

**SEVIER COUNTY ELECTRIC SYSTEM  
FINANCIAL STATEMENTS  
WITH SUPPLEMENTARY INFORMATION  
June 30, 2023  
and  
INDEPENDENT AUDITOR'S REPORT**

SEVIER COUNTY ELECTRIC SYSTEM  
FINANCIAL STATEMENTS  
WITH SUPPLEMENTARY INFORMATION

June 30, 2023

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## INDEPENDENT AUDITOR'S REPORT

Board of Public Utilities of  
the City of Sevierville  
Sevierville, Tennessee

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the accompanying financial statements of Sevier County Electric System, an enterprise fund of the City of Sevierville, Tennessee, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise Sevier County Electric System's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sevier County Electric System, an enterprise fund of the City of Sevierville, Tennessee, as of June 30, 2023, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinion*

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

#### *Emphasis of Matter*

As discussed in Note 1, the financial statements present only the Sevier County Electric System and do not purport to, and do not, present fairly the financial position of the City of Sevierville, Tennessee, as of June 30, 2023, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

#### *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 Sevier County Electric System's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

***Auditor's Responsibilities for the Audit of the Financial Statements***

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Sevier County Electric System'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 Sevier County Electric System'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 4 – 7 and the required supplementary information on pages 31 – 33 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.

***Other Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Sevier County Electric System's basic financial statements. The accompanying other supplementary information is presented for purposes of additional analysis and is 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 other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2023, on our consideration of the Sevier County Electric System'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 Sevier County Electric System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Sevier County Electric System's internal control over financial reporting and compliance.

*Brown, Jake & McDaniel, PC*

Knoxville, Tennessee  
October 16, 2023

**SEVIER COUNTY ELECTRIC SYSTEM**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2023**

**FINANCIAL ANALYSIS OF THE SYSTEM AS A WHOLE**

One of the most important questions asked about the System's finances is, "Is the System, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the System's activities in a way that will help answer this question. These two statements report the net position of the System, and any changes in it. You can think of the System's net position - the difference between assets/deferred outflows and liabilities/deferred inflows - as one way to measure financial health or financial position. Over time, increases or decreases in the System's net position is one indicator of whether its financial health is improving or deteriorating. However, you will need to also consider other non-financial factors such as economic conditions, customer growth and legislative mandates.

The System's total net position increased from last year by \$3.1 million due to the current year's change in net position. The analysis below focuses on the System's net position (Table 1) and changes in net position (Table 2) during the year.

**Table 1**  
**Net Position**

	<u>June 30, 2022</u>	<u>June 30, 2023</u>	<u>Increase (Decrease)</u>	<u>%</u>
Current and other assets	\$ 62,190,519	\$ 55,432,207	\$ (6,758,312)	-10.9%
Capital assets	<u>148,270,439</u>	<u>154,374,025</u>	<u>6,103,586</u>	4.1%
Total assets	<u>\$ 210,460,958</u>	<u>\$ 209,806,232</u>	<u>\$ (654,726)</u>	-0.3%
Deferred outflows of resources	<u>\$ 8,614,722</u>	<u>\$ 14,392,144</u>	<u>\$ 5,777,422</u>	67.1%
Long-term liabilities	\$ 18,179,471	\$ 27,176,588	\$ 8,997,117	49.5%
Other liabilities	<u>42,556,109</u>	<u>41,079,448</u>	<u>(1,476,661)</u>	-3.5%
Total liabilities	<u>\$ 60,735,580</u>	<u>\$ 68,256,036</u>	<u>\$ 7,520,456</u>	12.4%
Deferred inflows of resources	<u>\$ 6,210,484</u>	<u>\$ 755,742</u>	<u>\$ (5,454,742)</u>	-87.8%
Net investment in capital assets	\$ 145,025,439	\$ 154,374,025	\$ 9,348,586	6.4%
Restricted	2,573,930	-	(2,573,930)	-100.0%
Unrestricted	<u>4,530,247</u>	<u>812,573</u>	<u>(3,717,674)</u>	-82.1%
Total net position	<u>\$ 152,129,616</u>	<u>\$ 155,186,598</u>	<u>\$ 3,056,982</u>	2.0%

Current and other assets decreased 10.9% primarily due to the purchase of capital assets and reduction of other liabilities. Deferred outflows of resources increased by 67.1% and deferred inflows of resources decreased by 87.8% due to the required GASB reporting requirements related to the large loss in the fair market value of investments in the pension and other post-employment benefits (OPEB) funds. Long-term liabilities increased by 49.7% due primarily to the increase in the pension and OPEB liabilities due to the decrease in stock market value of investments. In addition, other liabilities decreased by 3.6% primarily due to the pay-off of the current portion of the outstanding bonds. Overall, total net position increased by 2.0% due to the positive change in net position.

To further understand the changes in the System's net position, see the condensed Statement of Revenues, Expenses, and Changes in Net Position for the year on the following page.

**SEVIER COUNTY ELECTRIC SYSTEM**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2023**

**Table 2**  
**Statement of Revenues, Expenses, and Changes in Net Position**

	<u>FY 2022</u>	<u>FY 2023</u>	<u>Increase (Decrease)</u>	<u>%</u>
<b>Operating revenues:</b>				
Sale of electricity	\$ 169,794,688	\$ 181,381,149	\$ 11,586,461	6.8%
Other	3,322,173	3,516,362	194,189	5.8%
Total operating revenues	<u>173,116,861</u>	<u>184,897,511</u>	<u>11,780,650</u>	6.8%
Non-operating revenues	116,973	1,294,698	1,177,725	1006.8%
Total revenues	<u>173,233,834</u>	<u>186,192,209</u>	<u>12,958,375</u>	7.5%
<b>Expenses:</b>				
Purchased power	130,165,594	144,303,227	14,137,633	10.9%
Transmission and distribution expense	3,011,446	3,727,108	715,662	23.8%
Customer accounts expense	3,145,610	3,530,173	384,563	12.2%
Maintenance expense	11,802,735	11,423,585	(379,150)	-3.2%
Administrative and general expense	5,609,371	7,169,016	1,559,645	27.8%
Depreciation and amortization expense	8,695,373	9,119,186	423,813	4.9%
Payroll taxes	554,740	618,894	64,154	11.6%
Interest expense	240,982	297,694	56,712	23.5%
Loss on investment derivative	113,185	-	(113,185)	-100.0%
Intergovernmental - in lieu of tax	653,232	693,441	40,209	6.2%
Total expenses	<u>163,992,268</u>	<u>180,882,324</u>	<u>16,890,056</u>	10.3%
Income before transfers	9,241,566	5,309,885	(3,931,681)	-42.5%
Transfers to primary government	<u>(2,114,688)</u>	<u>(2,252,903)</u>	<u>(138,215)</u>	6.5%
Change in net position	7,126,878	3,056,982	(4,069,896)	-57.1%
Beginning net position	<u>145,002,738</u>	<u>152,129,616</u>	<u>7,126,878</u>	4.9%
Ending net position	<u>\$ 152,129,616</u>	<u>\$ 155,186,598</u>	<u>\$ 3,056,982</u>	2.0%

The System's sales of electricity for fiscal year 2023 showed an increase of 6.8% as compared to 2022 due primarily to rate increases from TVA which were passed on to the customer. Kilowatt hours sold in 2023 increased by 1.3% due primarily to more customers. The number of customers increased from 60,559 to 61,868. Non-operating revenues increased 1,006.8% due to higher interest rates.

Purchased power increased 10.9% due primarily to rate and fuel costs increases from TVA. Kilowatt hours purchased decreased 1.6%. Transmission and distribution expense increased 23.8% due to inflationary pressures. Administrative and general expense increased 27.8% due primarily to an increase in employee benefit costs as a result of the investment losses in the stock market.

Overall, the change in net position for fiscal year 2023 increased by 2.0% as compared to 2022.

**SEVIER COUNTY ELECTRIC SYSTEM**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2023**

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

Capital Assets

As of June 30, 2023, the System had \$154.4 million invested in a broad range of utility capital assets, including electric distribution plant, office building and warehouses. This amount represents an increase of \$6.1 million or 4.1%. This is net of accumulated depreciation.

**Table 3**

**Capital Assets, Net of Accumulated Depreciation**

	<u>June 30, 2022</u>	<u>June 30, 2023</u>	<u>Increase (Decrease)</u>
Total net capital assets, including construction work in progress	\$ 148,267,439	\$ 154,374,025	\$ 6,106,586
This year's gross utility plant additions include:			
Distribution plant, including land	\$ 6,180,485	\$ 7,813,622	\$ 1,633,137
Transformers	2,684,836	3,637,834	952,998
Meters	579,590	1,027,353	447,763
Transportation equipment	174,714	813,658	638,944
Other	381,286	207,403	(173,883)
Office building, including land	-	1,881,990	1,881,990
Total additions	<u>\$ 10,000,911</u>	<u>\$ 15,381,860</u>	<u>\$ 5,380,949</u>

During fiscal year 2023, the System made various improvements to the utility plant totaling \$13.5 million, which was approximately \$3.5 million more than fiscal year 2022. In addition, an office building and adjoining land were purchased for future campus development.

The System's projected capital additions for fiscal year 2024 calls for investing another \$20.0 million in capital projects, including the following:

Distribution plant	\$ 8,000,000
Transformers	4,000,000
Meters	1,100,000
Transportation equipment	400,000
Other	500,000
Campus facility	6,000,000
Total additions	<u>\$ 20,000,000</u>

The System has plans to construct a new campus facility to house inventories and equipment on adjacent properties owned by the System. The System plans on borrowing approximately \$18,000,000 during fiscal year 2024 to fund phase one of its' campus expansion.

Debt Administration

During the fiscal year ended June 30, 2023, the System paid off all outstanding local government public improvement revenue bonds.

**SEVIER COUNTY ELECTRIC SYSTEM**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2023**

In past years, the System borrowed \$4.0 million from USDA for certain electric customers under the pass-through program. Under this program, the System's customers obtain ten year, interest free, loans for the purchase of energy efficient equipment. The System's debt to USDA is backed by bank letters of credit which hold the System harmless in case the customers cannot repay their debt. The balance due USDA on these loans and the balance due from our customers at June 30, 2023 totaled \$1.5 million, respectively.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

Historically, the growth of customers added to the System, over the past thirty years, has been primarily the result of the tourism industry in Sevier County. Last year's customers increased 2.1 percent.

**CONTACTING THE SYSTEM'S FINANCIAL MANAGEMENT**

This annual financial report is designed to provide the System's ratepayers and creditors with a general overview of the System's finances and to demonstrate the System's accountability for the money it receives. If you have any questions about this report, or need additional financial information, please contact the System's Manager of Accounting at Sevier County Electric System, P.O. Box 4870, Sevierville, Tennessee 37864.

## SEVIER COUNTY ELECTRIC SYSTEM

## STATEMENT OF NET POSITION

June 30, 2023

ASSETS

Current assets:	
Cash and cash equivalents	\$ 17,585,921
Investments –	
Unsegregated	5,342,094
Segregated for emergency and self-insured funds	9,500,000
Receivables –	
Customer service accounts, less allowance for doubtful accounts of \$998,967	6,406,928
Current maturities of notes receivable from customers	444,444
Other	964,550
Unbilled revenue	7,461,838
Materials and supplies inventories	<u>4,192,704</u>
Total current assets	<u>51,898,479</u>
Noncurrent assets:	
Capital assets –	
Property and equipment	283,438,639
Less accumulated depreciation	<u>129,064,614</u>
Total capital assets	154,374,025
Other noncurrent assets –	
Notes receivable from customers, less current maturities of \$444,444	1,046,297
Tennessee Valley Authority Residential Energy Services Program receivable	2,015,861
Other assets	<u>471,570</u>
Total noncurrent assets	<u>157,907,753</u>
Total assets	<u>209,806,232</u>

DEFERRED OUTFLOWS OF RESOURCES

Pension related	10,319,293
OPEB related	<u>4,072,851</u>
Total deferred outflows of resources	<u>14,392,144</u>

(Continued)

## SEVIER COUNTY ELECTRIC SYSTEM

STATEMENT OF NET POSITION  
(Continued)

June 30, 2023

LIABILITIES

Current liabilities:	
Notes payable to USDA – current maturities	\$ 444,444
Compensated absences – current maturities	1,160,000
Accounts payable	12,632,746
Accrued liabilities	1,544,152
Reserve for health insurance claims	1,947,490
Customer deposits, including interest of \$405,228	<u>23,350,616</u>
Total current liabilities	<u>41,079,448</u>
Noncurrent liabilities:	
Notes payable to USDA, less current maturities of \$444,444	1,055,522
Compensated absences, less current maturities of \$1,160,000	3,919,612
Advances from Tennessee Valley Authority	
Residential Energy Services Program	2,019,914
Net pension liability	17,127,151
Net OPEB liability	<u>3,054,389</u>
Total noncurrent liabilities	<u>27,176,588</u>
Total liabilities	<u>68,256,036</u>

DEFERRED INFLOWS OF RESOURCES

Pension related	312,526
OPEB related	<u>443,216</u>
Total deferred inflows of resources	<u>755,742</u>

NET POSITION

Net investment in capital assets	154,374,025
Unrestricted	<u>812,573</u>
Total net position	<u>\$ 155,186,598</u>

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

## SEVIER COUNTY ELECTRIC SYSTEM

## STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION

Year Ended June 30, 2023

Operating revenues:	
Electric sales revenue –	
Residential	\$ 53,186,994
Small lighting and power	60,041,341
Large lighting and power	66,534,040
Street and outdoor lighting	<u>1,618,774</u>
Total electric sales revenue	181,381,149
Other operating revenue	<u>3,516,362</u>
Total operating revenue	<u>184,897,511</u>
Operating expenses:	
Purchased power	144,303,227
Transmission and distribution	3,727,108
Customer accounts and sales	3,530,173
Maintenance	11,423,585
Administrative and general	7,169,016
Depreciation and amortization	9,119,186
Payroll taxes	<u>618,894</u>
Total operating expenses	<u>179,891,189</u>
Operating income	<u>5,006,322</u>
Non-operating revenues (expenses):	
Interest income	1,331,896
Merchandise sales, net of costs	(6,874)
Interest expense	(297,694)
Gain on derivative instrument	23,008
Change in fair value	(53,332)
Intergovernmental – in lieu of tax	<u>(693,441)</u>
	<u>303,563</u>
Income before transfers	5,309,885
Transfers to general fund – in lieu of tax	<u>(2,252,903)</u>
Change in net position	3,056,982
Net position, beginning	<u>152,129,616</u>
Net position, ending	<u>\$ 155,186,598</u>

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

## SEVIER COUNTY ELECTRIC SYSTEM

## STATEMENT OF CASH FLOWS

Year Ended June 30, 2023

Cash flows from operating activities:	
Cash received from customers	\$ 190,213,400
Cash payments to suppliers for goods and services	(163,235,642)
Cash payments to employees for services	(10,710,389)
Net cash provided by operating activities	<u>16,267,369</u>
Cash flows from noncapital financing activities:	
Cash payment for in-lieu of taxes	(2,946,344)
Cash received from Tennessee Valley Authority Residential Energy Services Program, net	(4,026)
Other income (expense)	(6,874)
Repayment of USDA loan	(444,450)
Net cash used by noncapital financing activities	<u>(3,401,694)</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(15,222,772)
Principal paid on long-term debt	(3,245,000)
Terminated interest rate swap	(113,185)
Interest paid	(146,915)
Net cash used by capital and related financing activities	<u>(18,727,872)</u>
Cash flows from investing activities:	
Purchase of investments	(12,442,929)
Redemption or sale of investments	12,213,030
Interest received on investments	1,331,896
Customer repayments of USDA loan pass-through	444,444
Net cash provided by investing activities	<u>1,546,441</u>
Net decrease in cash and cash equivalents	(4,315,756)
Cash and cash equivalents, beginning of year	<u>21,901,677</u>
Cash and cash equivalents, end of year	<u>\$ 17,585,921</u>
<u>Reconciliation of operating income to net cash provided by operating activities:</u>	
Operating income	\$ 5,006,322
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	9,119,186
(Increase) decrease in assets and deferred outflows:	
Receivables	3,132,353
Materials and supplies inventories	(885,633)
Other assets	8,678
Deferred outflows related to pension and OPEB	(5,777,422)
Increase (decrease) in liabilities and deferred inflows:	
Accounts payable	(1,882,657)
Accrued liabilities	(29,394)
Reserve for health insurance claims	(93,146)
Customer deposits	2,183,536
Compensated absences	(50,901)
Net pension liability	15,507,123
Net OPEB liability	(4,515,934)
Deferred inflows related to pension and OPEB	(5,454,742)
Net cash provided by operating activities	<u>\$ 16,267,369</u>

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

## SEVIER COUNTY ELECTRIC SYSTEM

## NOTES TO FINANCIAL STATEMENTS

June 30, 2023

1. Summary of Significant Accounting Policies

The following items set forth the significant accounting policies which the Sevier County Electric System (“the System”) follows in presenting its financial statements, and which are not disclosed elsewhere in the notes to the financial statements.

Reporting Entity

The System is a self-supporting enterprise fund of the City of Sevierville, Tennessee (“the Government”). The System is managed and controlled by a Board of Directors who are appointed by the Government. The System manages, operates and maintains the electric utility servicing the citizens of Sevier County and portions of Blount and surrounding counties. The System issues an annual financial report which is combined with the Government's annual comprehensive financial report.

Basis of Presentation

The financial statements of the System have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The System applies all GASB pronouncements. The more significant accounting policies of the System are described below.

An enterprise fund is a proprietary fund used to account for operations 1) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (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 2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The accompanying financial statements are reported using the “economic resources measurement focus” and the “accrual basis of accounting.” Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Cash Equivalents

Cash equivalents consist of US Treasury securities with original maturities of three months or less from the date of acquisition.

SEVIER COUNTY ELECTRIC SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

1. Summary of Significant Accounting Policies (Continued)

Inventories and Prepaid Items

Inventories are valued at the lower of cost or market using the average cost method and consist of expendable supplies and materials. The cost of such inventories is recorded as expenses when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements. The cost of prepaid items is recorded as expenses when consumed rather than when purchased.

Fair Value Measurements

GASB Statement Number 72 *Fair Value Measurements and Disclosures*, (GASB 72) defines fair value and expanded disclosures about fair value measurements. GASB 72 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GASB 72 also established a fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

Investments whose values are based on quoted market prices in active markets, and are therefore classified within Level 1, primarily include certain common stock and preferred stock equities. These investments are traded daily in public markets in the United States and other foreign countries. The fair value of these investments is based on the last reported sales price on the last day of the plan year.

Investments that trade in markets that are not considered to be actively traded on a daily basis, but are valued based on quoted market prices, dealer and broker quotations, bid prices, or alternative pricing sources using observable inputs, are classified within Level 2. These include certain U.S. Government and foreign obligations, investment grade corporate bonds and bank loans, certain mortgage and asset backed securities, less liquid listed securities, certain government agency securities, and foreign currency exchange purchase and sales contracts. Common and collective trust funds, investment

SEVIER COUNTY ELECTRIC SYSTEM  
 NOTES TO FINANCIAL STATEMENTS  
 (Continued)

1. Summary of Significant Accounting Policies (Continued)

Fair Value Measurements (Continued)

entities and short- term investment funds, whose underlying assets are primarily invested in securities that are actively traded, are fair valued based upon the redemption value of each unit on the last business day of the plan year.

Investments classified within Level 3 have significant unobservable inputs, as they trade infrequently or not at all. Level 3 investments include private equity funds, real estate investment, limited partnerships, certain mortgage and asset backed and common and collective trust funds that are primarily invested in real estate. The fair value of these investments is determined by estimated provided by independent pricing sources in asset classes, non-binding bid prices from industry vendors and managers, and the net asset value on the last day of plan year.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the financial statements. Capital assets are defined by the System as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of one year.

As the System constructs or acquires additional capital assets each period, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life.

Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. The amount of interest capitalized depends on the specific circumstances. There was no interest cost capitalized in the current year.

Land and construction in progress are not depreciated. The other property, plant and equipment are depreciated using the straight line method over the following estimated useful lives:

<u>Capital Asset Classes</u>	<u>Lives</u>
Office furniture and equipment	6
Transportation equipment	5
Machinery and equipment	10 - 20
Electric distribution system	10 – 50
Office building	50

## SEVIER COUNTY ELECTRIC SYSTEM

NOTES TO FINANCIAL STATEMENTS  
(Continued)1. Summary of Significant Accounting Policies (Continued)Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net assets that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The System has several items that qualify for reporting in this category. These include certain items related to pension and OPEB plans.

In addition to liabilities, the statement of net position will report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net assets that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The System has several items that qualify for reporting in this category. These include certain items related to pension and OPEB plans.

Net Position Flow Assumption

Sometimes the System 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. It is the System's policy to consider restricted — net position to have been depleted before unrestricted — net position is applied.

Revenue Recognition

The System records revenue as billed to its customers based on a monthly meter reading cycle. Any electric service rendered from the latest billing cycle date to the end of the month is unbilled revenue and is reflected in the financial statements.

Operating and Nonoperating Revenues and Expenses

The System distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the System are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Regulated Operations

The System operates an electric utility that is regulated by Tennessee Valley Authority (TVA), an agency of the federal government. TVA exercises oversight in the rate setting process and requires the use of accounting policies for public electric utilities as prescribed by the Federal Energy

## SEVIER COUNTY ELECTRIC SYSTEM

NOTES TO FINANCIAL STATEMENTS  
(Continued)1. Summary of Significant Accounting Policies (Continued)Regulated Operations (Continued)

Regulatory Commission (FERC). Specific accounting policies which are unique to FERC include: 1) When capital assets are retired or otherwise disposed of, the average cost is removed from the asset account and the accumulated depreciation account. Removal costs less salvage is charged or credited to the accumulated depreciation account; 2) Electric plant additions are reduced by capital contributions; and 3) Certain regulatory rental arrangements.

The System also has a power contract with TVA whereby the System purchases all of its electric power from TVA and is subject to certain restrictions and conditions as provided in the contract.

Finally, the System participates in TVA's Residential Energy Efficiency Program which provides loans to the System's residential customers for heat pump and insulation costs.

Use of Estimates

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

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources, and pension expense, information about the fiduciary net position of the Sevier County Electric System Employees' Pension Plan ("the Plan") and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Sevier County Electric System Retiree Medical, Dental and Life Insurance Plan (the OPEB Plan) and additions to/deductions from the OPEB Plan fiduciary net position have been determined on the same basis as they are reported by the OPEB Plan. For this purpose, the System recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

SEVIER COUNTY ELECTRIC SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

1. Summary of Significant Accounting Policies (Continued)

Recently Issued and Adopted Accounting Pronouncements

GASB has issued the following recent pronouncements that are effective in the current fiscal year:  
Statement No. 96, *Subscription-Based Information Technology Arrangement*  
Statement No. 99, *Omnibus 2022*

Adoption of these pronouncements have had no effect on the System's financial statements.

2. Cash and Investments

Cash and investments consisted of the following at June 30, 2023:

	<u>Unrestricted</u>	<u>Segregated</u>	<u>Total</u>
Cash and cash equivalents:			
Cash on hand	\$ 5,300	\$ -	\$ 5,300
Cash in banks	12,319,191	-	12,319,191
Cash equivalents	<u>5,261,430</u>	<u>-</u>	<u>5,261,430</u>
Total cash and cash equivalents	<u>\$ 17,585,921</u>	<u>\$ -</u>	<u>\$ 17,585,921</u>
Investments:			
Certificates of deposit	<u>\$ 5,342,094</u>	<u>\$ 9,500,000</u>	<u>\$ 14,842,094</u>

Cash on deposit with financial institutions at June 30, 2023 was entirely secured by federal depository insurance or insured through the State of Tennessee Bank Collateral Pool. Investment policies of the System follow state law and bond requirements prohibiting investments that are not secured or insured by the U.S. Government. All assets currently classified as investments by the System consist of US Treasury securities and certificates of deposit.

Investments measured at fair value are as follows:

	<u>June 30, 2023</u>	<u>Fair Value Measurements Using</u>	
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>
Investments by fair value level			
Debt securities			
US Treasury Securities	\$ 10,882,771	\$ 10,882,771	\$ -
Fixed rate certificates of deposit	<u>3,959,323</u>	<u>-</u>	<u>3,959,323</u>
Total investments by fair value	<u>\$ 14,842,094</u>	<u>\$ 10,882,771</u>	<u>\$ 3,959,323</u>

SEVIER COUNTY ELECTRIC SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

3. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2023 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land and land rights	\$ 7,543,575	\$ 1,095,975	\$ -	\$ 8,639,550
Construction work in progress	<u>4,389,690</u>	<u>-</u>	<u>217,819</u>	<u>4,171,871</u>
 Total capital assets, not being depreciated	 <u>11,933,265</u>	 <u>1,095,975</u>	 <u>217,819</u>	 <u>12,811,421</u>
Capital assets, being depreciated:				
Electric distribution system	246,013,928	11,757,835	1,728,916	256,042,847
Machinery and equipment	2,876,286	25,487	-	2,901,773
Transportation equipment	7,057,567	813,658	126,014	7,745,211
Office furniture and fixtures	2,267,518	181,915	19,036	2,430,397
Office building	<u>-</u>	<u>1,506,990</u>	<u>-</u>	<u>1,506,990</u>
 Total capital assets, being depreciated	 <u>258,215,299</u>	 <u>14,285,885</u>	 <u>1,873,966</u>	 <u>270,627,218</u>
Less accumulated depreciation for:				
Electric distribution system	113,681,906	8,686,038	2,222,545	120,145,399
Machinery and equipment	1,957,767	220,480	-	2,178,247
Transportation equipment	4,486,493	427,698	118,814	4,795,377
Office furniture and fixtures	1,751,959	197,598	19,036	1,930,521
Office building	<u>-</u>	<u>15,070</u>	<u>-</u>	<u>15,070</u>
 Total accumulated depreciation	 <u>121,878,125</u>	 <u>9,546,884</u>	 <u>2,360,395</u>	 <u>129,064,614</u>
 Total capital assets, being depreciated, net	 <u>136,337,174</u>	 <u>4,739,001</u>	 <u>(486,429)</u>	 <u>141,562,604</u>
Total net capital assets	<u>\$148,270,439</u>	<u>\$ 5,834,976</u>	<u>\$ (268,610)</u>	<u>\$154,374,025</u>

Depreciation expense was \$9,546,884 in 2023, including \$427,698, which was charged to a clearing account.

SEVIER COUNTY ELECTRIC SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

4. Long-Term Liabilities

The Government has issued certain revenue bonds for the acquisition and construction of major capital facilities for the System. The bonds were paid off during the fiscal year.

Changes in long-term liabilities for the year ended June 30, 2023 are as follows:

	<u>Balance</u> <u>July 1, 2022</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2023</u>	<u>Due Within</u> <u>One Year</u>
Bonds payable:					
Local Government Public Improvement Revenue Bonds, Series V-D-1	\$ 3,245,000	\$ -	\$ 3,245,000	\$ -	\$ -
Direct borrowings:					
USDA Rural Development Loan #REDL-1-1 (Swaggerty's #1)	435,185	-	111,111	324,074	111,111
USDA Rural Development Loan #REDL-1536 (Ka-Tom)	907,379	-	222,228	685,151	222,222
USDA Rural Development Loan #REDL-1-2 (Swaggerty's #2)	<u>601,852</u>	<u>-</u>	<u>111,111</u>	<u>490,741</u>	<u>111,111</u>
Total direct borrowings	<u>1,944,416</u>	<u>-</u>	<u>444,450</u>	<u>1,499,966</u>	<u>444,444</u>
Compensated absences	<u>5,130,513</u>	<u>1,569,393</u>	<u>1,620,294</u>	<u>5,079,612</u>	<u>1,160,000</u>
	<u>\$ 10,319,929</u>	<u>\$ 1,569,393</u>	<u>\$ 5,309,744</u>	<u>\$ 6,579,578</u>	<u>\$ 1,604,444</u>

Future maturities of long-term debt are as follows:

<u>Fiscal Year</u>	<u>Direct Borrowings</u>	
	<u>Principal</u>	<u>Interest</u>
2024	\$ 444,444	\$ -
2025	444,444	-
2026	435,185	-
2027	129,596	-
2028	<u>46,297</u>	<u>-</u>
	<u>\$ 1,499,966</u>	<u>\$ -</u>

SEVIER COUNTY ELECTRIC SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

5. Sick Leave Liability

Employees earn ten (10) hours of sick leave per month with a maximum accumulation of two thousand and eighty (2,080) hours. Upon retirement or death, employees are compensated for any accumulated sick leave up to eighteen hundred (1,800) hours. Although not required, the System's policy is to accrue this amount in full, which totaled \$4,369,009 at June 30, 2023. In the event of termination, employees forfeit all unused sick leave.

6. Self-Insured Health Fund

The System self-insures up to \$85,000 of annual medical claims for each regular full-time employee. Liabilities for unpaid claims are estimated by the System based on prior years' experience. During the year ended June 30, 2023, contributions totaling \$2,370,000 were made to a reserve fund. Claims, fees and insurance premiums totaling \$2,463,146 were paid from the reserve fund leaving an ending balance of \$1,947,490. Management believes this reserve fund is adequate to cover unpaid claims existing at year end.

7. Regulated Rental Arrangements

The System is a party to certain agreements, which provide for the joint use of the System's distribution facilities by other utilities and certain customers. Rental revenues and expenses from the above-mentioned arrangements for the year ended June 30, 2023 were \$2,355,058 and \$142,613, respectively.

8. Risk Management

The System is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The System purchases commercial insurance for all of these risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

SEVIER COUNTY ELECTRIC SYSTEM  
 NOTES TO FINANCIAL STATEMENTS  
 (Continued)

9. Retirement Plans

**Sevier County Electric System Employees' Pension Plan**

General Information about the Pension Plan

*Plan Description.* The System's defined benefit pension plan, Sevier County Electric System Employees' Pension Plan ("the Plan"), provides pensions for all eligible System employees, including certain employees of the Government who were formerly employed by the System, who have completed three years of service and has attained the age of 24½. The System's board of directors establishes and amends all benefit provisions. The Plan issues a publicly available financial report that can be obtained upon request at the System's office. The Plan is a single-employer plan. However, in these stand-alone departmental financial statements the System has applied the cost-sharing employer requirements of GASB Statement No. 68.

*Benefits provided.* The Plan provides retirement, disability and death benefits. Normal retirement benefits for all participants are calculated as the sum of: a) 2.75 percent of the participant's average compensation multiplied by years of service not in excess of twenty; and b) 1.0 percent of the participant's average compensation multiplied by years of service, not in excess of ten, credited after the later of attainment of full early retirement date or completion of twenty years of service. Normal retirement age is the later of the participant's 62<sup>nd</sup> birthday or the date credited with ten years of vesting service. Early retirement age is the date the participant has both attained age 52 and has been credited with at least ten years of vesting service. Any participant who has attained early retirement age may elect early retirement for a reduced benefit.

Benefit terms provide for annual cost-of-living adjustments to each participant's retirement allowance subsequent to the participant's retirement date. The annual adjustments are measured by the Consumer Price Index for the one year period ending on the preceding June 30. The percentage increase shall be limited to a maximum of 3 percent with regard to any such one-year period.

*Contributions.* The System has the authority to establish and amend the contribution requirements of the System, the Government and active employees. The System establishes rates based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The System and the Government are required to contribute the difference between the actuarially determined rate and the mandatory contribution rate of employees. For the year ended June 30, 2023, the mandatory employee contribution rate was 4%, the System's average contribution rate was 30.26% and the Government's average contribution rate was 27.00%. For the year ended June 30, 2022, the mandatory employee contribution rate was 4%, the System's average contribution rate was 25.88% and the Government's average contribution rate was 12.28%.

SEVIER COUNTY ELECTRIC SYSTEM  
 NOTES TO FINANCIAL STATEMENTS  
 (Continued)

9. Retirement Plans (Continued)

**Sevier County Electric System Employees' Pension Plan (Continued)**

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2023, the System reported a liability of \$17,127,151 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The System's proportion of the net pension liability was based on the proportion of the System's actual plan contributions made during the year to total actual plan contributions made during the year. At June 30, 2023, the System's proportion was 83.64%.

For the year ended June 30, 2023, the System recognized pension expense of \$2,945,721. At June 30, 2023, the System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Contributions made to the plan subsequent to the measurement date	\$ 2,297,144	\$ -
Differences between expected and actual experience	4,741,318	-
Net difference between projected and actual earnings on plan investments	3,224,029	-
Changes in assumptions	<u>56,802</u>	<u>312,526</u>
Total	<u>\$ 10,319,293</u>	<u>\$ 312,526</u>

The amount shown above for "Contributions made to the plan subsequent to the measurement date" will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period. Amounts reported in deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2024	\$ 1,659,314
2025	1,540,826
2026	1,107,931
2027	2,274,412
2028	361,000
Thereafter	766,140

## SEVIER COUNTY ELECTRIC SYSTEM

NOTES TO FINANCIAL STATEMENTS  
(Continued)9. Retirement Plans (Continued)**Sevier County Electric System Employees' Pension Plan (Continued)**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

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

Inflation/Cost of Living	2.00 percent per annum
Salary increases	3.50 to 9.00 percent per annum based on age and department
Investment rate of return	7.25 percent per annum

Mortality rates were based on RP 2014 Blue Collar Mortality Table adjusted to 2006 with MP 2021 scale in the current year and RP 2014 Blue Collar Mortality Table adjusted to 2006 with MP 2020 scale for the prior year.

The actuarial assumptions used in the June 30, 2022 valuation were based on the results of an actuarial experience study for the period from July 1, 2014 through June 30, 2019.

The long-term expected rate of return on pension plan investments was determined on the basis of an ongoing plan with a perpetual time horizon. For this reason, long term capital market assumptions (10 years) are applicable to approximate future return expectations. The long-term expected rate of return on pension plan investments was determined using a modified building blocks methodology because the ability to identify historical return premiums of asset classes in the context of varying market environments provides a reasonable basis to estimate the performance of asset classes going forward. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity - Large Cap	22.00%	5.24%
US Equity - Small/Mid Cap	20.00%	6.37%
Non-US Equity - Developed	12.00%	6.07%
Non-US Equity - Emerging	5.00%	8.02%
US Corporate Bonds - Core	22.00%	1.17%
Non-US Debt - Developed	4.00%	0.31%
US Treasuries (Cash Equivalents)	2.00%	-0.44%
Real Estate	6.00%	4.75%
Hedge Funds	<u>7.00%</u>	3.31%
Total	<u>100.00%</u>	

## SEVIER COUNTY ELECTRIC SYSTEM

NOTES TO FINANCIAL STATEMENTS  
(Continued)9. Retirement Plans (Continued)**Sevier County Electric System Employees' Pension Plan (Continued)**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

*Discount rate.* The discount rate used to measure total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that System and Government contributions will be equal to the difference between actuarially determined contributions rates and the employee rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of the projected benefit payments to determine the total pension liability.

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

	<u>1% Decrease</u> <u>(6.25%)</u>	<u>Current</u> <u>Discount Rate</u> <u>(7.25%)</u>	<u>1% Increase</u> <u>(8.25%)</u>
System's net pension liability	\$ 22,999,016	\$ 17,127,151	\$ 12,136,599

*Pension plan fiduciary net position.* Detailed information about the pension plan's fiduciary net position is available in the separately issued Plan financial report.

**Sevier County Electric System 401(k) Retirement Plan**

The System contributes to the Sevier County Electric System 401(k) Retirement Plan (401(k) plan), a defined contribution plan, for its eligible employees. Employees become eligible to participate after having completed six months of service and attained the age of 21. The 401(k) plan is administered by the System's board of directors.

Benefit terms, including contribution requirements, for the 401(k) plan are established and may be amended by the System's board of directors. Employees are permitted to make contributions to the 401(k) plan, up to applicable Internal Revenue Code limits. For each employee in the 401(k) plan, the System matches the first three percent of the employee's contributions. For the year ended June 30, 2023, employee contributions totaled \$529,530 and the System recognized pension expense of \$272,779 related to the 401(k) plan.

Employees are immediately vested in their own contributions, System contributions and earnings on those contributions.

SEVIER COUNTY ELECTRIC SYSTEM  
 NOTES TO FINANCIAL STATEMENTS  
 (Continued)

10. Other Postemployment Benefit (OPEB) Plan

Plan Description

The Sevier County Electric System Retiree Medical, Dental and Life Insurance Plan (the OPEB Plan) is a single-employer public employee defined benefit plan established and administered by the System. The OPEB Plan is used to provide postemployment benefits other than pensions for all permanent full-time employees of the System.

Governance of the OPEB Plan is vested in the System's Board of Directors, which consists of five members appointed by the City of Sevierville, Tennessee. Management of the OPEB Plan is vested with the OPEB Plan's Investment Committee. The OPEB Plan issues a publicly available financial report that can be obtained at the System's office.

Benefits provided

The OPEB Plan provides medical, dental and vision benefits for retirees and disabled employees, including their spouse and dependents, until reaching Medicare eligibility. These benefits are provided through the System's self-insured health plan and the full cost of benefits is covered by the OPEB Plan. The OPEB Plan also provides an optional Medicare supplement plan for eligible OPEB Plan participants. These benefits are provided through the System's self-insured health plan and the OPEB Plan covers all costs incurred except that the participant is responsible to pay 25% of the quoted cost of a Medicare supplement plan for the participant offered by a third-party insurer and 100% of the quoted cost of a Medicare supplement plan for the spouse offered by a third-party insurer. The OPEB Plan also provides life insurance benefits for retirees and disabled employees. This benefit is provided through a third-party insurer, and the full cost is covered by the OPEB Plan. The OPEB Plan's benefit terms are established and may be amended by the System's Board of Directors.

Employees covered by benefit terms

At July 1, 2021, Plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefit payments	12
Active plan members	117
	129

Contributions

The contribution requirements of the System are established and may be amended by the System's Board of Directors. The OPEB Plan is funded by employer contributions. The System is currently funding actual benefits paid on a pay as you go basis. In addition, the System occasionally makes discretionary contributions into the trust fund as cash flow permits.

Net OPEB Liability

The System's net OPEB liability was measured as of June 30, 2022 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2021.

## SEVIER COUNTY ELECTRIC SYSTEM

NOTES TO FINANCIAL STATEMENTS  
(Continued)10. Other Postemployment Benefit (OPEB) Plan (Continued)Actuarial Assumptions

The total OPEB liability in the July 1, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50 percent
Salary increases	3.50 percent
Investment rate of return	6.50 percent
Healthcare cost trend rates	Medical: 9.00 percent for 2021, decreasing 1.00 percent per year to an ultimate rate of 5.00 percent for 2025 and later years Dental: 5.00 percent

Mortality rates were based on the RPH-2014 Total Dataset mortality table with mortality improvements projected by Scale MP-2021 on a generational basis.

The actuarial assumptions used in the July 1, 2021 valuation were based on the results of an actuarial study for the period July 1, 2017 through July 1, 2022.

The OPEB Plan is an ongoing plan with a perpetual time horizon. For this reason, long term capital market assumptions (20+ years) are applicable to approximate future return expectations. The long-term expected rate of return on investments was determined using a modified building blocks methodology because the ability to identify historical return premiums of asset classes in the context of varying market environments provides a reasonable basis to estimate the performance of asset classes going forward.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>
US Equity - Large Cap	26.00%	5.86%
US Equity - Small/Mid Cap	28.00%	7.04%
Non-US Equity - Developed	3.00%	6.59%
Non-US Equity - Emerging	2.00%	8.83%
US Corporate Bonds - Core	12.00%	1.24%
US Corporate Bonds - High Yield	7.00%	3.64%
US Treasuries (Cash Equivalents)	7.00%	-0.22%
TIPS (Inflation Protected)	5.00%	0.44%
Real Estate	10.00%	5.41%
Total	<u>100.00%</u>	

Discount Rate

The discount rate used to measure the total OPEB Plan liability was 6.50 percent. The projection of cash flows used to determine the discount rate assumed that the System would continue to pay benefits as they come due and to make discretionary contributions annually to the Trust. Based on those assumptions, the OPEB Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current OPEB Plan members. Therefore, the long-term expected rate of return on investments was applied to all periods of projected benefit payments to determine the total OPEB Plan liability.

SEVIER COUNTY ELECTRIC SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

10. Other Postemployment Benefit (OPEB) Plan (Continued)

Change in the Net OPEB Liability

	Increase (Decreases)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a)-(b)
Beginning balance*	\$ 7,129,911	\$ 5,509,883	\$ 1,620,028
Changes for the year:			
Service cost	252,435	-	252,435
Interest	483,753	-	483,753
Differences between expected and actual experience	707,354	-	707,354
Changes in assumptions	266,241	-	266,241
Contributions - Employer	-	995,905	(995,905)
Net investment income (loss)	-	(716,091)	716,091
Benefit payments	(745,905)	(745,905)	-
Administrative expenses	-	(4,392)	4,392
Net changes	963,878	(470,483)	1,434,361
Ending balance*	\$ 8,093,789	\$ 5,039,400	\$ 3,054,389

\*The measurement date of the beginning balance was June 30, 2021 and the measurement date of the ending balance was June 30, 2022. The reporting date of the beginning balance is June 30, 2022 and the reporting date of the ending balance is June 30, 2023.

Sensitivity of Net OPEB Liability Changes in the Discount Rate

The following presents the net OPEB liability of the System calculated using the stated discount rate, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease 5.50%	Current Rate 6.50%	1% Increase 7.50%
System's net OPEB liability	\$ 3,874,871	\$ 3,054,389	\$ 2,334,122

SEVIER COUNTY ELECTRIC SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

10. Other Postemployment Benefit (OPEB) Plan (Continued)

Sensitivity of Net OPEB Liability Changes in the Healthcare Cost Trend Rate

The following presents the net OPEB liability of the System calculated using the stated healthcare cost trend rate, as well as what the net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease (7.00% decreasing to 4.00%)	Current Rate (8.00% decreasing to 5.00%)	1% Increase (9.00% decreasing to 6.00%)
System's net OPEB liability	\$ 2,390,228	\$ 3,054,389	\$ 3,831,525

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB Plan's fiduciary net position is available in the separately issued OPEB Plan financial report

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2023, the System recognized OPEB Plan expense of \$610,700. At June 30, 2023, the System reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Contributions made after measurement date	\$ 1,500,000	\$ -
Changes of assumptions	843,909	-
Differences between expected and actual experience	1,386,713	443,216
Net difference between projected and actual earnings on plan investments	<u>342,229</u>	<u>-</u>
Total	<u>\$ 4,072,851</u>	<u>\$ 443,216</u>

SEVIER COUNTY ELECTRIC SYSTEM  
 NOTES TO FINANCIAL STATEMENTS  
 (Continued)

10. Other Postemployment Benefit (OPEB) Plan (Continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

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

Year ended June 30:

2024	\$	235,893
2025		243,760
2026		230,877
2027		409,674
2028		283,431
Thereafter		726,000

11. Pass-Through Grant Loan Receivables and Payables

During fiscal years 2016, 2017 and 2018, the System received proceeds from three pass-through loans under a federal grant program administered by the U.S. Department of Agriculture. The federal program is Rural Economic Development Loans and Grants. The loan proceeds of \$1,000,000, \$2,000,000 and \$1,000,000 were passed through to two local business customers to assist with the renovation and expansion of their facility and to purchase equipment. The loans are payable in monthly installments of \$9,259, \$18,519 and \$9,259 through June 2026, August 2026 and November 2027, respectively, with no interest and are secured by letters of credit from local banks.

Future maturities of the receivable and payable are as follows:

Fiscal Year	Receivable	Payable
2024	\$ 444,444	\$ 444,444
2025	444,444	444,444
2026	435,185	435,185
2027	129,596	129,596
2028	37,072	46,297
	\$ 1,490,741	\$ 1,499,966

12. Litigation

At June 30, 2023, there are lawsuits pending in which Sevier County Electric System is involved. Management and the insurance company's legal counsel believe these suits will not result in any material unfavorable outcome to the System.

SEVIER COUNTY ELECTRIC SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

13. Subsequent Events

Management has evaluated subsequent events through October 16, 2023, the date on which the financial statements were available to be issued.

## **REQUIRED SUPPLEMENTARY INFORMATION**

SEVIER COUNTY ELECTRIC SYSTEM  
 SCHEDULE OF THE SYSTEM'S PROPORTIONATE SHARE  
 OF THE NET PENSION LIABILITY

Last 10 Fiscal Years (Only applicable after 2014)\*

	2023	2022	2021	2020	2019	2018	2017	2016	2015
System's proportion of the net pension liability	83.64%	105.01%	84.13%	86.41%	83.59%	81.47%	76.88%	82.00%	83.94%
System's proportionate share of the net pension liability	\$ 17,127,151	\$ 7,570,323	\$ 13,225,241	\$ 12,717,178	\$ 10,451,060	\$ 9,763,237	\$ 9,781,046	\$ 9,877,571	\$ 9,726,199
System's covered payroll	\$ 7,587,174	\$ 7,376,179	\$ 7,065,633	\$ 6,181,341	\$ 6,056,289	\$ 5,978,914	\$ 5,750,186	\$ 5,812,018	\$ 5,798,712
System's proportionate share of the net pension liability as a percentage of its covered payroll	225.74%	102.63%	187.18%	205.73%	172.57%	163.29%	170.10%	169.95%	167.73%
Plan fiduciary net position as a percentage of the total pension liability	63.73%	82.45%	68.86%	68.34%	71.23%	73.27%	70.59%	65.99%	64.92%

**Notes to Schedule**

The amounts presented for each fiscal year were determined as of June 30 of the prior year.

\* The required 10 year trend information will be completed when the information is compiled. The years for which information was available are presented.

See independent auditor's report.

SEVIER COUNTY ELECTRIC SYSTEM  
SCHEDULE OF SYSTEM CONTRIBUTIONS

Last 10 Fiscal Years (Only applicable after 2014)\*

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Actuarially determined contribution	\$ 1,862,873	\$ 2,080,157	\$ 2,142,561	\$ 1,499,249	\$ 1,216,624	\$ 1,214,894	\$ 1,358,808	\$ 1,359,523	\$ 1,564,437
Contributions in relation to the actuarially determined contribution	1,924,667	2,088,809	2,142,309	1,498,975	1,520,041	1,214,894	5,819,934	1,359,523	2,087,536
Contribution deficiency (excess)	\$ (61,794)	\$ (8,652)	\$ 252	\$ 274	\$ (303,417)	\$ -	\$ (4,461,126)	\$ -	\$ (523,099)
System's covered payroll	\$ 7,587,174	\$ 7,376,179	\$ 7,065,633	\$ 6,181,341	\$ 6,056,289	\$ 5,978,914	\$ 5,750,186	\$ 5,812,018	\$ 5,798,712
Contributions as a percentage of covered payroll	25.37%	28.32%	30.32%	24.25%	25.10%	20.32%	101.21%	23.39%	36.00%

**Notes to Schedule**

Valuation date:

Actuarially determined contribution rates are calculated as of the beginning of the fiscal year (July 1).

Methods and assumptions used to determine contribution rates:

Actuarial cost method:	Individual Entry Age Normal, Level Percentage of Pay
Amortization method:	Closed Level Dollar Amortization
Remaining amortization period:	30 years as of July 1, 2020
Asset valuation method:	Market value of plan assets adjusted to phase in asset gains
Salary increases:	Varies by department and age
Cost of living increases	2.00% per annum
Investment rate of return:	7.25% per annum
Retirement age:	Varies by age
Mortality:	RP2014 Blue Collar Mortality Table adjusted to 2006 with MP-2021

Changes in benefit terms:

As of July 1, 2014, the amortization method was changed from level amortization, open, to closed level dollar with a remaining amortization period of twenty-nine years.

Changes in assumptions:

As of July 1, 2014, the amortization method was changed from level amortization, open, to closed level dollar amortization with a remaining amortization period of twenty-nine years.

\* The required 10 year trend information will be completed when the information is compiled. The years for which information was available are presented.

See independent auditor's report.

SEVIER COUNTY ELECTRIC SYSTEM

SCHEDULE OF CHANGES IN THE SYSTEM'S NET  
OPEB PLAN LIABILITY AND RELATED RATIOS

For the Last 10 Measurement Periods Ended on June 30\*

	2022	2021	2020	2019	2018	2017
<b>Total OPEB liability</b>						
Service cost	\$ 252,435	\$ 217,682	\$ 190,927	\$ 94,480	\$ 92,176	\$ 105,489
Interest	483,753	428,992	426,933	370,046	341,563	394,072
Changes of benefit terms	-	-	-	-	-	-
Differences between expected and actual experience	707,354	373,072	411,100	127,425	174,814	(1,108,046)
Changes of assumptions	266,241	-	522,420	251,859	-	218,715
Benefit payments	(745,905)	(535,630)	(387,912)	(271,867)	(344,143)	(241,124)
<b>Net change in total OPEB liability</b>	963,878	484,116	1,163,468	571,943	264,410	(630,894)
<b>Total OPEB liability - beginning</b>	7,129,911	6,645,795	5,482,327	4,910,384	4,645,974	5,276,868
<b>Total OPEB liability - ending (a)</b>	<u>\$ 8,093,789</u>	<u>\$ 7,129,911</u>	<u>\$ 6,645,795</u>	<u>\$ 5,482,327</u>	<u>\$ 4,910,384</u>	<u>\$ 4,645,974</u>
<b>Plan fiduciary net position</b>						
Contributions - employer	\$ 995,905	\$ 710,630	\$ 787,912	\$ 782,924	\$ 594,143	\$ 491,124
Net investment income	(716,091)	1,171,254	186,479	251,156	226,508	202,278
Benefit payments / refunds	(745,905)	(535,630)	(387,912)	(271,867)	(344,143)	(241,124)
Administrative expenses	(4,392)	(3,826)	(3,036)	(2,613)	(2,100)	(1,711)
<b>Net change in plan fiduciary net position</b>	(470,483)	1,342,428	583,443	759,600	474,408	450,567
<b>Plan fiduciary net position - beginning</b>	5,509,883	4,167,455	3,584,012	2,824,412	2,350,004	1,899,437
<b>Plan fiduciary net position - ending (b)</b>	<u>\$ 5,039,400</u>	<u>\$ 5,509,883</u>	<u>\$ 4,167,455</u>	<u>\$ 3,584,012</u>	<u>\$ 2,824,412</u>	<u>\$ 2,350,004</u>
<b>System's net OPEB liability - ending (a) - (b)</b>	<u>\$ 3,054,389</u>	<u>\$ 1,620,028</u>	<u>\$ 2,478,340</u>	<u>\$ 1,898,315</u>	<u>\$ 2,085,972</u>	<u>\$ 2,295,970</u>
<b>Plan fiduciary net position as a percentage of the total OPEB liability</b>	62.26%	77.28%	62.71%	65.37%	57.52%	50.58%
<b>Covered payroll</b>	\$ 8,785,984	\$ 7,830,560	\$ 7,639,570	\$ 6,178,498	\$ 6,027,803	\$ 9,711,165
<b>System's net OPEB liability as a percentage of covered payroll</b>	34.76%	20.69%	32.44%	30.72%	34.61%	23.64%

\* The required 10 year trend information will be completed when the information is compiled. The years for which information was available are presented.

See independent auditor's report.

## OTHER SUPPLEMENTARY INFORMATION

SEVIER COUNTY ELECTRIC SYSTEM  
SCHEDULE OF LONG-TERM DEBT PRINCIPAL AND  
INTEREST REQUIREMENTS

June 30, 2023

Fiscal Year End June 30	USDA Rural Development Loan #REDL-1-1 (Swaggerty's #1)		USDA Rural Development Loan #REDL-1536 (Ka-Tom)		USDA Rural Development Loan #REDL-1-2 (Swaggerty's #2)		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2024	\$ 111,111	\$ -	\$ 222,222	\$ -	\$ 111,111	\$ -	\$ 444,444	\$ -
2025	111,111	-	222,222	-	111,111	-	444,444	-
2026	101,852	-	222,222	-	111,111	-	435,185	-
2027	-	-	18,485	-	111,111	-	129,596	-
2028	-	-	-	-	46,297	-	46,297	-
	<u>\$ 324,074</u>	<u>\$ -</u>	<u>\$ 685,151</u>	<u>\$ -</u>	<u>\$ 490,741</u>	<u>\$ -</u>	<u>\$ 1,499,966</u>	<u>\$ -</u>

See independent auditor's report.

SEVIER COUNTY ELECTRIC SYSTEM

SCHEDULE OF CHANGES IN LONG-TERM DEBT BY INDIVIDUAL ISSUE

June 30, 2023

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding 6/30/2022	Issued During Period	Paid and/or Matured During Period	Refunded During Period	Outstanding 6/30/2023
Bonds Payable:									
Local Government Public Improvement Revenue Bonds - Series V-D-1	\$ 21,700,000	Variable	10/01/2010	06/01/2026	<u>\$ 3,245,000</u>	<u>\$ -</u>	<u>\$ 3,245,000</u>	<u>\$ -</u>	<u>\$ -</u>
Loans Payable:									
USDA Rural Development Loan #REDL-1-1 (Swaggerty's #1)	\$ 1,000,000	0.00%	06/01/2016	05/31/2026	\$ 435,185	\$ -	\$ 111,111	\$ -	\$ 324,074
USDA Rural Development Loan #REDL-1536 (Ka-Tom)	\$ 2,000,000	0.00%	08/08/2016	08/15/2026	907,379	-	222,228	-	685,151
USDA Rural Development Loan #REDL-1-2 (Swaggerty's #2)	\$ 1,000,000	0.00%	11/16/2017	11/16/2027	<u>601,852</u>	<u>-</u>	<u>111,111</u>	<u>-</u>	<u>490,741</u>
Total Loans Payable					<u>\$ 1,944,416</u>	<u>\$ -</u>	<u>\$ 444,450</u>	<u>\$ -</u>	<u>\$ 1,499,966</u>

See independent auditor's report.

SEVIER COUNTY ELECTRIC SYSTEM  
UTILITY RATE STRUCTURE AND NUMBER OF CUSTOMERS

June 30, 2023

CUSTOMERS

The number of utility customers at June 30, 2023 was 61,868.

ELECTRIC RATES

Electric rates in effect at June 30, 2023 are as follows:

RESIDENTIAL RATE - SCHEDULE RS

Base Charges

Customer charge.....	\$20.00
Energy Charge per kWh.....	6.935¢
TVA Fuel Cost Adjustment.....	2.565¢

RESIDENTIAL RATE - SCHEDULE SRS

Base Charges

Customer charge.....	\$21.60
Energy Charge per kWh.....	7.211¢
TVA Fuel Cost Adjustment.....	2.565¢

COMMERCIAL RATE - SCHEDULE GSA

Base Charges

1. Demand 0 to 50 kW for customer with or without contract demand:	
Customer Charge.....	\$22.00
Energy Charge 0 to 15,000 kWh per kWh .....	8.714¢
TVA Fuel Cost Adjustment .....	2.537¢

(Continued)

SEVIER COUNTY ELECTRIC SYSTEM  
UTILITY RATE STRUCTURE AND NUMBER OF CUSTOMERS  
(Continued)

June 30, 2023

COMMERCIAL RATE - SCHEDULE GSA (Continued)

Base Charges (Continued)

2.	Demand 50 kW to 1,000 kW or demand less than 50 kW but kWh more than 15,000 kWh:	
	Customer Charge .....	\$50.00
	<u>Demand Charge in dollars per kW of demand:</u>	
	First 50 kW of billing demand per month.....	No Charge
	Over 50 kW of billing demand per month.....	\$13.58
	<u>Energy Charge per kWh:</u>	
	First 15,000 kWh per month .....	8.821¢
	TVA Fuel Cost Adjustment .....	2.537¢
	Additional kWh per month .....	4.424¢
	TVA Fuel Cost Adjustment .....	2.504¢
3.	Demand greater than 1,000 kW:	
	Customer Charge .....	\$200.00
	<u>Demand Charge in dollars per kW of demand:</u>	
	First 1,000 kW of billing demand per month.....	\$14.03
	Next 1,500 kW of billing demand per month .....	\$15.16
	Over 2,500 kW of billing demand per month.....	\$15.56
	Plus an additional \$14.41 per kW per month for each kW, if any, of the amount by which the customer's billing demand exceeds the higher of 2,500 kW or its contract demand.	
	Energy Charge per kWh.....	4.424¢
	TVA Fuel Cost Adjustment.....	2.504¢

See independent auditor's report.

SEVIER COUNTY ELECTRIC SYSTEM

UTILITY OFFICIALS

June 30, 2023

**Board Members**

Mitch Rader, Chairman

Allen Blalock, Vice Chairman

Robert Fox, Sr., Mayor

Greg Davis

Jack Parton

Robin Nichols

**Management Team**

Allen Robbins, Superintendent

Stanley Stiles, Secretary/Treasurer

Isaiah Ramsey, Accounting Manager

**BROWN JAKE & McDANIEL, PC**

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**MEMBERS**  
**AMERICAN INSTITUTE OF**  
**CERTIFIED PUBLIC ACCOUNTANTS**

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

Board of Public Utilities of  
the City of Sevierville  
Sevierville, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Sevier County Electric System (the System), an enterprise fund of the City of Sevierville, Tennessee, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated October 16, 2023.

**Report on Internal Control over Financial Reporting**

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

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

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the System'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.

Brown, Jake & McDaniel, PC

CERTIFIED PUBLIC ACCOUNTANTS

Knoxville, Tennessee  
October 16, 2023

SEVIER COUNTY ELECTRIC SYSTEM  
SCHEDULE OF PRIOR AUDIT FINDINGS

June 30, 2023

There were no prior year findings.