%	26.34%	4.60%	-2.11%	19.54%

Changes of assumptions . In 2018, 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 Water and 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	\$ 104,149	\$ 96,146	\$ 93,597	\$ 109,930	\$ 96,745	\$ 115,080	\$ 110,810	\$ 105,001
Contributions in relation to the actuarially determined contribution	<u>104,149</u>	<u>96,146</u>	<u>93,597</u>	<u>109,930</u>	<u>120,180</u>	<u>123,837</u>	<u>134,782</u>	<u>127,716</u>
Contribution deficiency (excess)	-	-	-	-	(23,435)	(8,757)	(23,972)	(22,715)
 Covered-employee payroll	 \$ 899,389	 \$ 853,113	 \$ 830,494	 \$ 845,614	 \$ 858,429	 \$ 884,548	 \$ 962,726	 \$ 912,255
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	2.50 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 WATER AND SEWER SYSTEM
WATER OPERATION AND MAINTENANCE EXPENSES
Year ended June 30, 2021

Salaries	\$ 560,746.36
Payroll taxes	43,864.39
Employee benefits	170,936.91
Supplies	34,601.50
Repairs and maintenance	86,251.68
Vehicle expenses	26,531.79
Provision for depreciation - straight-line	342,730.52
Travel	780.07
Certification	2,707.21
Water purchased	21,111.28
Computer services	28,497.02
Utilities	191,690.93
Rents	8,556.00
Testing and lab fees	150,169.63
Advertising	978.40
Office supplies and postage	4,179.20
Outside services	8,362.96
Insurance	61,472.94
Legal and professional fees	13,242.50
Miscellaneous	11,411.90
	<hr/>
TOTAL	\$ 1,768,823.19
	<hr/> <hr/>

SPARTA WATER AND SEWER SYSTEM
SEWER OPERATION AND MAINTENANCE EXPENSES
Year ended June 30, 2021

Salaries	\$	505,312.49
Payroll taxes		38,816.12
Employee benefits		161,773.43
Supplies		48,271.43
Repairs and maintenance		43,034.33
Vehicle expenses		14,969.84
Provision for depreciation - straight-line		404,142.66
Travel		1,081.94
Certification		1,407.21
Computer services		17,654.80
Utilities		153,096.44
Rents		8,556.00
Testing and lab fees		39,972.05
Office supplies and postage		8,669.09
Outside services		23,345.59
Insurance		56,848.12
Legal and professional fees		24,374.25
Miscellaneous		11,079.60
		11,079.60
TOTAL	\$	1,562,405.39

SPARTA WATER AND SEWER SYSTEM
SCHEDULE OF CHANGES IN LONG-TERM DEBT BY INDIVIDUAL ISSUE
June 30, 2021

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding 7/1/2020	Issued During Period	Paid and/or Matured During Period	Refunded During Period	Outstanding 6/30/2021
<u>BONDS PAYABLE</u>									
Water & Sewer Series 2017	\$ 3,850,000.00	1.800% - 3.250%	03/31/17	06/01/37	\$ 3,555,000.00	\$ -	\$ 170,000.00	\$ -	\$ 3,385,000.00
General Obligation Refunding	2,110,836.00	2.430%	01/25/13	06/01/22	463,920.00	-	229,060.50	-	234,859.50
General Obligation Bonds	876,000.00	2.430%	01/25/13	06/01/22	193,000.00	-	95,000.00	-	98,000.00
Water & Sewer Series 2011	1,590,000.00	2.625%	12/09/14	12/09/52	1,458,792.53	-	28,343.69	-	1,430,448.84
Total bonds					\$ 5,670,712.53	\$ -	\$ 522,404.19	\$ -	\$ 5,148,308.34

**SPARTA WATER AND SEWER SYSTEM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2021**

Federal Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Community Development Block Grant	14.228	NA	\$ 395,212.30
APPALACHIAN REGIONAL COMMISSION			
Appalachian Area Development	23.002	NA	<u>10,391.52</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 405,603.82</u></u>

NOTE A - BASIS OF PRESENTATION:

The accompanying Schedule of Federal Awards summarizes the expenditures of the City of Sparta under programs of the federal government for the year ended June 30, 2021. The schedule is presented using the accrual basis of accounting.

NOTE B - INDIRECT COST RATE:

The City of Sparta has elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

OTHER FINANCIAL INFORMATION (UNAUDITED)

**CITY OF SPARTA, TENNESSEE
SPARTA WATER AND SEWER SYSTEM
BONDS PAYABLE AND DEBT SERVICE REQUIREMENTS
June 30, 2021**

Maturities During Year Ending June 30,	General Obligation Note, Series 2012B 1/25/2013 \$876,000.00		General Obligation Note, Series 2012A 1/25/2013 \$2,110,836.00		Water and Sewer, Series 2017 3/30/2017 \$3,850,000.00		Water and Sewer Revenue and Tax Bond, Series 2011 12/9/2014 \$1,590,000.00		Total
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2022	\$ 98,000.00	\$ 2,381.40	\$ 234,859.50	\$ 5,707.09	\$ 175,000.00	\$ 94,535.00	\$ 29,087.73	\$ 37,549.27	\$ 677,119.99
2023					180,000.00	91,385.00	29,851.28	36,785.72	338,022.00
2024					180,000.00	87,965.00	30,634.86	36,002.14	334,602.00
2025					185,000.00	84,365.00	31,439.03	35,197.97	336,002.00
2026					190,000.00	80,480.00	32,264.29	34,372.71	337,117.00
2027					195,000.00	76,300.00	33,111.24	33,525.76	337,937.00
2028					195,000.00	71,815.00	33,980.41	32,656.59	333,452.00
2029					205,000.00	65,965.00	34,872.40	31,764.60	337,602.00
2030					210,000.00	59,815.00	35,787.78	30,849.22	336,452.00
2031					215,000.00	53,515.00	36,727.22	29,909.78	335,152.00
2032					225,000.00	46,527.50	37,691.33	28,945.67	338,164.50
2033					230,000.00	39,215.00	38,680.70	27,956.30	335,852.00
2034					240,000.00	31,740.00	39,696.09	26,940.91	338,377.00
2035					245,000.00	23,940.00	40,738.10	25,898.90	335,577.00
2036					255,000.00	16,222.50	41,807.47	24,829.53	337,859.50
2037					260,000.00	8,190.00	42,904.92	23,732.08	334,827.00
2038							44,031.20	22,605.80	66,637.00
2039							45,187.01	21,449.99	66,637.00
2040							46,373.15	20,263.85	66,637.00
2041							47,590.46	19,046.54	66,637.00
2042							48,839.71	17,797.29	66,637.00
2043							50,121.74	16,515.26	66,637.00
2044							51,437.45	15,199.55	66,637.00
2045							52,787.66	13,849.34	66,637.00
2046							54,173.34	12,463.66	66,637.00
2047							55,595.38	11,041.62	66,637.00
2048							57,054.76	9,582.24	66,637.00
2049							58,552.47	8,084.53	66,637.00
2050							60,089.48	6,547.52	66,637.00
2051							61,666.83	4,970.17	66,637.00
2052							63,285.57	3,351.43	66,637.00
2053							64,387.78	1,690.17	66,077.95
	<u>\$ 98,000.00</u>	<u>\$ 2,381.40</u>	<u>\$ 234,859.50</u>	<u>\$ 5,707.09</u>	<u>\$ 3,385,000.00</u>	<u>\$ 931,975.00</u>	<u>\$ 1,430,448.84</u>	<u>\$ 701,376.11</u>	<u>\$ 6,789,747.94</u>



AWWA Free Water Audit Software: Reporting Worksheet

WAS v5.0
American Water Works Association
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? Click to access definition
+ Click to add a comment

Water Audit Report for: SPARTA WATER SYSTEM
Reporting Year: **2021** / 7/2020 - 6/2021

Please enter data in the white cells below. Where available, metered values should be used; if metered values are unavailable please estimate a value. Indicate your confidence in the accuracy of the input data by grading each component (n/a or 1-10) using the drop-down list to the left of the input cell. Hover the mouse over the cell to obtain a description of the grades

All volumes to be entered as: MILLION GALLONS (US) PER YEAR

To select the correct data grading for each input, determine the highest grade where the

WATER SUPPLIED

Volume from own sources:	+ ?	9	883.867	MG/Yr
Water imported:	+ ?		0.000	MG/Yr
Water exported:	+ ?	9	430.436	MG/Yr

Master Meter and Supply Error Adjustments

Pcnt:	9	1.00%		MG/Yr
Value:				MG/Yr
				MG/Yr

WATER SUPPLIED: 444.680 MG/Yr

Enter negative % or value for under-registration
Enter positive % or value for over-registration

AUTHORIZED CONSUMPTION

Billed metered:	+ ?	8	225.503	MG/Yr
Billed unmetered:	+ ?		0.000	MG/Yr
Unbilled metered:	+ ?	8	10.094	MG/Yr
Unbilled unmetered:	+ ?		5.558	MG/Yr

Default option selected for Unbilled unmetered - a grading of 5 is applied but not displayed

AUTHORIZED CONSUMPTION: 241.155 MG/Yr

Click here: ? for help using option buttons below

Pcnt: 1.25% Value: MG/Yr

Use buttons to select percentage of water supplied OR value

Pcnt: 0.25% Value: MG/Yr

5.00% MG/Yr

0.25% MG/Yr

WATER LOSSES (Water Supplied - Authorized Consumption)

203.524 MG/Yr

Apparent Losses

Unauthorized consumption: + ? 1.112 MG/Yr

Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed

Customer metering inaccuracies:	+ ?	8	12.400	MG/Yr
Systematic data handling errors:	+ ?		0.564	MG/Yr

Default option selected for Systematic data handling errors - a grading of 5 is applied but not displayed

Apparent Losses: 14.075 MG/Yr

Real Losses (Current Annual Real Losses or CARL)

Real Losses = Water Losses - Apparent Losses: ? **189.449** MG/Yr

WATER LOSSES: 203.524 MG/Yr

NON-REVENUE WATER

NON-REVENUE WATER: 219.177 MG/Yr

= Water Losses + Unbilled Metered + Unbilled Unmetered

SYSTEM DATA

Length of mains:	+ ?	7	109.0	miles
Number of active AND inactive service connections:	+ ?	7	3,338	
Service connection density:	?		31	conn./mile main

Are customer meters typically located at the curbside or property line? Yes

Average length of customer service line: + ? (length of service line, beyond the property boundary, that is the responsibility of the utility)

Average length of customer service line has been set to zero and a data grading score of 10 has been applied

Average operating pressure: + ? 7 50.0 psi

COST DATA

Total annual cost of operating water system:	+ ?	10	\$1,749,709	\$/Year
Customer retail unit cost (applied to Apparent Losses):	+ ?	8	\$2.67	\$/1000 gallons (US)
Variable production cost (applied to Real Losses):	+ ?	7	\$1.98	\$/Million gallons <input type="checkbox"/> Use Customer Retail Unit Cost to value real losses

WATER AUDIT DATA VALIDITY SCORE:

*** YOUR SCORE IS: 81 out of 100 ***

A weighted scale for the components of consumption and water loss is included in the calculation of the Water Audit Data Validity Score

PRIORITY AREAS FOR ATTENTION:

Based on the information provided, audit accuracy can be improved by addressing the following components:

- 1: Unauthorized consumption
- 2: Systematic data handling errors
- 3: Volume from own sources



AWWA Free Water Audit Software: System Attributes and Performance Indicators

WAS v5.0
American Water Works Association.
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Water Audit Report for: SPARTA WATER SYSTEM
 Reporting Year: 2021 7/2020 - 6/2021

*** YOUR WATER AUDIT DATA VALIDITY SCORE IS: 81 out of 100 ***

System Attributes:

	Apparent Losses:	14.075	MG/Yr
+	Real Losses:	189.449	MG/Yr
=	Water Losses:	203.524	MG/Yr

? Unavoidable Annual Real Losses (UARL): 19.90 MG/Yr

Annual cost of Apparent Losses: \$37,581

Annual cost of Real Losses: \$375

Valued at **Variable Production Cost**
Return to Reporting Worksheet to change this assumption

Performance Indicators:

Financial: { Non-revenue water as percent by volume of Water Supplied: 49.3%
 Non-revenue water as percent by cost of operating system: 2.2% Real Losses valued at Variable Production Cost

Operational Efficiency: { Apparent Losses per service connection per day: 11.55 gallons/connection/day
 Real Losses per service connection per day: N/A gallons/connection/day
 Real Losses per length of main per day*: 4,761.82 gallons/mile/day
 Real Losses per service connection per day per psi pressure: N/A gallons/connection/day/psi

From Above, Real Losses = Current Annual Real Losses (CARL): 189.45 million gallons/year

? Infrastructure Leakage Index (ILI) [CARL/UARL]: 9.52

* This performance indicator applies for systems with a low service connection density of less than 32 service connections/mile of pipeline

**SPARTA WATER AND SEWER SYSTEM
SCHEDULE OF UTILITY RATES AND CUSTOMERS
June 30, 2021**

Residential Rates - Inside City

First 2,000 gallons of water	\$18.54 minimum
Next 8,000 gallons of water	@ \$4.56 per thousand gallons
All over 10,000 gallons of water	@ \$2.86 per thousand gallons

Residential Rates - Outside City

First 2,000 gallons of water	\$27.82 minimum
Next 8,000 gallons of water	@ \$6.82 per thousand gallons
All over 10,000 gallons of water	@ \$4.30 per thousand gallons

Commercial Rates - Inside City

First 2,000 gallons of water	\$23.18 minimum
Next 8,000 gallons of water	@ \$5.69 per thousand gallons
All over 10,000 gallons of water	@ \$3.58 per thousand gallons

Commercial Rates - Outside City

First 2,000 gallons of water	\$34.78 minimum
Next 8,000 gallons of water	@ \$8.55 per thousand gallons
All over 10,000 gallons of water	@ \$5.38 per thousand gallons

Industrial Rates

First 2,000 gallons of water	\$23.18 minimum
Next 8,000 gallons of water	@ \$5.69 per thousand gallons
All over 10,000 gallons of water	@ \$3.58 per thousand gallons

Utility District Rates

\$2.54 per thousand gallons

Sewer charge, where applicable, is 130% of the water bill.

There were 3,368 water customers and 2,002 sewer customers billed for June 2021.

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

Board of Mayor and 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 Water and Sewer 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 Water and Sewer System's basic financial statements and have issued my report thereon dated January 19, 2022.

Internal Control Over Financial Reporting

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

Board of Mayor and 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, and, therefore, material weaknesses of significant deficiencies may exist that have not been identified. 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 Water and Sewer 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
January 19, 2022

SPARTA WATER AND SEWER 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 Water and Sewer 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 WATER AND SEWER SYSTEM
SCHEDULE OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
JUNE 30, 2021**

There were no prior findings reported.