

SHADY GROVE UTILITY DISTRICT

Dandridge, Tennessee

ANNUAL FINANCIAL REPORT

As of June 30, 2023 and 2022



SHADY GROVE UTILITY DISTRICT

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INTRODUCTORY SECTION

**SHADY GROVE UTILITY DISTRICT
ROSTER OF DISTRICT OFFICIALS AND OTHERS**

June 30, 2023

<u>Board of Commissioners</u>	<u>Expiration of Term</u>
Nancy Humbard, President	October 15, 2025
Joe Soward, Vice-President	October 15, 2026
John Orr, Secretary-Treasurer	October 15, 2027

Management

Mike Jones, General Manager
Linda Johnson, Office Manager

Independent Auditor

Pugh & Company, PC
Certified Public Accountants
Knoxville, Tennessee

General Counsel

S. Douglas Drinnon, Attorney at Law
Rainwater, Drinnon and Churchwell, PLLC
Dandridge, Tennessee

Consulting Engineer

Matt Hatfield, P.E.
Hatfield, Allen and Associates
Morristown, Tennessee

Bond Counsel

Bass, Berry and Sims, PLC
Nashville, Tennessee

FINANCIAL SECTION



PUGH & COMPANY, P.C.
315 NORTH CEDAR BLUFF ROAD, SUITE 200
KNOXVILLE, TENNESSEE 37923
TELEPHONE 865-769-0660
FAX 865-769-1660
www.pughcpas.com

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Shady Grove Utility District
Dandridge, Tennessee

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of Shady Grove Utility District (the "District"), as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of Shady Grove Utility District, as of June 30, 2023 and 2022, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.



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TSCPA
Members of the Tennessee Society
Of Certified Public Accountants

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 11 and the required supplemental information of 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 local government hybrid plan of TCRS be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory and statistical sections but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

Other Reporting Required by Government Auditing Standards

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

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
December 20, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents management's analysis of Shady Grove Utility District's (the "District") financial condition and results of operations for the years ended June 30, 2023, June 30, 2022, and June 30, 2021. This information should be read in conjunction with the accompanying financial statements.

INDEPENDENT AUDIT

The unmodified opinion of our independent auditors, Pugh & Company, P.C., CPAs, is included in this report on pages 2 and 4.

FINANCIAL HIGHLIGHTS

Management believes the District's financial position is strong and results of operations continue to improve. With the District's change in reporting period from a fiscal year end of September 30 to June 30 in 2020. Certain balances and ratios will not be comparable to the current periods because the period ended June 30, 2020 included only nine months of operating results.

The District maintained good debt service coverage and was in compliance with all bond debt covenants. The following are key financial highlights:

- The District sold and consumed 507 million gallons of water in the year ended June 30, 2023, as compared to 480 and 429 million gallons in the year ended June 30, 2022 and June 30, 2021, representing an increase of 5.6%, 11.9% and 26.5%, respectively.
- Total assets and deferred outflows at June 30, 2023, June 30, 2022, and June 30, 2021 were \$26,071,017, \$24,967,837 and \$24,358,048, and exceeded liabilities (net position) by \$20,929,003, \$19,466,195 and \$18,501,473, respectively. Of the total net position, \$9,786,906, \$7,964,551 and \$6,632,364 were unrestricted and were available to support operations for June 30, 2023, June 30, 2022, and June 30, 2021, respectively.
- Net position increased in the year ended June 30, 2023 by \$1,462,808 as compared to \$964,722 in the year ended June 30, 2022 and \$1,082,446 in the year ended June 30, 2021.
- Operating revenues were \$5,338,406, \$5,192,867 and \$5,098,540 for the years ended June 30, 2023, June 30, 2022, and June 30, 2021, respectively, an increase of 3.8%, 1.9% and 40.6%, respectively.
- Operating expenses before depreciation increased by \$73,075, \$159,838 and \$859,634, for the years ended June 30, 2023, June 30, 2022 and June 30, 2021, an increase of 2.2%, 5.0% and 37.1% respectively.
- Operating income was \$1,222,626, \$1,097,267 and \$1,161,033 for the years ended June 30, 2023, June 30, 2022, and June 30, 2021, respectively, representing an increase (decrease) of 11.4%, (5.5)% and 45.1%.
- The ratios of operating income to total operating revenues were 22.7% for the year ended June 30, 2023, 21.1% for the year ended June 30, 2022, and 22.8% for the year ended June 30, 2021.
- Debt service coverage was 394% for June 30, 2023, 368% for June 30, 2022 and 387% for June 30, 2021, exceeding the 120% required by various bond covenants.
- Cash capital contributions for the years ended June 30, 2023, June 30, 2022, and June 30, 2021 were \$0, \$2,500 and \$68,800, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

OVERVIEW OF THE ANNUAL FINANCIAL STATEMENTS

Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements and supplementary information. The MD&A represents management's examination and analysis of the District's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the District's budget, bond resolutions and other management information were used for this analysis.

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

The proprietary fund financial statements include a balance sheet; a statement of revenues, expenses and changes in net position; a statement of cash flows; and notes to the financial statements. The balance sheet presents the financial position of the District on a full accrual basis of accounting. While the balance sheet 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 the related cash flows. This statement also provides certain information about the District's recovery of its costs. The statement of cash flows presents cash receipt and cash disbursement information and changes in cash and cash equivalents resulting from operational, financing and investing activities.

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 District's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

The supplementary information provides information on debt service requirements, insurance coverage and schedule of water rates and statistics.

The internal control and compliance section includes the auditor's report on the District's internal controls and compliance. Also included is the auditor's schedule of findings and responses.

SUMMARY OF ORGANIZATION AND BUSINESS

The District was created under the authority of Title 7, Chapter 82 of the 1937 Utility District Law of the State of Tennessee. The District began operations on October 15, 1963. The purpose of the District is to "acquire, construct, improve, extend, operate and maintain a water system." The District serves approximately 5,225 customers in Jefferson County and 3,483 in Sevier County. The District purchases treated water from Jefferson City and the Knoxville Utilities Board (KUB). The District's primary source of water from KUB is drawn from the French Broad and Holston river drainage basins. The District's primary source of water from Jefferson City is drawn from Mossy Creek spring and the Jarnigan Mine well.

The District is governed by a Board of Commissioners composed of three citizens who reside or are current customers of the District. Two Board members are appointed by the Jefferson County Mayor and one by the Sevier County Mayor for a term of four years.

The District's main capital assets consist of approximately 318 miles of water lines, one office building and related maintenance facility and five water reservoir tanks.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

The District receives no financial support from Jefferson or Sevier County, Tennessee and has no taxing authority. The District's revenues are derived from water charges based upon metered water consumption of customers. The water rates are established by the Board of Commissioners.

FINANCIAL ANALYSIS

The following comparative condensed financial statements and other selected information provides key financial data and indicators for management, monitoring, and planning. Net position may serve over time as a useful indicator of the District's financial position.

Condensed Proprietary Fund Balance Sheets
(In Thousands of Dollars)

As of	Year Ended June 30, 2023	Year Ended June 30, 2022	Year Ended June 30, 2021
ASSETS			
Current Assets	\$ 8,685	\$ 8,171	\$ 6,825
Certificates of Deposit	1,801	451	451
Capital Assets:			
Producing – Net	<u>15,378</u>	<u>16,134</u>	<u>16,848</u>
Total Assets	25,863	24,756	24,123
DEFERRED OUTFLOWS			
Deferred Outflows of Resources - Pensions	65	42	37
Deferred Cost of Defeased Bonds	<u>142</u>	<u>169</u>	<u>198</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>\$ 26,071</u>	<u>\$ 24,967</u>	<u>\$ 24,358</u>
LIABILITIES			
Current Liabilities	\$ 674	\$ 675	\$ 667
Other Liabilities	97	71	63
Long Term Debt – Net of Current Portion	<u>4,369</u>	<u>4,752</u>	<u>5,127</u>
Total Liabilities	<u>5,140</u>	<u>5,498</u>	<u>5,857</u>
DEFERRED INFLOWS			
Deferred Inflows of Resources - Pensions	<u>2</u>	<u>3</u>	<u>0</u>
NET POSITION			
Net Investment in Capital Assets	10,644	11,024	11,371
Restricted for Debt Service	498	496	498
Unrestricted	<u>9,787</u>	<u>7,947</u>	<u>6,632</u>
Total Net Position	<u>20,929</u>	<u>19,466</u>	<u>18,501</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 26,071</u>	<u>\$ 24,967</u>	<u>\$ 24,358</u>

The largest portion of the District's net position reflects its investment in capital assets, less accumulated depreciation and any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to repay long-term debt.

The unrestricted net position may be used to meet the obligations to employees and creditors and provide current operating resources.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FINANCIAL ANALYSIS (Continued)

Condensed Proprietary Fund Statements of Revenues, Expenses
and Changes in Net Position
(In Thousands of Dollars)

	For the	Year Ended June 30, 2023	Year Ended June 30, 2022	Year Ended June 30, 2021
Operating Revenues				
Water Sales – Net	\$	4,933	\$ 4,752	\$ 4,678
Forfeited Discounts		83	78	74
Connection Fees		216	204	182
Service Fees		131	132	134
Line Loss Revenue		23	22	22
Miscellaneous		4	6	9
Total Operating Revenues		<u>5,388</u>	<u>5,193</u>	<u>5,099</u>
Operating Expenses				
Water Purchased		1,506	1,381	1,483
Operations and Maintenance		1,190	1,279	1,062
Administrative and General		713	677	634
Depreciation		756	759	760
Total Operating Expenses		<u>4,166</u>	<u>4,096</u>	<u>3,940</u>
Operating Income		<u>1,223</u>	<u>1,097</u>	<u>1,159</u>
Non-Operating Revenues (Expenses)				
Interest Income		37	20	16
Gain on Disposal of Capital Assets		350	0	0
Interest Expense		(146)	(155)	(163)
Total Non-Operating Revenues (Expenses) - Net		<u>240</u>	<u>(135)</u>	<u>(147)</u>
Increase in Net Position Before Capital Contributions		1,463	962	1,012
Capital Contributions				
Cash Contributions		<u>0</u>	<u>3</u>	<u>69</u>
Change in Net Position		1,463	965	1,080
NET POSITION, BEGINNING OF PERIOD		<u>19,466</u>	<u>18,501</u>	<u>17,421</u>
NET POSITION, END OF PERIOD	\$	<u>20,929</u>	\$ <u>19,466</u>	\$ <u>18,501</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

OTHER SELECTED INFORMATION

For the	<u>Year Ended June 30, 2023</u>	<u>Year Ended June 30, 2022</u>	<u>Year Ended June 30, 2021</u>
Employees at Year-End	13	12	13
Average Employees	13	12	13
Customers (Billing Units) at Year-End:			
Water	8,708	8,575	8,398
Water (Millions of Gallons)			
Purchased	733	695	562
Sold and Consumed	507	480	429
Per Average Employee:			
Operating Revenues	\$ 414,493	\$ 432,739	\$ 392,195
Operating Expenses	\$ 320,445	\$ 341,300	\$ 302,885
Residential Rates Per 1,000 Gallons of Water Consumed	\$ 5.50	\$ 5.50	\$ 5.50
Ratio of Operating Revenues to:			
Operating Expenses	1.29	1.27	1.29
Operating Expenses – Net of Depreciation	1.58	1.56	1.60
Total Assets	0.21	0.21	0.21
Net Position	0.26	0.27	0.21
Debt Related Ratios:			
Long-Term Debt to Net Position	0.23	0.26	0.21
Long-Term Debt to Total Assets	0.18	0.20	0.21
Operating Coverage	3.94	3.68	3.87

GENERAL TRENDS AND SIGNIFICANT EVENTS

Customer growth in the District has remained strong over the last ten years. For the decade, water customers have increased by 15%. The District's number of water customers increased 1.6% during the year ended June 30, 2023, 2.1% during the year ended June 30, 2022, and 1.2% during the year ended June 30, 2021.

PROPRIETARY FUND FINANCIAL CONDITION

The District's financial condition remained strong at year-end with adequate current assets and a reasonable level of unrestricted net position. The current financial condition, staff capabilities, operating plans and upgrade plans to meet future water quality requirements are well balanced and under control.

Total assets and deferred outflows increased by \$1,103,180, \$609,789 and \$435,711 for the years ended June 30, 2023, June 30, 2022, and June 30, 2021, respectively.

Accounts receivable, as of June 30, 2023, June 30, 2022 and June 30, 2021 increased (decreased) by 4.0%, 3.4% and (1.1)%, respectively. As of June 30, 2023 and June 30, 2022, 96% and 98%, respectively, of accounts receivable were current within 30 days. The change in accounts receivable in June 30, 2023, June 30, 2022 and June 30, 2021 is consistent with prior variance explanations. The District's bad debt expense was \$18,393, \$14,769 and \$16,426 for the years ended June 30, 2023, June 30, 2022, and June 30, 2021, respectively.

MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)

PROPRIETARY FUND RESULTS OF OPERATIONS

Operating Revenues

Revenues from operations fall into two general categories: water service and ancillary charges. Ancillary charges include connection fees, account set up and customer forfeited discounts, and charges for miscellaneous billed services. The District has three classes of water customers, residential, commercial and other.

The average realized rate from water sales was \$9.77 per thousand gallons in the year ended June 30, 2023, and \$9.97 in the year ended June 30, 2022, and \$10.94 in the year ended June 30, 2021.

Beginning October 1, 2015, the District lowered its minimum monthly bill usage from 1,000 gallons to 0 gallons based on the recommendation of an independent rate study.

Capital Contributions

The District 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 water customer is connected to the system. In addition, the District accepts new water lines that are donated by residential and commercial real estate developers.

Capital contributions during 2023, 2022 and 2021 consisted of the following:

	For the	Year Ended June 30, 2023	Year Ended June 30, 2022	Year Ended June 30, 2021
Capital Contributions from Various Developers	\$	<u>0</u>	\$ <u>2,500</u>	\$ <u>68,800</u>

Expenses

Operating expenses, excluding depreciation, increased by \$73,076 in the year ended June 30, 2023, \$159,835 in the year ended June 30, 2022, and \$859,634 in the year ended June 30, 2021, or by 2.2%, 5.0% and 21.8%, respectively. This was a result of significant increases in:

	For the	Year Ended June 30, 2023	Year Ended June 30, 2022	Year Ended June 30, 2021
Salaries and Benefits	\$	25,090	\$ 100,400	\$ 220,271
Supplies and Materials		(71,756)	166,941	38,969
Office Expense		14,327	17,798	83,440
Water Purchased		125,572	(100,017)	404,500
Repairs and Maintenance		(40,283)	(27,743)	108,785
Professional Services		14,267	(10,044)	(6,731)
Leak Detection		5,550	0	0
Fuel		(739)	12,578	10,539
Other		1,048	(78)	(139)
Total	\$	<u>73,076</u>	\$ <u>159,835</u>	\$ <u>859,634</u>

MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)

PROPRIETARY FUND CAPITAL ASSETS

The District is improving its capital assets to provide improved water distribution, storage system, reduce water line loss, and to provide adequate capacity for future customer growth.

During the year ended June 30, 2023, the District had no changes in capital assets while during the years ended June 30, 2022, and June 30, 2021, the District increased its capital assets before disposals and depreciation by \$44,375 and \$225,705, respectively. These increases are due to the following:

	For the	Year Ended June 30, 2023	Year Ended June 30, 2022	Year Ended June 30, 2021
Water Line Improvements	\$	<u>0</u>	\$ <u>44,375</u>	\$ <u>225,705</u>
Total	\$	<u>0</u>	\$ <u>44,375</u>	\$ <u>225,705</u>

The District's capital asset activity for the years ended June 30, 2023 and June 30, 2022, is described in Note 3 to the financial statements.

PROPRIETARY FUND DEBT

At June 30, 2023, June 30, 2022 and June 30, 2021, the District had \$4,734,064, \$5,109,593 and \$5,477,101 in long term debt, a decrease of \$(375,529), \$(367,508) and \$(367,071), respectively.

The District incurred \$146,475, \$154,743 and \$163,178 in interest expense for June 30, 2023, June 30, 2022 and June 30, 2021, respectively.

The long-term debt to total assets ratio decreased from 0.21 in June 30, 2021 to 0.19 in June 30, 2022 to 0.17 as of June 30, 2023.

More detailed information about the District’s debt is described in Note 4 to the financial statements.

ECONOMIC FACTORS AND FISCAL YEAR 2024

- Number of customers is projected to increase by 1.0% during 2024.
- FY 2024 Budget:

Revenues	\$ 5,761,808
Expenses	<u>(5,037,222)</u>
Increase in Net Position	
Before Capital Contributions	<u>\$ 724,586</u>

CONTACTING THE DISTRICT

This annual financial report is designed to provide our customers, creditors and regulatory agencies with a general overview of the District’s finances. If you have any questions about this report or need additional information, you may contact the District:

Mike Jones, General Manager
 Shady Grove Utility District
 P.O. Box 830
 Highway 139
 Dandridge, TN 37725-0830
 865-397-3790

SHADY GROVE UTILITY DISTRICT
PROPRIETARY FUND BALANCE SHEETS

	As of June 30,	2023	2022
ASSETS AND DEFERRED OUTFLOWS			
CURRENT ASSETS			
Cash and Cash Equivalents	\$	7,476,904	\$ 6,984,670
Cash and Cash Equivalents - Restricted		498,396	495,708
Accounts Receivable - Customers (Net of Allowance for Uncollectible Accounts of \$35,000 for 2023 and 2022)		693,721	666,758
Prepaid Expenses		16,142	26,000
Total Current Assets		8,685,163	8,173,136
NON-CURRENT ASSETS			
Certificates of Deposit		1,800,501	450,501
Capital Assets:			
Property, Plant and Equipment		27,835,193	27,835,193
Less: Accumulated Depreciation		(12,457,430)	(11,701,665)
Capital Assets - Net		15,377,763	16,133,528
TOTAL ASSETS		25,863,427	24,757,165
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflows Related to Pensions		65,377	41,829
Deferred Cost of Defeased Bonds		142,213	168,843
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$	26,071,017	\$ 24,967,837
LIABILITIES AND NET POSITION			
CURRENT LIABILITIES			
Accounts Payable	\$	173,867	\$ 188,751
Accrued Liabilities		135,002	126,375
Current Portion of Long-Term Debt		365,257	358,288
Total Current Liabilities		674,126	673,414
NON-CURRENT LIABILITIES			
Other Liabilities		73,921	71,306
Long-Term Debt - Net of Current Portion		4,368,807	4,751,305
Net Pension Liability		23,160	2,951
Total Non-Current Liabilities		4,465,888	4,825,562
Total Liabilities		5,140,014	5,498,976
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows Related to Pensions		2,000	2,666
NET POSITION			
Net Investment in Capital Assets		10,643,701	11,023,936
Restricted for:			
Debt Service		498,396	495,708
Unrestricted		9,786,906	7,946,551
Total Net Position		20,929,003	19,466,195
TOTAL LIABILITIES AND NET POSITION	\$	26,071,017	\$ 24,967,837

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

SHADY GROVE UTILITY DISTRICT

PROPRIETARY FUND STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	For the Years Ended June 30,	<u>2023</u>	<u>2022</u>
OPERATING REVENUES			
Water (Net of Bad Debts of \$18,393 in 2023 and \$14,769 in 2022)	\$	4,933,134	\$ 4,751,579
Forfeited Discounts		82,655	77,506
Connection Fees		215,750	203,800
Service Fees		130,506	131,698
Line Loss Revenue		22,772	22,207
Miscellaneous		<u>3,589</u>	<u>6,077</u>
Total Operating Revenues		<u>5,388,406</u>	<u>5,192,867</u>
OPERATING EXPENSES			
Water Purchased		1,506,495	1,380,923
Operations and Maintenance		1,190,405	1,278,758
General and Administrative		713,115	677,259
Depreciation		<u>755,765</u>	<u>758,660</u>
Total Operating Expenses		<u>4,165,780</u>	<u>4,095,600</u>
OPERATING INCOME		<u>1,222,626</u>	<u>1,097,267</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest Income		36,657	19,698
Gain on Disposal of Capital Assets		350,000	0
Interest Expense		<u>(146,475)</u>	<u>(154,743)</u>
Total Non-Operating Revenues (Expenses) - Net		<u>240,182</u>	<u>(135,045)</u>
INCREASE IN NET POSITION BEFORE CAPITAL CONTRIBUTIONS		1,462,808	962,222
CAPITAL CONTRIBUTIONS			
Cash Contributions		<u>0</u>	<u>2,500</u>
CHANGE IN NET POSITION		1,462,808	964,722
NET POSITION, BEGINNING OF PERIOD		<u>19,466,195</u>	<u>18,501,473</u>
NET POSITION, END OF PERIOD	\$	<u><u>20,929,003</u></u>	\$ <u><u>19,466,195</u></u>

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

SHADY GROVE UTILITY DISTRICT
PROPRIETARY FUND STATEMENTS OF CASH FLOWS

	For the Years Ended June 30,	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customers and Users	\$	5,368,324	\$ 5,211,538
Payments to Employees		(1,008,071)	(891,923)
Payments to Suppliers		<u>(2,406,614)</u>	<u>(2,443,525)</u>
Net Cash Provided by Operating Activities		<u>1,953,639</u>	<u>1,876,090</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital Contributed by Customers		0	2,500
Acquisition and Construction of Capital Assets		0	(44,375)
Sale of Capital Assets		350,000	0
Interest Paid on Long-Term Debt		(136,256)	(143,457)
Principal Paid on Long-Term Debt		<u>(359,119)</u>	<u>(350,087)</u>
Net Cash Used in Capital and Related Financing Activities		<u>(145,375)</u>	<u>(535,419)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest Income		36,658	19,699
Purchase of Certificates of Deposit		<u>(1,350,000)</u>	<u>0</u>
Net Cash Provided by (Used in) Investing Activities		<u>(1,313,342)</u>	<u>19,699</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		494,922	1,360,370
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		<u>7,480,378</u>	<u>6,120,008</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$	<u><u>7,975,300</u></u>	<u><u>\$ 7,480,378</u></u>

Cash and Cash Equivalents at End of Year Consist of:

Unrestricted Cash and Cash Equivalents	\$	7,476,904	\$ 6,984,670
Restricted Cash and Cash Equivalents		<u>498,396</u>	<u>495,708</u>
Total	\$	<u><u>7,975,300</u></u>	<u><u>\$ 7,480,378</u></u>

**RECONCILIATION OF OPERATING INCOME TO
NET CASH PROVIDED BY OPERATING ACTIVITIES**

Operating Income	\$	1,222,626	\$ 1,097,267
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation		755,765	758,660
Bad Debt Expense		18,393	14,769
Changes in:			
Accounts Receivable, Net of Charge Offs		(45,356)	(36,683)
Prepays		9,858	34,329
Deferred Outflows of Resources - Pensions		(23,548)	(4,827)
Net pension liability		20,209	2,951
Deferred Outflows Related to Pension		(666)	2,666
Accounts Payable		(14,884)	(12,450)
Compensated Absences Payable		2,615	8,799
Accrued Liabilities		<u>8,627</u>	<u>10,609</u>
Net Cash Provided by Operating Activities	\$	<u><u>1,953,639</u></u>	<u><u>\$ 1,876,090</u></u>

**Noncash Investing, Capital and Related
Financing Activities**

Amortization of Bond Premiums	\$	(16,410)	\$ (17,421)
Amortization of Deferred Refundings		26,630	28,708

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

SHADY GROVE UTILITY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

Years Ended June 30, 2023 and June 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Shady Grove Utility District of Jefferson and Sevier Counties, Tennessee (the "District") was created on October 15, 1963, by Jefferson and Sevier County, Tennessee under the authority of Title 7, Chapter 82 of the 1937 Utility District Law of the State of Tennessee.

The District's Board of Commissioners serve staggered four-year terms. The Jefferson County Mayor appoints two commissioners and the Sevier County Mayor appoints one commissioner. Jefferson and Sevier counties do not have any fiscal or budgetary control over the District. In addition, Jefferson and Sevier counties do not approve or pledge assets to secure the debts of the District. The operations of the District are funded by water rates established by the District's Board of Commissioners.

Basis of Accounting and Presentation - The District's financial statements are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

All activities of the District are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) 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; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

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

Budgeting - The District's proprietary fund adopts flexible annual operating and capital budgets. Budgets are adopted on a basis consistent with generally accepted accounting principles. The current operating budget details the District's plans to earn and expend funds for charges incurred for operation, maintenance, certain interest and general functions and other charges for the fiscal year. The capital budget details the plan to receive and expend cash basis capital contribution fees, grants, borrowings and certain revenues for capital projects. The District's budgets are not legally binding.

All unexpended and unencumbered appropriations in the operating budget remaining at the end of the fiscal year lapse. No appropriation for a capital project in the capital budget lapses until the purpose for which the appropriation was made has been accomplished or abandoned.

Management submits a proposed budget to the District's Board of Commissioners prior to the June Board meeting. A budget is adopted by resolution prior to July 1. During the year, management is authorized to transfer budgeted amounts between line items within the District's departments.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash Equivalents and Certificates of Deposits - Cash and cash equivalents, for purposes of the statement of cash flows, include restricted and unrestricted cash on hand or on deposit and certificates of deposit with a maturity at purchase of three months or less.

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 District 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.

Receivables and Revenues - Revenues are billed monthly to customers on a cyclical meter reading basis. Unbilled revenues are accrued for estimated usage from the last meter reading date to year-end.

Accounts receivable are stated at the amount management expects to collect from outstanding balances. The District provides for estimated uncollectible receivables through a reduction (expense) of gross water revenues and a credit to an allowance based on its assessment of the current status of individual accounts and historical write-off experience. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Operating revenues consist of net water revenues, forfeited discounts, inspection fees and various service fees. Connection (tap) fees are recorded as revenue to the extent of expenses incurred in connecting a customer to the system. Connection fees in excess of costs, if any, are recorded as cash capital contributions.

Non-operating revenue consists of gains (losses) on the sale or disposal of capital assets.

Expenses - Operating expenses consist of the cost of water purchased, storage and distribution. Other operating expenses include customer billing, collections, administrative and general and depreciation on capital assets.

Non-operating expenses consist of interest on long-term liabilities and loss on the disposal or impairment of capital assets.

Capital Assets - Property, plant and equipment in service and construction in progress are recorded at cost, if purchased or constructed. Assets acquired through contributions from developers or other customers are capitalized at their estimated fair market value, if available, or at engineer's estimated fair market value or cost to construct at the date of the contribution. Utility systems acquired from other governmental service providers are recorded at the purchase price, limited to fair market value.

Maintenance and repairs, which do not significantly extend the value or life of property, plant and equipment are expensed as incurred.

Depreciation is not recorded until the assets are actually put into use.

The District defines a capital asset as an asset with an initial individual cost, or a project with a cumulative cost of more than \$10,000 and an estimated useful life in excess of one year.

Capital assets are depreciated on the straight-line method. Depreciation is calculated using the following estimated useful lives:

	<u>Years</u>
Transmission and Distribution Systems	40-50
Meters	10-20
Vehicles	5-10
Machinery and Equipment	5-20
Buildings and Improvements	15-40
Office Furniture and Equipment	5-10

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Obligations and Costs - Long-term obligations are reported at face value, net of applicable premiums and discounts. Premiums and discounts and gains or losses on advance refundings and defeasances are deferred and amortized over the life of the related bonds.

Compensation for Future Absences - The District pays employees at the end of each year for unused vacation time, provided the employee has used half of his or her vacation time during the year, at a rate equal to one-half of the employee's normal retirement pay rate. Accumulated sick time is eligible to be paid to employees at termination. Accumulated time off is recorded as an expense and liability as the benefits are earned. See Note 10 for additional information.

Pensions - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of Shady Grove Utility District Hybrid W's participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System (TCRS), and additions to/deductions from Shady Grove Utility District Hybrid W'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 the TCRS. Investments are reported at fair value.

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.

Deferred Outflows/Inflows of Resources - In addition to assets, the balance sheet may report a separate section for deferred outflows of resources, if applicable. This separate financial statement element 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 balance sheet reports a separate section for deferred inflows of resources. This separate financial statement element 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 then.

Net Position - Proprietary Fund - Net position comprises the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net position is classified in the following three components: net investment in capital assets; restricted for capital assets activity and debt service; and unrestricted net position. Net investment in capital assets consists of all capital assets, net of accumulated depreciation and deferred outflows of resources and deferred inflows of resources and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt or deferred inflow of resources attributable to unspent proceeds or other restricted cash and investments are excluded from the determination. Restricted for capital assets activity and debt service consists of net positions for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

Net Position Flow Assumption - Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. When both restricted and unrestricted resources are available for use, it is the District's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the 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, the allowance for doubtful accounts, unbilled revenues and certain claims and judgment liabilities, among other accounts. Actual results may differ from those estimates.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Standard - During the fiscal year ended June 30, 2023, the District implemented GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users. It (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. The standard did not have a material effect on the District’s financial statements and disclosures.

Evaluation of Subsequent Events - Management has evaluated subsequent events through December 20, 2023, which is the date the financial statement were available to be issued.

NOTE 2 - DEPOSITS AND INVESTMENTS - PROPRIETARY FUND

Tennessee Code Annotated (TCA) Section 7-82-108 and Rural Development bond covenants restrict the types of depositories and investment securities available to the District. State statutes and bond indentures limit depositories to certain size state or national banks, or credit unions located in the United States. The types of deposits and investments permitted are certificates of deposit, repurchase agreements in governmental obligations, money market accounts, state local government investment pool (SLGIP), obligations of the U.S. Government and federal agency debt securities.

At June 30, 2023 and 2022, the District’s proprietary fund had the following deposits:

	<u>2023</u>	<u>2022</u>
Deposits:		
Demand Deposits	\$ 7,975,300	\$ 7,480,378
Certificates of Deposit - Maturing from July 11, 2024 through May 11, 2025, with interest rates of 1.76% to 4.02%.	<u>1,800,501</u>	<u>450,501</u>
Total	<u>\$ 9,775,801</u>	<u>\$ 7,930,879</u>

A summary of the deposits on the balance sheets at June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Current Assets:		
Cash and Cash Equivalents	\$ 7,476,904	\$ 6,984,670
Cash and Cash Equivalents - Restricted	498,396	495,708
Certificates of Deposit	<u>1,800,501</u>	<u>450,501</u>
Total	<u>\$ 9,775,801</u>	<u>\$ 7,930,879</u>

Restricted Cash and Cash Equivalents - The restricted cash and cash equivalents are for required reserves by various bond covenants and are to be used solely for the repayment of debt and temporary working capital.

Custodial Credit Risk - Deposits - Tennessee State Law requires utility districts to secure deposits by having financial institutions pledge governmental securities as collateral. The market value of pledged securities must equal at least 105% of the District's uninsured deposits.

All of the District's proprietary fund’s cash equivalents and investments in certificates of deposit at June 30, 2023 and 2022 were covered by Federal Depository Insurance Coverage (FDIC) and the bank collateral pool administered by the Treasurer of the State of Tennessee.

NOTE 2 - DEPOSITS AND INVESTMENTS - PROPRIETARY FUND (Continued)

The bank may use one of three different pledged security levels (90%, 100% or 105%) depending on the specific bank holding the deposit. Participating banks determine the aggregate balance of their public fund accounts for the District. 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 individual 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 and classified as Category 1 for purposes of custodial credit risk disclosure.

Investment Risks - The District's proprietary fund had no investments at June 30, 2023 and 2022.

NOTE 3 - CAPITAL ASSETS

A summary of capital asset activity and changes in accumulated depreciation for the period ended June 30, 2023, was as follows:

	Balance 7/1/2022	Additions and Transfers	Deletions, Retirements and Transfers	Balance 6/30/2023
Capital Assets Not Being Depreciated:				
Land and Easements	\$ 198,063	\$ 0	\$ 0	\$ 198,063
Total Capital Assets Not Being Depreciated	<u>198,063</u>	<u>0</u>	<u>0</u>	<u>198,063</u>
Capital Assets Being Depreciated:				
Mains, Lines and Reservoirs	25,368,933	0	0	25,368,933
Buildings and Improvements	1,056,775	0	0	1,056,775
Machinery and Equipment	493,289	0	0	493,289
Vehicles	615,662	0	0	615,662
Office Furniture and Equipment	102,471	0	0	102,471
Total Capital Assets Being Depreciated	<u>27,637,130</u>	<u>0</u>	<u>0</u>	<u>27,637,130</u>
Less Accumulated Depreciation:				
Mains, Lines and Reservoirs	(9,928,485)	(709,707)	0	(10,638,192)
Buildings and Improvements	(599,799)	(24,379)	0	(624,178)
Machinery and Equipment	(438,726)	(12,813)	0	(451,539)
Vehicles	(633,570)	(8,866)	0	(642,436)
Office Furniture and Equipment	(101,085)	0	0	(101,085)
Total Accumulated Depreciation	<u>(11,701,665)</u>	<u>(755,765)</u>	<u>0</u>	<u>(12,457,430)</u>
Total Capital Assets Being Depreciated - Net	<u>15,935,465</u>	<u>(755,765)</u>	<u>0</u>	<u>15,179,700</u>
Total Capital Assets	<u>\$ 16,133,528</u>	<u>\$ (755,765)</u>	<u>\$ 0</u>	<u>\$ 15,377,763</u>

Depreciation expense was \$755,765 for the period ended June 30, 2023.

NOTE 3- CAPITAL ASSETS (Continued)

A summary of capital asset activity and changes in accumulated depreciation for the period ended June 30, 2022, was as follows:

	Balance 7/1/2021	Additions and Transfers	Deletions, Retirements and Transfers	Balance 6/30/2022
Capital Assets Not Being Depreciated:				
Land and Easements	\$ 198,063	\$ 0	\$ 0	\$ 198,063
Construction in Progress	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Capital Assets Not Being Depreciated	<u>198,063</u>	<u>0</u>	<u>0</u>	<u>198,063</u>
Capital Assets Being Depreciated:				
Mains, Lines and Reservoirs	25,324,558	44,375	0	25,368,933
Buildings and Improvements	1,056,775	0	0	1,056,775
Machinery and Equipment	493,289	0	0	493,289
Vehicles	615,662	0	0	615,662
Office Furniture and Equipment	<u>102,471</u>	<u>0</u>	<u>0</u>	<u>102,471</u>
Total Capital Assets Being Depreciated	<u>27,592,755</u>	<u>44,375</u>	<u>0</u>	<u>27,637,130</u>
Less Accumulated Depreciation:				
Mains, Lines and Reservoirs	(9,219,266)	(709,219)	0	(9,928,485)
Buildings and Improvements	(575,420)	(24,379)	0	(599,799)
Machinery and Equipment	(425,484)	(13,242)	0	(438,726)
Vehicles	(621,750)	(11,820)	0	(633,570)
Office Furniture and Equipment	<u>(101,085)</u>	<u>0</u>	<u>0</u>	<u>(101,085)</u>
Total Accumulated Depreciation	<u>(10,943,005)</u>	<u>(758,660)</u>	<u>0</u>	<u>(11,701,665)</u>
Total Capital Assets Being Depreciated - Net	<u>16,649,750</u>	<u>(714,285)</u>	<u>0</u>	<u>15,935,465</u>
Total Capital Assets	<u>\$ 16,847,813</u>	<u>\$ (714,285)</u>	<u>\$ 0</u>	<u>\$ 16,133,528</u>

Depreciation expense was \$758,660 for the period ended June 30, 2022.

NOTE 4 - LONG-TERM DEBT

Overview

Revenue Bonds - The District issues revenue bonds to provide funds for the acquisition and construction of major capital facilities and to refund previously issued revenue bonds. These bonds are generally issued as serial bonds with varying amounts of principal maturing each year. Revenue bonds outstanding at June 30, 2023 and 2022 consisted of the following:

	<u>2023</u>	<u>2022</u>
\$5,050,000 Waterworks Revenue Refunding Bonds, Series 2016 issued on 11/16/2016. Monthly payments of between \$3,862 to \$36,988 are paid to the bond trustee, with principal due annually on September 1 and interest semi-annually on March 1 and September 1 to the bond holders. Interest rates are between 2.0% to 3.0%.	<u>\$ 3,535,512</u>	<u>\$ 3,868,846</u>

NOTE 4 - LONG-TERM DEBT (Continued)

Note Payable (Direct Borrowing) - The District has entered into a loan agreement with the United States Department of Agriculture's Rural Development Office for a capital project at a favorable interest rate. The note payable outstanding at June 30, 2023 and 2022 consisted of the following:

	<u>2023</u>	<u>2022</u>
\$1,330,000 Rural Development Waterworks Revenue Bonds, Series 2010 issued on 7/11/2013 with monthly principal and interest payments of \$4,709 due through 2051. Interest rate is 2.75%.	\$ <u>1,103,247</u>	\$ <u>1,129,032</u>

Total borrowings for both Revenue Bonds and Note Payable (Direct Borrowing) at June 30, 2023 and 2022 consisted of the following:

	<u>2023</u>	<u>2022</u>
Total Long-Term Debt	\$ 4,638,759	\$ 4,997,878
Add: Unamortized Bond Premium	<u>95,305</u>	<u>111,715</u>
	4,734,064	5,109,593
Less: Current Portion	<u>(365,257)</u>	<u>(358,288)</u>
Total Long-Term Portion	\$ <u>4,368,807</u>	\$ <u>4,751,305</u>

Rural Development and other bond holders have placed a statutory mortgage lien upon the District as permitted by TCA, Section 7-82-101, and will remain in effect until the various bond issues are paid in full. There is a bond covenant with a minimum debt service coverage ratio of 1.20 and for the years ended June 30, 2023 and June 30, 2022 the District's ratio was 3.94 and 3.68, respectively.

Interest expense for the years ended June 30, 2023 and June 30, 2022 consisted of the following:

	<u>2023</u>	<u>2022</u>
Interest Paid	\$ 136,256	\$ 143,456
Amortization of Deferred Cost of Refunding	26,629	28,708
Amortization of Bond Premiums	<u>(16,410)</u>	<u>(17,421)</u>
Total	\$ <u>146,475</u>	\$ <u>154,743</u>

NOTE 4 - LONG-TERM DEBT (Continued)

Activity

Long-term debt activity during the years ended June 30, 2023 and June 30, 2022 was as follows:

	Balance Beginning of Period	Additions	Reductions	Balance End of Period	Due Within One Year
June 30, 2023					
Revenue Bonds	\$ 3,868,846	\$ 0	\$ (333,334)	\$ 3,535,512	\$ 338,750
Note Payable	1,129,032	0	(25,785)	1,103,247	26,507
Add: Bond Premiums	111,715	0	(16,410)	95,305	0
Total	<u>\$ 5,109,593</u>	<u>\$ 0</u>	<u>\$ (375,529)</u>	<u>\$ 4,734,064</u>	<u>\$ 365,257</u>
June 30, 2022					
Revenue Bonds	\$ 4,193,846	\$ 0	\$ (325,000)	\$ 3,868,846	\$ 332,500
Note Payable	1,154,119	0	(25,087)	1,129,032	25,788
Add: Bond Premiums	129,136	0	(17,421)	111,715	0
Total	<u>\$ 5,477,101</u>	<u>\$ 0</u>	<u>\$ (367,508)</u>	<u>\$ 5,109,593</u>	<u>\$ 358,288</u>

Debt Service

The annual requirement for the payment of the principal and interest on the long-term debt as of June 30, 2023, is as follows:

Years Ending June 30,	Revenue Bonds		Note Payable	
	Principal	Interest	Principal	Interest
2024	\$ 338,750	\$ 99,425	\$ 26,507	\$ 30,001
2025	347,500	92,650	27,245	29,263
2026	357,500	84,388	28,004	28,504
2027	363,750	75,450	28,783	27,725
2028	376,250	56,475	29,585	26,923
2029-2033	1,382,500	176,401	160,753	121,787
2034-2038	369,262	18,413	184,418	98,122
2039-2043	0	0	211,569	70,971
2044-2048	0	0	242,717	39,823
2049-2053	0	0	163,666	6,876
Total	<u>\$ 3,535,512</u>	<u>\$ 603,202</u>	<u>\$ 1,103,247</u>	<u>\$ 479,995</u>

Restricted Cash and Cash Equivalents - Debt Service

The District is required by various bond covenants to maintain the following restricted cash and cash equivalents at June 30, 2023 and June 30, 2022:

	2023	2022
Debt Service Reserve - Annual Principal and Interest	<u>\$ 498,396</u>	<u>\$ 495,708</u>

NOTE 5 - NET POSITION - PROPRIETARY FUND

Proprietary fund net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. The net position for 2023 and 2022 was as follows:

	<u>2023</u>	<u>2022</u>
Net Investment in Capital Assets:		
Net Property, Plant and Equipment in Service	\$ 15,377,763	\$ 16,133,528
Less: Long-Term Debt	<u>(4,734,062)</u>	<u>(5,109,592)</u>
	10,643,701	11,023,936
Restricted for Debt Service:		
Restricted Cash and Cash Equivalents	498,396	495,708
Unrestricted	<u>9,786,906</u>	<u>7,946,551</u>
Total	<u>\$ 20,929,003</u>	<u>\$ 19,466,195</u>

NOTE 6 - PURCHASE COMMITMENTS

The District does not operate a water treatment facility and all potable water is purchased from the Knoxville Utilities Board (KUB) and Jefferson City, Tennessee. Terms of the two contracts are as follows:

Knoxville Utilities Board (KUB)

The District is obligated to purchase a minimum of 3,000,000 gallons of treated water per month at a current minimum cost of \$4,440 (currently \$1.48 per 1,000 gallons) through June 30, 2024. The price charged by KUB shall be determined by its applicable rate schedule and may be amended at KUB's discretion.

Jefferson City, Tennessee (the City)

The District is obligated to purchase 12,000,000 gallons of treated water per month from the City through July 9, 2036. The current minimum cost is \$23,760 (currently \$1.98 per 1,000 gallons) monthly as of June 30, 2023. The price charged by the City may be amended at the City's discretion. Beginning September 1, 2022, the City increased the price from \$1.98 to \$2.21. The price will increase from \$2.21 to \$2.45 beginning July 1, 2023, and will increase to \$2.69 beginning January 1, 2024.

Annual Payments

The minimum annual payments under these two contracts at June 30, 2023, are as follows:

<u>Years Ending June 30,</u>	<u>KUB</u>	<u>Jefferson City</u>	<u>Total</u>
2024	\$ 53,280	\$ 352,800	\$ 406,080
2025	0	370,080	370,080
2026	0	387,360	387,360
2027	0	387,360	387,360
2028	0	387,360	387,360
2029-2036	<u>0</u>	<u>3,098,880</u>	<u>3,098,880</u>
Total	<u>\$ 53,280</u>	<u>\$ 4,983,840</u>	<u>\$ 5,037,120</u>

NOTE 6 - PURCHASE COMMITMENTS (Continued)

Water Purchased

The water purchased from the suppliers noted above during the years ended June 30, 2023 and June 30, 2022, was as follows:

	<u>2023</u>	<u>2022</u>
Jefferson City	\$ 736,910	\$ 662,908
Knoxville Utilities Board	<u>769,585</u>	<u>718,015</u>
Total	<u>\$ 1,506,495</u>	<u>\$ 1,380,923</u>

These purchase commitments represent approximately 36% and 34% of the District's operating expenses for fiscal periods 2023 and 2022, respectively.

NOTE 7 - RETIREMENT PLANS

Tennessee Consolidated Retirement System – Hybrid Plan

General Information

Plan Description - Employees of Shady Grove Utility District Hybrid Plan are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the TCRS. The TCRS was created by state statute under Tennessee Code Annotated, Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publicly available financial report that can be obtained at <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 65 with 5 years of service credit or pursuant to the rule of 90 in which the member's age and service credit total 90. Benefits are determined by a formula using the member's highest five consecutive years average compensation and the member's service credit. Reduced benefits for early retirement are available at age 60 and vested or pursuant to the rule of 80 in which the member's age and service credit total 80. 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% 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%, 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, 2022, the following employees were covered by the benefit terms:

	<u>2022</u>	<u>2021</u>
Inactive Employees or Beneficiaries Currently Receiving Benefits	0	0
Inactive Employees Entitled to, but not yet Receiving Benefits	0	0
Active Employees	<u>12</u>	<u>12</u>
Total	<u>12</u>	<u>12</u>

NOTE 7 - RETIREMENT PLANS (Continued)

Contributions - Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Shady Grove Utility District has adopted a noncontributory plan. Shady Grove Utility District Hybrid Plan makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2023, the employer contributions for Shady Grove Utility District Hybrid Plan were \$43,145 based on a rate of 7% of covered payroll (\$41,829 based on a rate of 7% over covered payroll for the year ended June 30, 2022). By law, employer contributions are required to be paid. The TCRS may intercept Shady Grove Utility District Hybrid Plan's state shared taxes if required employer contributions are not remitted. The employer's ADC and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Liability (Asset)

Pension Liabilities (Assets) - Shady Grove Utility District Hybrid Plan's net pension liability (asset) was measured as of June 30, 2022, and the total pension liability used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date.

Actuarial Assumptions - The total pension liability as of June 30, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4.00%
Investment rate of return	6.75%, net of pension plan investment expenses, including inflation
Cost-of-Living Adjustment	2.125%

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

The actuarial assumptions used in the June 30, 2022 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2016 through June 30, 2020. 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, 2020 actuarial experience study. A blend of future capital market projections and historical market returns was used in a building-block method in which a best estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best estimates are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.25%. The best estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. Equity	4.88%	31%
Developed Market International Equity	5.37%	14%
Emerging Markets International Equity	6.09%	4%
Private Equity and Strategic Lending	6.57%	20%
U.S. Fixed Income	1.20%	20%
Real Estate	4.38%	10%
Short-Term Securities	0.00%	1%
Total		100%

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

NOTE 7 - RETIREMENT PLANS (Continued)

Discount Rate - The discount rate used to measure the total pension liability was 6.75%. 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 Shady Grove Utility District Hybrid Plan 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.

Changes in the Net Pension Liability (Asset)

	Increase (Decrease)		
	Total Pension Liability (Asset)	Plan Fiduciary Net Position	Net Pension Liability (Asset)
	(a)	(b)	(a) - (b)
<u>Balances at June 30, 2020</u>	\$ 0	\$ 0	\$ 0
Changes for the Year			
Difference between Expected and Actual Experience	43,514	0	43,514
Contributions - Employer	0	37,002	(37,002)
Net Investment Income	0	4,634	(4,634)
Administrative Expenses	0	(1,073)	1,073
Net Changes	<u>43,514</u>	<u>40,563</u>	<u>2,951</u>
<u>Balances at June 30, 2021</u>	<u>\$ 43,514</u>	<u>\$ 40,563</u>	<u>\$ 2,951</u>

	Increase (Decrease)		
	Total Pension Liability (Asset)	Plan Fiduciary Net Position	Net Pension Liability (Asset)
	(a)	(b)	(a) - (b)
<u>Balances at June 30, 2021</u>	\$ 43,514	\$ 40,563	\$ 2,951
Changes for the Year			
Service Cost	34,617	0	34,617
Interest	5,274	0	5,274
Difference between Expected and Actual Experience	18,633	0	18,633
Change in Assumptions	0	0	0
Contributions - Employer	0	41,829	(41,829)
Net Investment Income	0	(2,330)	2,330
Benefit Payments - Including Refunds of Employee			
Administrative Expenses	0	(1,184)	1,184
Net Changes	<u>58,524</u>	<u>38,315</u>	<u>20,209</u>
<u>Balances at June 30, 2022</u>	<u>\$ 102,038</u>	<u>\$ 78,878</u>	<u>\$ 23,160</u>

NOTE 7 - RETIREMENT PLANS (Continued)

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate - The following presents the net pension liability (asset) of Shady Grove Utility District Hybrid Plan calculated using the discount rate of 6.75%, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
Net Pension Liability (Asset):			
2022	\$ 44,527	\$ 23,160	\$ 6,217
2021	\$ 12,377	\$ 2,951	\$ (4,490)

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, 2023, Shady Grove Utility District Utility W Hybrid Plan recognized pension expense of \$39,140 (\$42,619 for the year ended June 30, 2022).

Deferred Outflows of Resources and Deferred Inflows of Resources - For the years ended June 30, 2023 and 2022, Shady Grove Utility District Hybrid Plan reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 17,080	\$ 0
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	5,152	2,000
Contributions Subsequent to the Measurement Date of June 30, 2023	43,145	0
Totals as of June 30, 2023	\$ 65,377	\$ 2,000
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	\$ 0	\$ 2,666
Contributions Subsequent to the Measurement Date of June 30, 2022	41,829	0
Totals as of June 30, 2022	\$ 41,829	\$ 2,666

The amount shown above for “Contributions subsequent to the measurement date of June 30, 2022” will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period.

NOTE 7 - RETIREMENT PLANS (Continued)

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

<u>For the Years Ended June 30:</u>	
2024	\$ 2,175
2025	2,175
2026	2,175
2027	2,841
2028	1,553
Thereafter	<u>9,313</u>
Total	<u>\$ 20,232</u>

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, 2023, Shady Grove Utility District Hybrid Plan reported a no payables outstanding to the pension plan.

Deferred Compensation Plan (457b) - The District adopted the State of Tennessee’s deferred compensation retirement plan that is available to all employees and is funded 100% by employee deferral contributions. At June 30, 2023 and 2022, there were 9 active participants.

Deferred Compensation Plan (401k) - The District adopted the State of Tennessee’s deferred compensation retirement plan for employees as a component of the Plan for eligible employees. The District has elected to contribute 7% of each participant’s compensation per year. The District contributed \$6,890 and \$7,068 to the Defined Contribution Retirement Plan during 2023 and 2022, respectively.

NOTE 8 - RISK MANAGEMENT

The District is exposed to various risk of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries commercial insurance for these risks. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

NOTE 9 - ECONOMIC CONCENTRATION

The District's area covers portions of Jefferson and Sevier counties located in East Tennessee. It serves 8,708 customers located in semi-rural area 25 miles from Knoxville, Tennessee. The District’s ten largest customers accounted for 9.68% and 8.83% of water sales during June 30, 2023 and June 30, 2022, respectively. These customers are primarily motels, real estate developments, a Tennessee Valley Authority facility, and the Jefferson County Boards of Education. The water sold by the District is purchased from Jefferson City, Tennessee, and the Knoxville Utilities Board, as described in Note 6.

NOTE 10 - COMPENSATED ABSENCES PAYABLE

Compensated absences payable includes liabilities for annual leave and sick leave. The total liability as of June 30, 2023 and 2022 is \$73,921 and \$71,306, respectively.

REQUIRED SUPPLEMENTARY INFORMATION SECTION

SHADY GROVE UTILITY DISTRICT

SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET) AND RELATED RATIOS BASED ON PARTICIPATION IN THE PUBLIC EMPLOYEE PENSION PLAN OF TCRS

Last Fiscal Year Ending June 30

	2022	2021
Total Pension Liability		
Service Cost	\$ 34,617	\$ 0
Interest	5,274	0
Changes Due to Benefit Terms	0	43,514
Differences between Expected and Actual Experience	18,633	0
Changes of Assumptions	0	0
Benefit Payments, Including Refunds of Employee Contributions	0	0
Net Change in Total Pension Liability	58,524	43,514
Total Pension Liability - Beginning	43,514	0
Total Pension Liability - Ending (a)	<u>\$ 102,038</u>	<u>\$ 43,514</u>
Plan Fiduciary Net Position		
Contributions - Employer	\$ 41,829	\$ 37,002
Net Investment Income	(2,330)	4,634
Benefit Payments, Including Refunds of Employee Contributions	0	0
Administrative Expense	(1,184)	(1,073)
Net Change in Plan Fiduciary Net Position	38,315	40,563
Plan Fiduciary Net Position - Beginning	40,563	0
Plan Fiduciary Net Position - Ending (b)	<u>\$ 78,878</u>	<u>\$ 40,563</u>
Net Pension Liability (Asset) - Ending (a) - (b)	<u>\$ 23,160</u>	<u>\$ 2,951</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.30%	93.22%
Covered Employee Payroll	\$ 597,555	\$ 528,594
Net Pension Liability (Asset) as a Percentage of Covered Payroll	3.88%	0.56%

Notes to Schedule:

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. Please refer to previously supplied data from the TCRS GASB website for prior years' data, if needed.

SHADY GROVE UTILITY DISTRICT

SCHEDULE OF CONTRIBUTIONS

BASED ON PARTICIPATION IN THE LOCAL GOVERNMENT HYBRID PLAN OF TCRS

Last Two Fiscal Years Ending June 30

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Actuarially Determined Contribution	\$ 43,145	\$ 41,829	\$ 37,002
Contributions in Relation to the Actuarially Determined Contribution	<u>43,145</u>	<u>41,829</u>	<u>37,002</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered Payroll	\$ 615,810	\$ 597,555	\$ 528,594
Contributions as a Percentage of Covered Payroll	7.01%	7.00%	7.00%

Note: 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.

Note: Valuation date - Actuarially determined contribution rates for fiscal year 2023 were calculated based on the June 30, 2022 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% corridor to market value
Inflation	2.25%
Salary increases	Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4.00%
Investment Rate of Return	6.75%, 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	2.125%

SUPPLEMENTARY INFORMATION SECTION

SHADY GROVE UTILITY DISTRICT
SCHEDULE OF DEBT SERVICE REQUIREMENTS

June 30, 2023

Year Ending June 30,	\$1,330,000		\$5,050,000		Total
	Rural Development		Waterworks Revenue Refunding		
	Note Payable, 2.75%		Bonds Series 2016, 2.0% to 3.0%		
	Principal	Interest	Principal	Interest	
2024	\$ 26,507	\$ 30,001	\$ 338,750	\$ 99,425	494,683
2025	27,245	29,263	347,500	92,650	496,658
2026	28,004	28,504	357,500	84,388	498,396
2027	28,783	27,725	363,750	75,450	495,708
2028	29,585	26,923	376,250	56,475	489,233
2029	30,409	26,099	387,500	53,700	497,708
2030	31,256	25,252	270,000	42,075	368,583
2031	32,126	24,382	233,750	33,975	324,233
2032	33,021	23,487	242,500	26,963	325,971
2033	33,941	22,567	248,750	19,688	324,946
2034	34,886	21,622	261,250	12,225	329,983
2035	35,857	20,651	96,250	4,388	157,146
2036	36,856	19,652	11,762	1,500	69,770
2037	37,882	18,626	0	300	56,808
2038	38,937	17,571	0	0	56,508
2039	40,022	16,486	0	0	56,508
2040	41,136	15,372	0	0	56,508
2041	42,282	14,226	0	0	56,508
2042	43,459	13,049	0	0	56,508
2043	44,670	11,838	0	0	56,508
2044	45,914	10,594	0	0	56,508
2045	47,192	9,316	0	0	56,508
2046	48,507	8,001	0	0	56,508
2047	49,858	6,650	0	0	56,508
2048	51,246	5,262	0	0	56,508
2049	52,673	3,835	0	0	56,508
2050	54,140	2,368	0	0	56,508
2051	55,648	673	0	0	56,321
2052	1,205	0	0	0	1,205
TOTAL	\$ 1,103,247	\$ 479,995	\$ 3,535,512	\$ 603,202	\$ 5,721,956

See Independent Auditor's Report.

SHADY GROVE UTILITY DISTRICT
SCHEDULE OF CHANGES IN LONG-TERM DEBT BY INDIVIDUAL ISSUE

June 30, 2023

	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding June 1, 2022	Issued During Period	Paid and/or Matured During Period	Refunded During Period	Outstanding June 30, 2023
Revenue Bonds Payable:									
Waterworks Revenue Refunding Bonds - Series 2016	\$ 5,050,000	2% to 3%	11/16/2016	9/30/2036	\$ 3,868,846	\$ 0	\$ 333,334	\$ 0	\$ 3,535,512
Note Payable (Direct Borrowing):									
Rural Development - Series 2010	1,330,000	2.75%	7/11/2013	7/11/2051	<u>1,129,032</u>	<u>0</u>	<u>25,785</u>	<u>0</u>	<u>1,103,247</u>
Total Long-Term Debt					<u>\$ 4,997,878</u>	<u>\$ 0</u>	<u>\$ 359,119</u>	<u>\$ 0</u>	<u>\$ 4,638,759</u>

See Independent Auditor's Report.

SHADY GROVE UTILITY DISTRICT
SCHEDULE OF INSURANCE COVERAGE
June 30, 2023

Insurer/Type	Coverage
Cincinnati Insurance Company	
Comprehensive Automobile:	
Bodily Injury and Property Damage	\$ 1,000,000
Medical Payments Per Person	5,000
and Uninsured Motorist (\$200 Property Damage Deductible)	1,000,000
Property Damage (90% Co-Insurance and \$1,000 Deductible)	Actual Replacement Cost
Real Property (Nonblanket Value)	3,830,695
Personal Property (Nonblanket Value)	122,000
Electronic Data Processing Coverage (\$500/\$1,000 Deductible)	180,766
Employee Benefit Liability (\$1,000 Deductible)	1,000,000/3,000,000
Breach Response Coverage (\$5,000 Retention)	1,000,000
Commercial Equipment Floater (\$500 Deductible)	277,719
Crime (Theft, Disappearance and Destruction) (\$500 Deductible)	40,000 (Inside or Outside)
General Liability (No Deductible)	1,000,000/2,000,000
Water Line Installer Bond - Jefferson County, Tennessee	20,000
Director & Officers Package (\$5,000 Deductible)	2,000,000/2,000,000
Worker's Compensation (Statutory Limits)	500,000/500,000/500,000
Hartford Fire Insurance Company	
Employee Blanket Honesty Bond (\$4,000 Deductible)	
Policy in place until cancelled	350,000
Western Surety Company	
Water Line Installer Bond - State of Tennessee	50,000

Note: All policy periods end October 1, 2023.

The District has subsequently renewed their insurance policies through October 1, 2024.

See Independent Auditor's Report.

SHADY GROVE UTILITY DISTRICT
SCHEDULE OF WATER RATES AND STATISTICS
June 30, 2023 and 2022

1. Monthly Water Rate Schedule

Effective October 1, 2015

\$20.00 minimum bill
\$5.50 per 1,000 Gallons

2. There were 8,708 and 8,575 water customers at June 30, 2023 and 2022, respectively.

3. Service Charges:

Connection Fee for Existing Service:

Homeowners	\$	50
Renters		100

Returned Check	20
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Reconnect for Nonpayment	50
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4. New Service Installation:

Tap Fee	850
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SHADY GROVE UTILITY DISTRICT

**STATISTICAL SECTION
(UNAUDITED)**

This part of the District's annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures and required supplementary information says about the District's overall financial health.

<u>Contents</u>	<u>Pages</u>
Financial Trends	
<i>These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.</i>	35-36
Revenue Capacity	
<i>These schedules contain information to help the reader assess the District's operating revenues and customer statistics.</i>	37-39
Debt Capacity	
<i>These schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt in the future.</i>	40-41
Demographic and Economic Information	
<i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place.</i>	42
Operating Information	
<i>These schedules contain service data to help the reader understand how the information in the District's financial report relates to the water services provided by the District.</i>	43-44

Sources: Unless otherwise noted, the information in these schedules is derived from the annual financial reports for the relevant year.

SHADY GROVE UTILITY DISTRICT

NET POSITION BY COMPONENT

Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Net Investment in Capital Assets</u>	<u>Restricted Debt Service</u>	<u>Unrestricted</u>	<u>Total</u>
2023	\$ 10,643,701	\$ 498,396	\$ 9,786,906	\$ 20,929,003
2022	11,023,936	495,708	7,946,551	19,466,195
2021	11,370,713	498,396	6,632,364	18,501,473
2020	11,578,727	553,666	5,286,634	17,419,027
2019	11,196,321	500,358	5,031,910	16,728,589
2018	9,947,798	1,603,592	4,300,589	15,851,979
2017	7,562,749	1,555,512	5,895,080	15,013,341
2016	7,347,748	1,453,329	5,314,440	14,115,517
2015	7,441,270	1,394,388	4,327,534	13,163,192
2014	7,448,818	1,458,707	3,608,936	12,516,461

See Independent Auditor's Report.

SHADY GROVE UTILITY DISTRICT

CHANGES IN NET POSITION

Last Ten Fiscal Years

	2023	2022	2021	(A) 2020	2019	2018	2017	2016	2015	2014
Operating Revenues										
Water - Net	\$ 4,933,134	\$ 4,751,579	\$ 4,678,447	\$ 3,340,582	\$ 4,428,067	\$ 4,313,523	\$ 4,247,783	\$ 4,145,381	\$ 3,524,028	\$ 3,253,688
Forfeited Discounts	82,655	77,506	73,885	61,145	82,059	81,487	81,630	78,367	71,368	69,712
Connection Fees	215,750	203,800	181,650	106,400	129,450	154,400	127,800	139,400	108,150	78,400
Service Fees	130,506	131,698	133,570	101,103	137,767	150,159	165,340	167,561	163,447	152,329
Convenience Fees	0	0	0	0	0	0	0	0	9,479	29,457
Line Loss Revenue	22,772	22,207	21,703	15,259	20,837	5,482	19,013	28,964	0	0
Miscellaneous	3,589	6,077	9,285	1,084	36,808	10,597	45,084	9,743	4,566	548
Total Operating Revenues	5,388,406	5,192,867	5,098,540	3,625,573	4,834,988	4,715,648	4,686,650	4,569,416	3,881,038	3,584,134
Operating Expenses										
Water Purchased	1,506,495	1,380,923	1,480,940	1,076,440	1,290,125	1,298,085	1,285,136	1,198,186	1,157,110	1,088,271
Operations and Maintenance	1,190,405	1,278,758	1,061,904	768,779	1,112,443	1,151,416	999,103	997,175	957,777	986,676
General and Administrative	713,115	677,259	634,258	472,248	623,625	624,185	584,080	564,153	535,854	525,435
Depreciation	755,765	758,660	760,405	508,183	607,148	613,285	611,380	617,192	625,469	617,808
Total Operating Expenses	4,165,780	4,095,600	3,937,507	2,825,650	3,633,341	3,686,971	3,479,699	3,376,706	3,276,210	3,218,190
Operating Income	1,222,626	1,097,267	1,161,033	799,923	1,201,647	1,028,677	1,206,951	1,192,710	604,828	365,944
Non-Operating Revenues (Expenses)										
Interest Income	36,657	19,698	15,791	13,282	16,592	23,034	23,247	20,198	21,356	24,591
Interest (Expense)	(146,475)	(154,743)	(163,178)	(126,855)	(174,509)	(198,852)	(168,064)	(268,217)	(274,412)	(279,531)
Bond Issuance Cost	0	0	0	0	0	0	(98,800)	0	0	0
Gain (Loss) on Disposal of Capital Assets	350,000	0	0	0	(178,120)	(55,221)	(65,510)	0	6,501	9,006
Non-Operating Revenues (Expenses) - Net	240,182	(135,045)	(147,387)	(113,573)	(336,037)	(231,039)	(309,127)	(248,019)	(246,555)	(245,934)
Increase (Decrease) in Net Position Before Capital Contributions	1,462,808	962,222	1,013,646	686,350	865,610	797,638	897,824	944,691	358,273	120,010
Capital Contributions										
Cash	0	2,500	68,800	4,088	11,000	41,000	0	7,634	288,458	500
Total Capital Contributions	0	2,500	68,800	4,088	11,000	41,000	0	7,634	288,458	500
Change in Net Position	\$ 1,462,808	\$ 964,722	\$ 1,082,446	\$ 690,438	\$ 876,610	\$ 838,638	\$ 897,824	\$ 952,325	\$ 646,731	\$ 120,510

(A) - Year end was changed June 30, 2020, this period covers 9 months.

See Independent Auditor's Report.

SHADY GROVE UTILITY DISTRICT
CUSTOMER STATISTICS, RATES AND TAP SALES

Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Customers</u>	<u>Minimum Bill (A) (B)</u>	<u>Rate Per (C) 1,000 Gallons</u>	<u>Annual Tap Sales</u>
2023	8,708	\$ 20.00	\$ 5.50	\$ 215
2022	8,575	20.00	5.50	203
2021	8,398	20.00	5.50	181
2020 (D)	8,302	20.00	5.50	100
2019	8,194	20.00	5.50	141
2018	8,009	20.00	5.50	186
2017	7,839	20.00	5.50	159
2016	7,650	20.00	5.50	150
2015	7,459	20.00	5.50	135
2014	7,323	20.00	5.50	97

- Notes:
- (A) During FY 2015, the minimum bill usage decreased from 1,500 to 1,000 gallons per month.
 - (B) During FY 2016, the minimum bill usage decreased from 1,000 to 0 gallons per month.
 - (C) Rates are the same for any size meter.
 - (D) During FY 2020, the year end was changed to June 30, 2020, this period covers nine months.

SHADY GROVE UTILITY DISTRICT
WATER PURCHASED, SOLD AND CONSUMED
Last Ten Fiscal Years

Fiscal Year	Gallons of Water (In Thousands)			Percent Lost
	Water Purchased	Water Sold and Consumed	Water Unbilled	
2023	733,340	507,392	225,948	30.81%
2022	695,465	480,320	215,145	30.94%
2021	562,440	428,562	133,878	23.80%
2020 (A)	507,029	339,085	167,944	33.12%
2019	620,087	453,116	166,971	26.93%
2018	648,516	450,652	197,864	30.51%
2017	665,431	446,802	218,629	32.86%
2016	638,867	434,841	204,026	31.94%
2015	622,634	425,595	197,039	31.65%
2014	603,495	405,213	198,282	32.86%

Notes: (A) During FY 2020, the year end was changed to June 30, 2020, this period covers nine months.

SHADY GROVE UTILITY DISTRICT
TEN LARGEST CUSTOMERS
Current Year and Nine Years Ago

Customer	Type of Business	2023		2014	
		(A) Total Annual Sales	Percentage of Total Sales	(A) Total Annual Sales	Percentage of Total Sales
Swaggerty Sausage Co.	Food Processor	\$ 160,191	3.25%	\$ 63,586	1.95%
Jefferson County Board of Education	Education	31,715	0.64%	13,812	0.42%
Harbor Crest Homeowners	Homeowner's Association	34,435	0.70%	23,795	0.73%
Lisega	Manufacturing	22,051	0.45%	17,435	0.54%
Maurice & Dianne Lierman	Trailer Park	N/A	N/A	11,548	0.35%
Tennessee Valley Authority	Electric Utility	29,539	0.60%	9,025	0.28%
Douglas Greene LP	Apartments	41,562	0.84%	N/A	N/A
Matthew Manor of Kodak	Apartments	46,442	0.94%	N/A	N/A
Sevier County Board of Education	Education	58,906	1.19%	11,922	0.37%
Love's Travel Stop	Truck Stop	26,247	0.53%	12,523	0.38%
Kanha Hospitality	Hospitality	26,360	0.53%	N/A	N/A
A & W Ready Mix	Concrete Plant	N/A	N/A	18,507	0.57%
Quality Inn	Hospitality	N/A	N/A	12,977	0.40%
Total		<u>\$ 477,448</u>	<u>9.68%</u>	<u>\$ 195,130</u>	<u>6.00%</u>

Note: (A) Sales include net water revenues only.

SHADY GROVE UTILITY DISTRICT
OUTSTANDING DEBT PER CUSTOMER
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Debt</u>	<u>Number of Customers</u>	<u>Outstanding Debt Per Customer</u>
2023	\$ 4,734,064	8,708	\$ 544
2022	5,109,593	8,575	596
2021	5,477,101	8,398	652
2020	5,844,172	8,302	704
2019	6,153,538	8,194	751
2018	6,506,535	8,009	812
2017	6,859,391	7,839	875
2016	6,777,836	7,650	886
2015	7,017,919	7,459	941
2014	7,256,604	7,323	991

Notes: (A) Debt to personal income ratio is not shown because personal income for the District's service area is not available.

(B) Outstanding debt is net of unamortized bond premiums and discounts.

SHADY GROVE UTILITY DISTRICT

PLEDGED REVENUE COVERAGE

Last Ten Fiscal Years

Fiscal Year	(A) Gross Revenues	(B) Operating Expenses	Net Revenues Available for Debt Service	Debt Service Requirements			Coverage Ratio
				(C) Principal	(D) Interest Paid	Total	
2023	\$ 5,425,063	\$ 3,410,015	\$ 2,015,048	\$ 375,529	\$ 136,256	\$ 511,785	3.94
2022	5,215,065	3,336,940	1,878,125	367,508	143,456	510,964	3.68
2021	5,183,131	3,177,102	2,006,029	367,071	150,921	517,992	3.87
2020	(E) 3,642,943	2,317,467	1,325,476	309,366	117,331	426,697	3.11
2019	4,862,580	3,026,193	1,836,387	352,997	165,778	518,775	3.54
2018	4,779,682	3,073,686	1,705,996	352,856	213,203	566,059	3.01
2017	4,709,897	2,868,319	1,841,578	325,651	163,995	489,646	3.76
2016	4,597,248	2,759,514	1,837,734	240,083	274,066	514,149	3.57
2015	4,190,852	2,650,741	1,540,111	238,865	280,410	519,275	2.97
2014	3,609,225	2,600,382	1,008,843	237,463	285,679	523,142	1.93

Notes: (A) Includes operating revenues, interest income received and cash capital contributions (excluding grant contributions).

(B) Does not include depreciation and amortization expenses.

(C) Principal paid excludes the amounts related to bond refundings.

(D) Before capitalized construction period interest.

(E) During FY 2020, the year end was changed to June 30, 2020, this period covers nine months.

See Independent Auditor's Report.

SHADY GROVE UTILITY DISTRICT
DEMOGRAPHIC AND ECONOMIC INDICATORS
Last Ten Calendar Years

Calendar Year	Population		Total Personal Income (A)		Per Capita Income		Unemployment Rates		
	Jefferson County	Sevier County	Jefferson County	Sevier County	Jefferson County	Sevier County	Jefferson County	Sevier County	State
2021	55,624	99,517	\$ 2,465,785	\$ 4,877,518	\$ 44,330	\$ 49,012	3.1	2.5	2.9
2020	55,307	99,244	2,239,574	4,387,479	40,493	44,209	6.0	5.3	6.2
2019	54,495	98,250	2,043,234	4,041,635	37,494	41,136	3.3	2.6	3.1
2018	54,012	97,892	1,937,197	3,864,190	35,866	39,474	3.8	3.5	3.5
2017	53,804	97,638	1,848,815	3,721,419	34,362	38,114	4.0	4.0	3.7
2016	53,535	96,673	1,763,208	3,507,799	32,936	36,285	5.4	5.0	4.8
2015	53,240	95,946	1,703,387	3,328,685	31,994	34,693	6.5	6.1	5.8
2014	52,677	95,110	1,617,948	3,076,819	30,715	32,350	7.5	7.2	6.7
2013	52,296	93,693	1,559,132	2,954,311	29,814	31,532	10.7	8.2	8.4
2012	52,191	92,512	1,539,215	3,098,724	29,492	33,495	10.1	8.7	8.0

Sources: Population and Income – Bureau of Economic Analysis, U.S. Department of Commerce
Unemployment Rates – Tennessee Department of Labor and Workforce Development

Note: (A) Personal income is in thousands of dollars.

SHADY GROVE UTILITY DISTRICT

EMPLOYEES BY FUNCTION

Last Ten Fiscal Years

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
WATER										
Water Systems Maintenance	<u>8</u>	<u>7</u>	<u>8</u>	<u>10</u>	<u>9</u>	<u>9</u>	<u>9</u>	<u>9</u>	<u>9</u>	<u>9</u>
ADMINISTRATION										
Billing/Customer Service	3	3	3	3	3	3	3	3	3	3
Finance and Accounting	1	1	1	1	1	1	1	1	1	1
Administrative	1	1	1	1	1	1	1	1	1	1
	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>
TOTAL EMPLOYEES	<u><u>13</u></u>	<u><u>12</u></u>	<u><u>13</u></u>	<u><u>15</u></u>	<u><u>14</u></u>	<u><u>14</u></u>	<u><u>14</u></u>	<u><u>14</u></u>	<u><u>14</u></u>	<u><u>14</u></u>

SHADY GROVE UTILITY DISTRICT
OPERATING AND CAPITAL INDICATORS
Last Ten Fiscal Years

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Area in Square Miles:	118.9	118.9	118.9	118.9	118.9	118.9	118.9	118.9	118.9	118.9
Water System:										
Miles of Water Mains	318.0	318.0	318.0	318.0	318.0	318.0	318.0	318.0	318.0	317.0
Number of:										
Service Connections	8,708	8,575	8,398	8,302	8,194	8,009	7,839	7,650	7,459	7,323
Reservoirs	5	5	5	5	5	5	5	5	5	5
Pumping Stations	17	17	17	17	17	17	17	17	17	17
Fire Hydrants	226	226	225	225	225	225	221	221	221	221
Daily Average Purchases in Gallons (MGD)	2.0	2.0	2.0	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Daily Average Sales and Consumption in Gallons (MGD)	1.3	1.3	1.4	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Water Reservoir Storage Capacity (Millions of Gallons)	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25
Maximum Daily Capacity in Gallons (MGD)										
Jefferson City	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Knoxville Utilities Board	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1

Note: (A) MGD = Millions of gallons per day.

INTERNAL CONTROL AND COMPLIANCE SECTION



PUGH & COMPANY, P.C.
315 NORTH CEDAR BLUFF ROAD, SUITE 200
KNOXVILLE, TENNESSEE 37923
TELEPHONE 865-769-0660
FAX 865-769-1660
www.pughcpas.com

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Commissioners
Shady Grove Utility District
Dandridge, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of Shady Grove Utility District (the "District") as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 20, 2023.

Internal Control Over Financial Reporting

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

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

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



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Report on Compliance and Other Matters

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

Purpose of this Report

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

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
December 20, 2023

SHADY GROVE UTILITY DISTRICT
SCHEDULE OF DISPOSITION OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended June 30, 2023

There were no prior year audit findings.