

CITY OF LORETTO, TENNESSEE

Annual Financial Report

For the Year Ended June 30, 2022

CITY OF LORETTA, TENNESSEE

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CITY OF LORETO, TENNESSEE

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INTRODUCTORY SECTION

CITY OF LORETTO, TENNESSEE

Officials of the City of Loretto, Tennessee

June 30, 2022

Name

Title

Elected Officials:

Steve McMasters

Mayor

Johnathan Pettus

Alderman

Chris Beckman

Alderman

Management:

Jesse Turner

City Administrator

Keith Smith (retired)

City Admin. CMFO,

Jennifer Augustin

City Recorder, CMFO

FINANCIAL SECTION

JOHN R. POOLE, CPA
CERTIFIED PUBLIC ACCOUNTANT

134 NORTHLAKE DRIVE
HENDERSONVILLE, TN 37075

(615) 822-4177

Independent Auditor's Report

Mayor and Members of the City Council
City of Loretto, Tennessee
Loretto, Tennessee

Opinions

I have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Loretto, Tennessee (the "City"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In my opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City, as of June 30, 2022, and the respective changes in financial position, and the respective budgetary comparison for the General Fund and the State Street Aid Fund for the year then ended and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

My 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 my 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 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 judgement 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, I:

- ❖ 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 City'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 my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

I am 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 I identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Required Supplementary Information, which includes the Management's Discussion and Analysis and the Schedule of Changes in Net Pension Liability (Asset) and the Schedule of Contributions to the Employee Pension Plan and the Schedule of Changes in Total Liability and Related Ratios, 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. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for

consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The supplementary information section, as listed in the table of contents, 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 my opinion, the 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 section, as listed in the table of contents such as the Introductory section, does not include the basic financial statements and my auditor's report thereon. My opinion on the basic financial statements does not cover the other information, and I do not express an opinion or any other assurance thereon.

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, I have also issued my report dated November 30, 2022, on my consideration of the City's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City'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 the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "John D. Rose, CPA". The signature is cursive and appears to be in black ink on a white background.

November 30, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF LORETTO, TENNESSEE

Management's Discussion and Analysis

As management of the City of Loretto, Tennessee (the City) we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2022. The analysis focuses on significant financial position, budget changes and variances from the budget, and specific issues related to funds and the economic factors affecting the City. Management's Discussion and Analysis (MD&A) focuses on current year activities and resulting changes.

Financial Highlights:

The assets of the City of Loretto exceeded its liabilities at the close of the most recent fiscal year by \$7,274,762. Of this amount, \$1,293,192 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.

The government's total net position increased by \$228,184, even as the City's grant revenues decreased as compared to the prior year. The grant revenue decrease was related to grant revenues received in the previous year for infrastructure enhancement project. Expenses were lower in the current year due to decreased grant activities. The governmental funds showed an increase in net position of \$194,235 due to decreased expenses. As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$448,833.

At the end of the current fiscal year, unassigned fund balance of the General Fund was \$313,374 or 21% of the total general fund expenditures.

The City's business -like activities total net position increased by \$33,949 due to increased expenses.

The City's total debt increased by \$301,660 as the City borrowed for several capital asset purchases. All of the City's debt is paying as scheduled.

Overview of the Financial Statements:

This discussion and analysis is intended to serve as an introduction to the City of Loretto's basic financial statements. The City's basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. The Statement of Net Position presents information on all the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected tax). Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Loretto include general government, personnel, finance, parks, planning, police, fire, disposal service, streets and public works. The government-wide financial statements can be found on pages 11-12 of this report.

A Fund is a grouping of related accounts that is used to maintain control over resources that have been segregated from specific activities or objectives. The City of Loretto, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City are governmental funds. Governmental Funds are funds used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of resources, as well as on balances of resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains two individual governmental funds and three proprietary funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the funds all of which are considered to be major funds.

The City of Loretto adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget. The basic financial statements can be found on pages 14-25 of this report.

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27-51 of this report.

Financial Analysis of the Financial Statements --Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Loretto's assets exceeded liabilities by \$7,274,762 at the close of the most recent fiscal year.

By far the largest portion of the City's assets reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its 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 liquidate these liabilities.

Financial Analysis of the Financial Statements - City of Loretto's Net Position-2022

	<u>Governmental Activities</u>	<u>Business -Type Activities</u>
Current and other assets	\$ 857,259	1,414,869
Capital assets	<u>1,778,930</u>	<u>5,812,177</u>
Total assets	2,636,189	7,227,046
Deferred outflows	163,010	169,661
Long-term liabilities outstanding	625,527	1,275,063
Other liabilities	<u>87,856</u>	<u>144,608</u>
Total liabilities	713,383	1,419,671
Deferred inflows	350,088	438,002
Net position:		
Net investment in capital assets	1,153,403	4,537,114
Restricted	160,872	130,181
Unrestricted	<u>421,453</u>	<u>871,739</u>
Total net position	\$1,735,728	5,539,034

Financial Analysis of the Financial Statements - City of Loretto's Net Position - 2021

	<u>Governmental Activities</u>	<u>Business -Type Activities</u>
Current and other assets	\$ 683,795	1,114,111
Capital assets	<u>1,841,861</u>	<u>5,577,609</u>
Total assets	2,525,656	6,691,720
Deferred outflows	40,317	52,006
Long-term liabilities outstanding	559,789	1,039,141
Other liabilities	<u>79,043</u>	<u>38,466</u>
Total liabilities	638,832	1,077,607
Deferred inflows	161,795	26,422
Net position:		
Net investment in capital assets	1,282,072	4,538,468
Restricted	301,633	194,928
Unrestricted	<u>181,641</u>	<u>906,301</u>
Total net position	\$ 1,765,346	5,639,697

At the end to the current fiscal year, the City is able to report positive balances in all categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior year.

Financial Analysis of the Financial Statements

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds

The focus of the City of Loretto's governmental funds is to provide information on near-term inflows, outflows and balances of resources. Such information is useful in assessing the City's financing requirements, in particular, unassigned fund balance may serve as a useful measure to a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$313,374. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 21% of total general fund expenditures.

Comparison of revenues and expenses 2022 and 2021

	<u>2022</u>	<u>2021</u>	<u>Variance</u>
Revenues:			
Property taxes	132,469	143,028	(10,559)
Sales taxes	908,834	726,035	182,799
Beer and liquor taxes	114,801	117,216	(2,415)
Income and excise taxes	1,147	864	283
Miscellaneous	56,100	61,475	(5,375)
Charges for services	1,914,087	1,733,432	180,655
Operating contributions	85,823	939,187	(853,364)
Capital contributions	99,902	0	99,902
Total Revenues	<u>\$3,313,163</u>	<u>\$3,721,237</u>	<u>(\$408,074)</u>
Expenses:			
General government	343,265	719,643	(376,378)
Police department	452,643	450,637	2,006
Fire department	79,130	82,450	(3,320)
Public works	61,545	91,060	(29,515)
Parks and culture	351,459	555,724	(204,265)
Water and Sewer Fund	978,805	863,994	114,811
Natural Gas	666,947	534,278	132,669
Sanitation	151,185	115,962	35,223
Total Expenses	<u>\$3,084,979</u>	<u>\$3,413,748</u>	<u>(\$328,769)</u>
Change in Net Position	<u>228,184</u>	<u>307,489</u>	<u>(79,305)</u>

Governmental Budgetary Highlights

The City maintained its expenditure budgets during the year. See pages 21-25 for further information about these individual fund budgets.

Capital Assets

The City of Loretto's investment in capital assets from its governmental activities at June 30, 2022, amounts to \$1,778,930 (net of accumulated depreciation) and its business-type activities amounts to \$5,812,177. This investment in capital assets is in land, buildings, improvements, machinery and equipment. There was no increase in the City's investment in capital assets for the current fiscal year.

City of Loretto's Capital Assets

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>
Land, buildings and improvement	\$ 2,974,631	137,509
Equipment and utility plant	<u>804,666</u>	<u>12,232,317</u>
Less accumulated depreciation	(2,000,367)	(6,557,649)
Net Capital Assets	<u>\$ 1,778,930</u>	<u>5,812,177</u>

Additional information on the City of Loretto's capital assets can be found in the notes to the financial statements section of this report.

Long-Term Debt

The City has governmental long-term debt of \$655,527 and utility long-term debt totaling \$1,275,063 which was used to make improvements to the utility system. See pages 60-64 for schedule2 of long-term debt.

Economic Factors and Next Year's Budget and Rates

In the 2022-2023 budget, General fund revenues are budgeted to increase from the 2021-2022 budget year primarily due to increases in local revenues and the state shared revenues. The City's budget has grown by an increasing commercial and retail base producing higher local sales tax receipts. The City's Utility fund budget will not change significantly from the previous year.

All of these factors were considered in preparing the City's budget for the 2022-2023 fiscal year.

Requests for Information

This financial report is designed to provide a general overview of the City of Loretto, Tennessee's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Jesse Turner
City of Loretto

BASIC FINANCIAL STATEMENTS

CITY OF LORETO, TENNESSEE

Statement of Net Position

June 30, 2022

<u>Assets</u>	Governmental Activities	Business-type Activities	<u>Total</u>
Cash and cash equivalents	328,364	859,909	1,188,273
Certificates of Deposit	60,774	98,714	159,488
Receivables	234,785	115,462	350,247
Internal balances	(4,655)	4,655	0
Prepaid assets	4,817	4,901	9,718
Inventory	3,905	92,599	96,504
Net pension asset	229,269	238,629	467,898
Capital assets not being depreciated	172,185	137,509	309,694
Capital assets, net of accumulated depreciation	<u>1,606,745</u>	<u>5,674,668</u>	<u>7,281,413</u>
Total Assets	<u>2,636,189</u>	<u>7,227,046</u>	<u>9,863,235</u>
 Deferred Outflows of Resources:			
Deferred outflows of resources - OPEB	7,261	7,557	14,818
Deferred outflows of resources - pension	155,749	162,104	317,853
Total Deferred Outflows of Resources	<u>163,010</u>	<u>169,661</u>	<u>332,671</u>
 <u>Liabilities, Deferred Inflows, and Net Position</u>			
 Liabilities:			
Accounts payable	25,197	58,585	83,782
Accrued expenses	47,071	69,799	116,870
Total OPEB Liability	15,588	16,224	31,812
Long-term liabilities:			
Due within one year	159,143	120,692	279,835
Due in more than one year	466,384	1,154,371	1,620,755
Total Liabilities	<u>713,383</u>	<u>1,419,671</u>	<u>2,133,054</u>
 Deferred Inflows of Resources:			
Deferred inflows of resources - property tax	137,050	0	137,050
Deferred inflows - unspent grant receipts	0	216,269	216,269
Deferred inflows of resources - OPEB	13,999	14,571	28,570
Deferred inflows of resources - pension	199,039	207,162	406,201
Total Deferred Inflows of Resources	<u>350,088</u>	<u>438,002</u>	<u>788,090</u>
 Net Position:			
Net investment in Capital Assets	1,153,403	4,537,114	5,690,517
Restricted - Debt Service	0	98,714	98,714
Restricted - State street aid fund	130,642	0	130,642
Restricted - Pension	30,230	31,467	61,697
Unrestricted	421,453	871,739	1,293,192
Total Net Position	<u>1,735,728</u>	<u>5,539,034</u>	<u>7,274,762</u>

See accompanying notes to financial statements.

CITY OF LORETO, TENNESSEE

Statement of Activities

For the Year Ended June 30, 2022

Function/Programs	Program Revenues			Net (Expenses) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Government Activities:							
General government	343,265	73,004	9,300	17,434	(243,527)	0	(243,527)
Police department	452,643	16,526	5,000	0	(431,117)	0	(431,117)
Fire department	79,130	0	0	0	(79,130)	0	(79,130)
Public works	61,545	0	0	0	(61,545)	0	(61,545)
Swimming pool	59,087	60,749	0	0	1,662	0	1,662
Parks and recreation	288,819	37,930	0	0	(250,889)	0	(250,889)
Library	3,553	0	0	0	(3,553)	0	(3,553)
Highway and streets	0	8,139	71,523	0	79,662	0	79,662
Total Governmental Activities	1,288,042	196,348	85,823	17,434	(988,437)	0	(988,437)
Business - type Activities:							
Water and Sewer Fund	978,805	868,229	0	82,468	0	(28,108)	(28,108)
Natural gas fund	666,947	689,181	0	0	0	22,234	22,234
Solid Waste fund	151,185	160,329	0	0	0	9,144	9,144
Total Business Type Activities	1,796,937	1,717,739	0	82,468	0	3,270	3,270
Total	3,084,979	1,914,087	85,823	99,902	(988,437)	3,270	(985,167)
General Revenues:							
Property taxes				108,363	0	108,363	
Public utility taxes				24,106	0	24,106	
Sales taxes				838,181	0	838,181	
Beer and liquor taxes				114,801	0	114,801	
Franchise taxes				16,445	0	16,445	
Business taxes				54,208	0	54,208	
State income and excise taxes				1,147	0	1,147	
Interest income				0	2,874	2,874	
Other				25,421	27,805	53,226	
Total general revenues				1,162,672	30,679	1,213,351	
Changes in Net Position							
Net Position - beginning of year				194,235	33,949	228,184	
Restatement				1,765,346	5,639,697	7,405,043	
Net Position as restated, beginning of year				(223,853)	(134,612)	(358,465)	
Net position - ending of year	1,541,493	5,505,085	7,046,578	1,735,728	5,539,034	7,274,762	

See accompanying notes to financial statements.

FUND FINANCIAL STATEMENTS

CITY OF LORETTA, TENNESSEE

Balance Sheet

Governmental Funds

June 30, 2022

	General Fund	State Street Aid Fund	Total
Assets			
Cash and cash equivalents	206,966	121,398	328,364
Certificates of deposit	60,774	0	\$60,774
	<u>267,740</u>	<u>121,398</u>	<u>389,138</u>
Accounts receivable:			
Property taxes receivable	148,361	0	148,361
Other governments	81,085	5,339	86,424
	<u>229,446</u>	<u>5,339</u>	<u>234,785</u>
Inventory	0	3,905	3,905
Prepaid assets	4,817	0	4,817
Total Assets	<u>\$502,003</u>	<u>\$130,642</u>	<u>\$632,645</u>
Liabilities, Deferred Inflow of Resources and Fund Balance			
Liabilities:			
Accounts payable	\$25,197	0	25,197
Due to other funds	4,655	0	4,655
Accrued expenses	16,910	0	16,910
	<u>46,762</u>	<u>0</u>	<u>46,762</u>
Deferred Inflow of Resources:			
Deferred current property taxes	137,050	0	137,050
	<u>137,050</u>	<u>0</u>	<u>137,050</u>
Fund Balance:			
Non-spendable	4,817	0	4,817
Unassigned	313,374	0	313,374
Restricted	0	130,642	130,642
	<u>318,191</u>	<u>130,642</u>	<u>448,833</u>
Total Liabilities, Deferred Inflows, and Fund Balance	<u>\$502,003</u>	<u>\$130,642</u>	<u>\$632,645</u>

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

CITY OF LORETTA, TENNESSEE

**Reconciliation of the Balance Sheet to the Statement of Net Position
of Governmental Activities**

June 30, 2022

Amounts reported for fund balance - total governmental funds	\$ <u>448,833</u>
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds	1,778,930
Pension related accounts - governmental funds to not record these post-benefit obligations	
Net pension asset	229,269
Deferred outflow - pension	155,749
Deferred inflow - pension	(199,039)
OPEB related accounts - governmental funds to not record these post-benefit obligations	
Total OPEB liability	(15,588)
Deferred outflow - OPEB	7,261
Deferred inflow - OPEB	(13,999)
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not recorded in the funds	
Accrued vacation expense	(30,161)
Long-term debt	(625,527)
Net Position of governmental activities	\$ <u>1,735,728</u>

See accompanying notes to financial statements.

CITY OF LORETTA, TENNESSEE

**Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds**

For the Year Ended June 30, 2022

	<u>General Fund</u>	<u>State Street Aid Fund</u>	<u>Total Governmental Funds</u>
Revenues:			
Taxes	904,034	0	904,034
Intergovernmental	278,893	68,281	347,174
Fines and fees	187,209	0	187,209
Miscellaneous	43,860	0	43,860
Total revenues	\$1,413,996	\$68,281	\$1,482,277
Expenditures:			
General government	319,363	0	319,363
Police department	452,643	0	452,643
Fire department	50,482	0	50,482
Public works	61,545	0	61,545
Swimming pool	59,087	0	59,087
Parks and recreation	250,442	0	250,442
Library	3,553	0	3,553
Capital outlay			
General government	22,000	0	22,000
Parks and recreation	72,883	0	72,883
Debt service			
Principal	161,115	0	161,115
Interest	22,033	0	22,033
Total expenditures	\$1,475,146	\$0	\$1,475,146
Excess (deficiency) of revenues over expenditures	(61,150)	68,281	7,131
Other financing sources: loan proceeds	30,000	0	30,000
Net change in fun balance	(31,150)	68,281	37,131
Fund balance, beginning of year	349,341	62,361	411,702
Fund balance, end of year	\$318,191	\$130,642	\$448,833

See accompanying notes to financial statements.

CITY OF LORETTA, TENNESSEE

**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance
of Governmental Funds to the Statement of Activities**

For the Year Ended June 30, 2022

Net change in fund balances - total governmental funds:	\$ 37,131
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Amounts reported for governmental activities in the statement of net position are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Acquisition of capital assets	94,883
Depreciation expense	(130,814)

Liabilities not reported in the governmental fund -- change in accrued vacation liability	(7,480)
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Liabilities not reported in the governmental fund -- change in pension plan accrual	41,182
---	--------

Liabilities not reported in the governmental fund -- change in post retirement benefits liability	28,218
---	--------

Revenues reported in the statement of activities that increase long-term debt	(30,000)
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Expenses reported in the statement of activities that do not require the use of current financial resources are not reported as expenditures in the governmental funds

Debt principal payments	161,115
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Change in Net Position of governmental activities	\$ 194,235
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See accompanying notes to financial statements.

CITY OF LORETTA, TENNESSEE

Statement of Net Position

Enterprise Funds

June 30, 2022

	Water and Sewer Fund	Natural Gas Fund	Sanitation Fund	Total
Assets and Deferred Outflows				
Current Assets:				
Cash and cash equivalents	\$546,159	\$241,617	\$72,133	859,909
Certificates of Deposit	98,714	0	0	98,714
Customer accounts receivable, net of allowance	82,438	19,859	13,165	115,462
Prepaid assets	2,858	2,043	0	4,901
Due from other funds	4,655	7,632	0	12,287
Inventory	74,485	18,114	0	92,599
Total Current Assets	<u>809,309</u>	<u>289,265</u>	<u>85,298</u>	<u>1,183,872</u>
Capital Assets:				
Capital assets in service	11,200,628	858,487	310,711	12,369,826
Less accumulated depreciation	(5,854,301)	(564,124)	(139,224)	(6,557,649)
Total Capital Assets, Net	<u>5,346,327</u>	<u>294,363</u>	<u>171,487</u>	<u>5,812,177</u>
Net Pension Asset	<u>107,617</u>	<u>84,222</u>	<u>46,790</u>	<u>238,629</u>
Total Assets	<u>\$6,263,253</u>	<u>\$667,850</u>	<u>\$303,575</u>	<u>\$7,234,678</u>
Deferred outflows:				
Deferred outflows of resources - OPEB	3,408	2,667	1,482	7,557
Deferred outflows of resources - pension	73,106	57,214	31,784	162,104
Total Deferred Outflows	<u>\$76,514</u>	<u>\$59,881</u>	<u>\$33,266</u>	<u>\$169,661</u>
Liabilities				
Accounts payable	33,319	17,652	7,614	58,585
Accrued expenses	29,638	33,817	6,344	69,799
Net OPEB Liability	7,317	5,726	3,181	16,224
Due to other funds	7,632	0	0	7,632
Long-term debt due within one year	62,792	32,500	25,400	120,692
Long-term debt due in more than one year	953,271	66,500	134,600	1,154,371
Total Liabilities	<u>1,093,969</u>	<u>156,195</u>	<u>177,139</u>	<u>1,427,303</u>
Deferred Inflows				
Deferred inflow - unspent grant receipts	216,269	0	0	216,269
Deferred inflow of resources - OPEB	6,571	5,143	2,857	14,571
Deferred inflow of resources - pension	93,426	73,116	40,620	207,162
Total Deferred Inflows	<u>316,266</u>	<u>78,259</u>	<u>43,477</u>	<u>438,002</u>
Net Position:				
Net investment in capital assets	4,330,264	195,363	11,487	4,537,114
Restricted - Pension	14,191	11,106	6,170	31,467
Restricted - Debt service	98,714	0	0	98,714
Unrestricted	486,363	286,808	98,568	871,739
Total Net Position	<u>4,929,532</u>	<u>493,277</u>	<u>116,225</u>	<u>5,539,034</u>

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

CITY OF LORETTO, TENNESSEE

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

Enterprise Funds

For the Year Ended June 30, 2022

	Water and Sewer Fund	Natural Gas Fund	Sanitation Fund	Total
Operating Revenues:				
Service fees	\$840,428	\$679,853	\$155,383	\$1,675,664
Tap and connection fees	24,364	4,842	0	29,206
Other income	3,437	4,486	4,946	12,869
Total Operating Revenues	868,229	689,181	160,329	1,717,739
Operating Expenses:				
Salaries	191,634	149,970	70,403	412,007
Payroll taxes	12,313	11,704	5,386	29,403
Employee benefits	25,113	39,637	46	64,796
Training and travel	1,586	2,266	0	3,852
Utilities	160,334	1,910	6,114	168,358
Professional services	4,500	5,736	1,250	11,486
Natural gas purchased	0	305,599	0	305,599
Repair and maintenance	18,369	2,431	15,612	36,412
Supplies	147,205	48,961	19,164	215,330
Office expense	3,102	6,731	688	10,521
Dues, subscriptions and fees	4,707	1,783	0	6,490
Vehicle expense	10,501	6,227	10,284	27,012
Rent	30,000	40,000	0	70,000
Insurance	44,004	14,371	0	58,375
Miscellaneous	2,783	0	0	2,783
Depreciation	296,234	28,935	20,695	345,864
Total Operating Expenses	952,385	666,261	149,642	1,768,288
Operating income (loss)	(84,156)	22,920	10,687	(50,549)
Nonoperating Revenues (Expenses):				
Interest income	2,372	502	0	2,874
Insurance recoveries	27,805	0	0	27,805
Interest expense	(26,420)	(686)	(1,543)	(28,649)
Total Nonoperating Revenues (Expenses)	3,757	(184)	(1,543)	2,030
Capital contributions	82,468	0	0	82,468
Net change in position	2,069	22,736	9,144	33,949
Net Position, July 1, 2021	5,062,075	470,541	107,081	5,639,697
Restatement	(134,612)	0	0	(134,612)
Net Position, as restated July 1, 2021	4,927,463	470,541	107,081	5,505,085
Net Position, June 30, 2022	\$4,929,532	\$493,277	\$116,225	\$5,539,034

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

CITY OF LORETTA, TENNESSEE

Statement of Cash Flows

Proprietary Fund Types

For the Year Ended June 30, 2022

	<u>Water and Sewer Fund</u>	<u>Natural Gas Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
Cash Flows from Operating Activities:				
Cash received from customers	905,848	686,039	162,358	1,754,245
Cash paid to suppliers	(199,393)	(444,749)	(61,524)	(705,666)
Cash paid to employees	(229,060)	(201,311)	(75,835)	(506,206)
Net Cash Provided (Used) by Operating Activities	<u>477,395</u>	<u>39,979</u>	<u>24,999</u>	<u>542,373</u>
Cash Flows from Capital and Related Financing Activities:				
Acquisition of capital assets	(282,365)	0	(165,567)	(447,932)
Capital contributions	82,468	0	0	82,468
Interest paid	(26,420)	(686)	(1,543)	(28,649)
Loan proceeds	553,187	99,000	160,000	812,187
Repayment of debt	(576,265)	0	0	(576,265)
Net Cash Provided (Used) by Capital and Financing Activities	<u>(249,395)</u>	<u>98,314</u>	<u>(7,110)</u>	<u>(158,191)</u>
Cash Flows from Investing Activities:				
Redemption (purchase) of certificate of deposit	(77)	109,328	0	109,251
Interest received	2,372	502	0	2,874
Net Cash Flows from Investing Activities	<u>2,372</u>	<u>502</u>	<u>0</u>	<u>2,874</u>
Net Change in Cash	<u>230,372</u>	<u>138,795</u>	<u>17,889</u>	<u>387,056</u>
Cash and Cash Equivalents, July 1, 2021	315,787	102,822	54,244	472,853
Cash and Cash Equivalents, June 30, 2022	<u>546,159</u>	<u>241,617</u>	<u>72,133</u>	<u>859,909</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities				
Operating income (loss)	(84,156)	22,920	10,687	(50,549)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation	296,234	28,935	20,695	345,864
Insurance proceeds	27,805	0	0	27,805
Change in assets (increase) decrease:				
Receivables	75,221	(3,142)	2,029	74,108
Inventory	(7,628)	(1,631)	0	(9,259)
Due from other funds	(4,655)	0	0	(4,655)
Prepaid assets	(23,614)	(2,043)	0	(25,657)
Deferred outflows	(53,932)	(40,875)	(22,848)	(117,655)
Net pension asset	(55,540)	(43,619)	(24,276)	(123,435)
Change in liabilities increase (decrease):				
Total OPEB liability	7,317	5,726	3,181	16,224
Accounts payable	24,243	45,474	6,734	76,451
Accrued expenses	(15,358)	13,745	0	(1,613)
Due to other funds	(12,863)	(13,022)	(9,516)	(35,401)
Deferred inflows	304,321	27,511	38,313	331,832
Net Cash Provided (Used) by Operating Activities	<u>477,395</u>	<u>39,979</u>	<u>24,999</u>	<u>542,373</u>

See accompanying notes to the financial statements.

CITY OF LORETTA, TENNESSEE

**Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget (GAAP Basis) and Actual**

General Fund

For the Year Ended June 30, 2022

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Taxes:				
Property taxes	\$112,500	\$112,500	\$108,363	(4,137)
Public utility taxes	27,000	27,000	6,050	(20,950)
Local sales tax	505,000	505,000	604,961	99,961
Local beer and liquor tax	113,000	113,000	110,781	(2,219)
Mixed drink tax	2,500	2,500	3,226	726
Franchise taxes	18,000	18,000	16,445	(1,555)
Business taxes	43,000	43,000	54,208	11,208
Total Taxes	<u>821,000</u>	<u>821,000</u>	<u>904,034</u>	<u>83,034</u>
Intergovernmental:				
TVA in lieu	0	0	18,056	18,056
State sales tax	168,000	168,000	198,844	30,844
State beer tax	0	0	794	794
State income tax	1,000	1,000	864	(136)
State special petroleum tax	3,500	3,500	3,242	(258)
Grants	0	0	56,810	56,810
Corporate excise tax	0	0	283	283
Total Intergovernmental Revenue	<u>172,500</u>	<u>172,500</u>	<u>278,893</u>	<u>106,393</u>
Fines and fees:				
Swimming pool	40,000	40,000	60,749	20,749
Police fines	40,000	40,000	16,526	(23,474)
Parks and recreation	70,500	70,500	37,930	(32,570)
Other fines and fees	3,000	3,000	2,004	(996)
Total Fines and Fees	<u>153,500</u>	<u>153,500</u>	<u>117,209</u>	<u>(36,291)</u>
Miscellaneous:				
Rent	80,000	80,000	71,000	(9,000)
Insurance recoveries	0	0	5,448	5,448
Street maintenance contracts	0	0	8,139	8,139
Donations	0	0	9,300	9,300
Sale of assets	0	0	19,542	19,542
Miscellaneous	10,500	10,500	431	(10,069)
Total Miscellaneous Revenue	<u>90,500</u>	<u>90,500</u>	<u>113,860</u>	<u>23,360</u>
Total Revenues	<u>1,237,500</u>	<u>1,237,500</u>	<u>1,413,996</u>	<u>176,496</u>

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

CITY OF LORETTO, TENNESSEE
Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget (GAAP Basis) and Actual, Continued
General Fund
For the Year Ended June 30, 2022

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Expenditures:				
General Government:				
Current:				
Salaries	116,120	116,120	132,808	(16,688)
Payroll taxes	8,500	8,500	9,249	(749)
Employee benefits	23,000	23,000	13,746	9,254
Utilities	17,000	17,000	16,059	941
Professional services	14,500	14,500	44,735	(30,235)
Office supplies	2,500	2,500	3,428	(928)
Supplies	23,500	23,500	29,525	(6,025)
Public relation	12,000	12,000	11,775	225
Travel and training	4,000	4,000	8,050	(4,050)
Insurance	5,500	5,500	2,476	3,024
Dues and subscriptions	3,500	3,500	3,063	437
Repair and maintenance	0	0	39,449	(39,449)
Donations	15,000	15,000	5,000	10,000
Miscellaneous	500	500	0	500
	<u>245,620</u>	<u>245,620</u>	<u>319,363</u>	<u>(73,743)</u>
Debt service	98,550	98,550	116,123	(17,573)
Capital outlay	0	0	22,000	(22,000)
Total General Government	<u>344,170</u>	<u>344,170</u>	<u>457,486</u>	<u>(113,316)</u>
Public Safety:				
Police Department:				
Current:				
Salaries	235,000	235,000	262,680	(27,680)
Payroll taxes	18,000	18,000	17,600	400
Employee benefits	47,000	47,000	84,312	(37,312)
Training and travel	0	0	371	(371)
Insurance	20,000	20,000	19,998	2
Vehicle expense	12,500	12,500	16,757	(4,257)
Supplies	51,000	51,000	50,925	75
Miscellaneous	0	0	0	0
	<u>383,500</u>	<u>383,500</u>	<u>452,643</u>	<u>(69,143)</u>
Capital outlay	0	0	0	0
Total Police Department	<u>383,500</u>	<u>383,500</u>	<u>452,643</u>	<u>(69,143)</u>
Fire Department:				
Current:				
Salaries	14,000	14,000	0	14,000
Supplies	29,000	29,000	42,210	(13,210)
Insurance	7,500	7,500	8,272	(772)
Miscellaneous	0	0	0	0
	<u>50,500</u>	<u>50,500</u>	<u>50,482</u>	<u>18</u>
Debt service	28,650	28,650	28,648	2
Total Fire Department	<u>79,150</u>	<u>79,150</u>	<u>79,130</u>	<u>20</u>
Total Public Safety	<u>462,650</u>	<u>462,650</u>	<u>531,773</u>	<u>(69,123)</u>

Notes accompanying the financial statements are an integral part of these financial statements.

CITY OF LORETTA, TENNESSEE

**Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget (GAAP Basis) and Actual, Continued**

General Fund

For the Year Ended June 30, 2022

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Public Works:				
Street lighting	55,000	55,000	60,706	(5,706)
Maintenance and supplies	0	0	839	(839)
	<u>55,000</u>	<u>55,000</u>	<u>61,545</u>	<u>(6,545)</u>
Capital outlay	0	0	0	0
Total Public Works	55,000	55,000	61,545	(6,545)
 Swimming Pool:				
Salaries	28,000	28,000	40,662	(12,662)
Payroll taxes	1,680	1,680	2,584	(904)
Employee benefits	0	0	70	(70)
Park facilities	0	0	6,637	(6,637)
Materials and supplies	17,500	17,500	9,134	8,366
Miscellaneous	0	0	0	0
	<u>47,180</u>	<u>47,180</u>	<u>59,087</u>	<u>(11,907)</u>
Capital outlay	0	0	0	0
Total Swimming Pool	47,180	47,180	59,087	(11,907)

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

CITY OF LORETTO, TENNESSEE

**Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget (GAAP Basis) and Actual, Continued**

General Fund

For the Year Ended June 30, 2022

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Parks and Recreation:				
Salaries	63,000	63,000	59,558	3,442
Payroll taxes	4,820	4,820	4,001	819
Employee benefits	13,500	13,500	16,984	(3,484)
Vehicle expense	3,000	3,000	4,179	(1,179)
Insurance	14,000	14,000	18,412	(4,412)
Training and travel	0	0	1,421	(1,421)
Materials and supplies	87,500	87,500	83,910	3,590
Utilities	54,800	54,800	61,977	(7,177)
Miscellaneous	0	0	0	0
	<u>240,620</u>	<u>240,620</u>	<u>250,442</u>	<u>(9,822)</u>
Capital outlay	445,000	445,000	72,883	372,117
Debt service	38,375	38,375	38,377	(2)
Total Parks and Recreation	<u>723,995</u>	<u>723,995</u>	<u>361,702</u>	<u>362,293</u>
Library:				
Utilities	2,500	2,500	2,681	(181)
Supplies	1,500	1,500	195	1,305
Insurance	400	400	677	(277)
	<u>4,400</u>	<u>4,400</u>	<u>3,553</u>	<u>847</u>
Capital outlay	0	0	0	0
Total Library	<u>4,400</u>	<u>4,400</u>	<u>3,553</u>	<u>847</u>
Total Expenditures	<u>1,637,395</u>	<u>1,637,395</u>	<u>1,475,146</u>	<u>162,249</u>
Excess (deficiency) of Revenues over Expenditures	<u>(399,895)</u>	<u>(399,895)</u>	<u>(61,150)</u>	<u>338,745</u>
Other financing sources: loan proceeds	<u>445,500</u>	<u>445,000</u>	<u>30,000</u>	<u>(415,000)</u>
Net change in fund balance	<u>45,605</u>	<u>45,105</u>	<u>(31,150)</u>	<u>(76,255)</u>
Fund Balance, July 1, 2021	<u>349,341</u>	<u>349,341</u>	<u>349,341</u>	<u>0</u>
Fund Balance, June 30, 2022	<u>394,946</u>	<u>394,446</u>	<u>318,191</u>	<u>(76,255)</u>

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

CITY OF LORETO, TENNESSEE

**Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual**

State Street Aid Fund

For the Year Ended June 30, 2022

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Intergovernmental:				
Gasoline .03 tax	7,120	7,120	9,147	2,027
Gasoline 1989 tax	2,605	2,605	4,937	2,332
Gasoline 2017 tax	15,275	15,275	17,160	1,885
Gasoline and motor fuel	<u>34,000</u>	<u>34,000</u>	<u>37,037</u>	<u>3,037</u>
Total Revenues	<u>59,000</u>	<u>59,000</u>	<u>68,281</u>	<u>9,281</u>
Expenditures:				
Streets:				
Street lights	59,000	59,000	0	59,000
Maintenance and repair	0	0	0	0
Capital Outlay	0	0	0	0
Total Expenditures	<u>59,000</u>	<u>59,000</u>	<u>0</u>	<u>59,000</u>
Excess (deficiency) of revenues over expenditures	0	0	68,281	68,281
Fund Balance, July 1, 2021	<u>62,361</u>	<u>62,361</u>	<u>62,361</u>	<u>-</u>
Fund Balance, June 30, 2022	<u>\$62,361</u>	<u>\$62,361</u>	<u>130,642</u>	<u>68,281</u>

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

NOTES TO THE FINANCIAL STATEMENTS

CITY OF LORETTO, TENNESSEE

Notes to Financial Statements

June 30, 2022

(1) Summary of Significant Accounting Policies

The City of Loretto, Tennessee (“the City”) was incorporated under Chapter 26 Provisions of House Bill No. 79 of 1985 as amended. The City operates under a Mayor and Board of Aldermen form of government and provides the following services as authorized by its charter: public safety (police, fire, and street lighting), highways and streets, water and sewer, natural gas, sanitation, culture-recreation, public improvements, planning and zoning, and general administrative services.

Reporting Entity:

In evaluating the City as a reporting entity, management follows all applicable GASB statements and has addressed all potential component units (traditionally separate reporting entities) for which the City may be financially accountable and, as such, should be included within the City's financial statements. The City (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefit or to impose specific financial burden on the City. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The City has no component units at yearend.

The financial statements now include government-wide financial statements prepared on the accrual basis of accounting and the economic measurement focus for all funds. The fund financial statements present information for individual major funds rather than by fund type. Nonmajor funds are presented in one column. The reporting includes the reporting of capital assets, infrastructure and depreciation, the elimination of account groups, and the inclusion of management's discussion and analysis.

The government-wide financial statements present the City's programs between business-type and governmental activities.

Government - Wide and Fund Financial Statements

The Government-wide financial statements, the statement of Net Position and the statement of changes in Net Position, report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of the interfund activity has been removed from these statements. Government activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

CITY OF LORETO, TENNESSEE

Notes to Financial Statements

June 30, 2022

(1) Summary of Significant Accounting Policies, Continued

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (i) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and (ii) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund revenues are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they become both measurable and collectable within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers property taxes and most governmental revenues as available if received within 45 days of yearend. Expenditures are recorded generally when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

Property taxes, state shared revenues, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period using the criteria specified in the paragraph above. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major funds:

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources of the general government except those required to be accounted for in another fund.

State Street Aid Fund - The State Street Aid Fund is used to account for the operations of the state shared gasoline revenues.

CITY OF LORETTA, TENNESSEE

Notes to Financial Statements

June 30, 2022

(1) Summary of Significant Accounting Policies, Continued

The government reports the following major proprietary funds:

Water and Sewer Fund - This fund accounts for the activities of the water and sewer department, which operates and maintains a water distribution system for residents and businesses on a user charge basis. All activities necessary to provide this service are accounted for in such a manner as to show a profit or loss similar to comparable private enterprises.

Natural Gas System Fund - This fund accounts for the activities of the natural gas department, which operates and maintains a gas system for residents and businesses on a user charge basis. All activities necessary to provide this service are accounted for in such a manner as to show a profit or loss similar to comparable private enterprises.

Sanitation Fund – This fund accounts for the activities of the sanitation department, which picks up garbage for residents and businesses on a user charge basis. All activities necessary to provide this service are accounted for in such a manner as to show a profit or loss similar to comparable private enterprises.

The Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments- in-lieu taxes and other charges between the government's utilities and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include (i) charges to customers or applicants for goods, services, or privileges provided, (ii) operating grants and contributions, and (iii) capital grants and contributions. General revenues include all taxes and internally dedicated resources.

Proprietary funds distinguish 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 various utility funds are charges to customers for sales and services. The Utility Fund also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds 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 non-operating revenues and expenses.

CITY OF LORETTO, TENNESSEE

Notes to Financial Statements

June 30, 2022

(1) Summary of Significant Accounting Policies, Continued

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. When unrestricted funds are used, the City uses committed, assigned then unassigned funds.

Receivables and Payables

Activity between funds that are representative of lending/ borrowing arrangements outstanding at the end of the fiscal year are referred to as either due from/ due to other funds (i.e. the current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available resources. All trade receivables are shown net of an allowance for uncollectible, if applicable.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government has two items (pension and OPEB) that qualifies for reporting in this category.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has items that qualify for reporting in this category. Accordingly, the items are reported in the government-wide Statement of Net Position and the governmental funds balance sheet. These revenues are from the following sources: current and delinquent property taxes and various receivables for intergovernmental shared revenues, which do not meet the availability criteria in governmental funds. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Additionally, the government has three items (pension, OPEB and unspent grant funds) that qualifies for reporting in this category.

Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

CITY OF LORETO, TENNESSEE

Notes to Financial Statements

June 30, 2022

(1) Summary of Significant Accounting Policies, Continued

Property Tax

The City's property tax is levied each July 1 on the assessed value listed as of the prior January 1 for all real and personal property located in the City's legal boundaries. All City taxes on real estate are declared to be a lien on such realty from January 1 of the year assessments are made.

Assessed values are established by the State of Tennessee at the following rates of appraised market value:

Public Utility Property	55%
Industrial and Commercial Property	
- Real	40%
- Personal	30%
Farm and Residential Property	25%

Taxes were levied at a rate of \$0.40 per \$100 of assessed valuation for the fiscal year ended June 30, 2022. Payments may be made during the period from July 1 through November 1. Current tax collections of \$104,580 for the fiscal year ended June 30, 2022 were approximately 94 percent of the tax levy. Delinquent taxes are turned over to the County for collection as required by the City's Municipal Code.

Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets consisting of certain improvements other than buildings, including roads, bridges, streets and sidewalks, and drainage systems are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an individual cost of \$500 and an estimated useful life in excess of three years. All capital assets are valued at historical cost or estimated useful life in excess of three years. All capital assets are valued at historical cost or estimated historical cost, if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Depreciation is provided over the estimated useful lives using the straight-line method.

The estimated useful lives are as follows:

Buildings	25-45 years
Improvements	10-30 years
Equipment	5-10 years

CITY OF LORETTO, TENNESSEE

Notes to Financial Statements

June 30, 2022

(1) Summary of Significant Accounting Policies, Continued

Inventory

Inventory of the Utility funds is valued at cost, using the first in first out method. Inventory of all the governmental funds consists of expendable supplies held for consumption and are recorded at cost under the consumption method.

Compensated Absences

The City's policy permits employees to accumulate earned but unused annual (vacation) leave and sick days. Annual leave days may accumulate to a maximum of 20 days over the term of employment. Sick days may accumulate to a maximum of 90 days over the term of employment. During the first year of employment, five vacation days are earned, after the first year ten vacation days are earned per year, and after ten years of employment fifteen vacation days are earned each year. Twelve sick days are earned each year. Upon termination, employees receive payment for accumulated annual leave days. Compensated absences will be liquidated with expendable financial resources.

The City has accrued a liability for unused sick and vacation pay which is earned, but not taken by City employees.

	Balance July 1, 2021	Addi- tions	Retire- ments	Balance June 30, 2022
Governmental activities	22,681	7,480	-	30,161
Business-type activities	20,044	44,898	-	64,942

Estimates

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

Pension

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 Loretto's participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System (TCRS), and additions to/deductions from Loretto's fiduciary net position have been determined on the same basis as they are reported by the TCRS for the Public Employee Retirement Plan. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Public Employee Retirement Plan of TCRS. Investments are reported at fair value.

CITY OF LORETO, TENNESSEE

Notes to Financial Statements

June 30, 2022

(1) Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of savings accounts, certificates of deposit with original maturities three months or less.

Restricted Assets

Certain proceeds of the Enterprise fund loans, as well as certain resources set aside for their repayment, are classified as restricted assets on their respective balance sheets because they are maintained in separate bank accounts and their use is either limited by applicable bond covenants or represent proceeds from bond issues that are restricted for use in construction.

Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of Net Position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds and are presented in the accompanying financial statements as other assets.

In the fund, financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Government Wide – Net Position

Net position is a component of equity and is displayed in the following three components:

Net Investment in Capital Assets – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds that are attributable to the acquisition, construction, or improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination.

Restricted – Consists of net position for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations, and enabling legislation, including self-imposed legal mandates, less any related liabilities. The restrictions are evident from the classification titles.

Unrestricted – All other net position that does not meet the description of the above categories.

CITY OF LORETTA, TENNESSEE

Notes to Financial Statements

June 30, 2022

(1) Summary of Significant Accounting Policies, Continued

Fund Balance

The City implemented GASB 54 which addresses issues related to how fund balances are reported. Fund balances are now reported in the following manner:

Nonspendable Fund Balance - This classification includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes terms that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term notes receivable.

Restricted Fund Balance - This classification includes amounts that are restricted for specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted with the consent of resource providers.

Committed Fund Balance - This classification includes amounts that can only be used for the specific purposes determined by a formal action of the City’s highest level of decision-making authority, the City Council of the City of Loretto, Tennessee. Commitments may be changed or lifted only by the City taking the same formal action that imposed the constraint originally (for example: ordinance).

Assigned Fund Balance - This classification included amounts intended to be used by the City for specific purposes that are neither restricted nor committed. The City Council and its designee, the Recorder, have the authority to assign amounts to be used for specific purposes. Assigned amounts also include all residual amounts in governmental funds (except negative amounts) that are not classified as nonspendable, restricted, or committed.

Unassigned Fund Balance - This fund balance is the residual classification for the general fund. It is also used to report negative fund balances in other governmental funds.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, assigned, and unassigned.

Other Post-Employment Benefit Plan- (OPEB)

For the purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to other postemployment benefits, and OPEB expense, information about the fiduciary net position of the City of Loretto’s participation in the Local Government OPEB Plan (LGOP), and additions to/deductions from the City of Loretto fiduciary net position have been determined on the same basis as they are reported by the LGOP. For this purpose, benefits are recognized when due and payable in accordance with benefit terms of the LGOP.

CITY OF LORETTA, TENNESSEE

Notes to Financial Statements

June 30, 2022

(1) Summary of Significant Accounting Policies, Continued

Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Formal budgets are adopted and approved by Council vote on an annual basis for the General and Special Revenue Funds. These budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
- b. The City Council approves, by ordinance, total budget appropriations by department only. The Mayor is authorized to transfer budget amounts between line items within each department; however, any revisions that alter the total appropriations of any fund must be approved by the City Council.
- c. The budget amounts shown in the financial statements are the final authorized amounts as amended during the year.

(2) Cash and Cash Equivalents

The City is authorized to invest funds in Federal treasury bills and notes, State of Tennessee Local Government Investment Pool and financial institution demand deposit accounts and certificates of deposit. During the year, the City invested funds that were not immediately needed in certificates of deposits, savings accounts and investments in the State of Tennessee Local Government Investment Pool. The City has deposit policies to minimize custodial credit risks. All deposits with financial institutions must be secured by one of two methods. One method involves financial institutions that participate in the bank collateral pool administered by the state treasurer. Participating banks determine the aggregate balance of their public fund accounts for the State of Tennessee and its political subdivisions. The amount of collateral required to secure these public deposits must equal at least 105 percent of the average daily balance of public deposits held. Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the state treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in the aggregate rather than against each account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

For deposits with financial institutions that do not participate in the bank collateral pool, state statutes require that all deposits be collateralized with collateral whose market value is equal to 105 percent of the uninsured amount of the deposits. The collateral must be placed by the depository bank in an escrow account in a second bank for the benefit of the city. The City's deposits with financial institutions are fully insured or collateralized by securities held by the depository bank in the government's name. Additionally, the deposit accounts are covered by the Federal Depository Insurance Coverage.

CITY OF LORETO, TENNESSEE

Notes to Financial Statements

June 30, 2022

(3) Accounts Receivable

Accounts receivable at June 30, 2022, consist of the following:

<u>Fund</u>	<u>Other</u> <u>Government</u>	<u>Property</u> <u>Taxes</u>	<u>Customer</u> <u>Accounts</u>	<u>Total</u>
General Fund	\$ 81,085	148,361	-	229,446
Special Revenue Funds	5,339	-	-	5,339
Enterprise Funds	-	-	125,292	125,292
Less allowance for doubtful accounts	-	-	(9,830)	(9,830)
Total	<u>\$ 86,424</u>	<u>148,361</u>	<u>115,462</u>	<u>350,247</u>

(4) Capital Assets

A summary of changes in general capital assets as presented in the governmental activities column of the government-wide financial statements is as follows:

	Balance			Balance June 30, 2022
	July 1, 2021	Additions	Disposals	
Land	\$150,185	22,000	0	172,185
Buildings	812,510	72,883	0	885,393
Improvements	1,917,053	0	0	1,917,053
Equipment	<u>1,138,006</u>	<u>0</u>	<u>333,340</u>	<u>804,666</u>
Total	<u>4,017,754</u>	<u>94,883</u>	<u>333,340</u>	<u>3,779,297</u>
Less Accumulated Depreciation	<u>2,175,893</u>			<u>2,000,367</u>
Net capital assets in service	<u><u>\$1,841,861</u></u>			<u><u>\$1,778,930</u></u>

All assets, except land of \$172,185, are being depreciated.

Depreciation expense was charged to functions/programs of the primary government as follows:

General Fund:

General government administration	\$ 33,547
Police department	11,306
Fire department	22,616
Parks and Recreation	<u>63,345</u>
Total	<u>130,814</u>

CITY OF LORETO, TENNESSEE

Notes to Financial Statements

June 30, 2022

(4) Capital Assets, Continued

A summary of changes in Enterprise (Water and Sewer) Fund capital assets and related accumulated depreciation follows:

	Balance July 1, 2021	Additions	Disposals	Balance June 30, 2022
Land	\$69,200	0	0	69,200
Improvements	840	0	840	0
Construction in progress	617,923	23,374	617,923	23,374
Utility plant	10,143,306	862,981	0	11,006,287
Equipment	<u>178,563</u>	<u>13,933</u>	<u>90,729</u>	<u>101,767</u>
Total	11,009,832	<u>900,288</u>	<u>709,492</u>	11,200,628
 Less Accumulated Depreciation	 <u>5,558,066</u>			 <u>5,854,301</u>
 Net capital assets in service	 <u>\$5,451,766</u>			 <u>\$5,346,327</u>

All assets, except land and easements of \$69,200 and Construction in Progress of \$23,374 are being depreciated. Depreciation expense was \$296,234 in 2022.

A summary of changes in Enterprise (Gas) Fund capital assets and related accumulated depreciation follows:

	Balance July 1, 2021	Additions	Disposals	Balance June 30, 2022
Land and easement	\$43,309	25,000	0	68,309
Utility plant	498,215	59,379	0	557,594
Equipment	<u>505,754</u>	<u>68,644</u>	<u>341,814</u>	<u>232,584</u>
Total	1,047,278	<u>153,023</u>	<u>341,814</u>	858,487
 Less Accumulated Depreciation	 <u>856,780</u>			 <u>564,124</u>
 Net capital assets in service	 <u>\$190,498</u>			 <u>\$294,363</u>

All assets, except land of \$68,309, are being depreciated. Depreciation expense was \$28,935 in 2022.

CITY OF LORETO, TENNESSEE

Notes to Financial Statements

June 30, 2022

(4) Capital Assets, Continued

A summary of changes in Solid Waste capital assets and related accumulated depreciation follows:

	Balance July 1, 2021	Additions	Retirements	Balance June 30, 2022
Equipment	<u>193,907</u>	<u>165,567</u>	<u>48,763</u>	<u>310,711</u>
Less accumulated Depreciation	<u>(163,153)</u>			<u>(139,224)</u>
Net plant in service	<u>\$ 30,754</u>			<u>171,487</u>

All asset, are being depreciated. Depreciation expense was \$20,695 for the year ended June 30, 2022.

(5) Long-Term Debt Payable and Other Obligations Payable

Direct Borrowings

The following schedule reflects the changes in long-term debt, as shown for governmental activities during the fiscal year 2022.

	Balance July 1, 2021	Additions	Retirements	Balance June 30, 2022
Sidewalk loan-1	100,000	0	20,000	80,000
Capstar-2	123,853	0	20,960	102,893
Bank of Waynesboro-3	69,239	0	37,249	31,990
Bond-4	289,000	0	38,000	251,000
State Bank-5	31,428	0	10,594	20,834
State Bank-6	16,374	0	7,711	8,663
State Bank-7	<u>156,748</u>	<u>0</u>	<u>26,601</u>	<u>130,147</u>
Total	<u>783,642</u>	<u>0</u>	<u>161,115</u>	<u>625,527</u>

Additionally. There is a loan in the funding status with a balance of \$30,000.

Sidewalk loan -1: \$123,853 principal paid annually \$27,677, interest at 2.93%, proceeds used for the construction of sidewalks.

Capstar loan – 2: \$100,000 principal paid annually \$20,000, interest at 1.69%. proceeds used for capital asset purchases.

Bank of Waynesboro -3: \$250,000 principal paid in monthly installments at \$3,198, at an interest rate of 2.05%, proceeds used for capital asset purchases.

CITY OF LORETTA, TENNESSEE

Notes to Financial Statements

June 30, 2022

(5) Long-Term Debt Payable and Other Obligations Payable, Continued

Bond - 4 \$289,000 principal paid annually, with an interest rate of 2.790%, proceeds used to purchase capital assets.

State Bank - 5 \$33,080 principal paid in monthly installments of \$993, with an interest rate of 3.968%, proceeds used to purchase capital assets.

State Bank - 6 \$23,243 principal paid in monthly installments of \$680, with an interest rate of 2.888%, proceeds used to purchase capital assets.

State Bank - 7 \$79,000 payable in annual installments of \$27,648, with an interest rate of 3.230%, proceeds used to purchase capital assets.

Interim Loan - \$1,000,000 available, \$30,000 borrowed as of June 30, 2022.

The following schedule reflects the changes in long-term debt, as shown in the Enterprise (Water and Sewer) Fund during the fiscal year 2022.

	Balance July 1, 2021	Balance Additions	Balance Retirement	Balance June 30, 2022
Series 2021	0	553,187	0	553,187
USDA 1995	389,167	0	389,167	0
USDA 1995A	164,801	0	164,801	0
Series 2017	485,173	0	22,297	462,876
Total	1,039,141	553,187	576,265	1,016,063

CITY OF LORETTA, TENNESSEE

Notes to Financial Statements

June 30, 2022

(5) Long-Term Debt Payable and Other Obligations Payable, Continued

The following schedule reflects the changes in long-term debt, as shown in the Enterprise (Natural Gas) Fund during the fiscal year 2022.

	<u>Balance</u> <u>July 1, 2021</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2022</u>
Bank loan	0	99,000	0	99,000
Total	0	99,000	0	99,000

The following schedule reflects the changes in long-term debt, as shown in the Enterprise (Sanitation) Fund during the fiscal year 2022.

	<u>Balance</u> <u>July 1, 2021</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2022</u>
Bank loan	0	160,000	0	160,000
Total	0	160,000	0	160,000

Principal and interest requirements to maturity on all outstanding bonds, loans and obligations as of June 30, 2022, are as follows:

Year Ending	<u>General Obligation</u>	
	<u>Principal</u>	<u>Interest</u>
June 30,		
2023	159,143	16,603
2024	120,960	12,768
2025	113,167	9,698
2026	115,520	6,834
2027	71,737	3,436
2028	40,000	1,221
Total	625,527	50,560

Additionally, the City has an interim loan of \$30,000, which is not included above.

CITY OF LORETO, TENNESSEE

Notes to Financial Statements

June 30, 2022

(5) Long-Term Debt Payable and Other Obligations Payable, Continued

Year Ending <u>June 30,</u>	Water and Sewer Fund		Natural Gas Fund	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2023	62,792	23,790	32,500	1,323
2024	64,324	21,545	33,000	974
2025	65,953	19,514	33,500	493
2026	67,496	17,666		
2027	69,151	15,975		
2028-2033	372,222	56,768		
2032-2037	253,509	19,111		
2038-2039	<u>60,616</u>	<u>2,009</u>		
Total	<u>1,016,063</u>	<u>176,378</u>	<u>99,000</u>	<u>2,790</u>

The above bonds payable contain provisions that in the event of default, the lender can use any remedy allowed by state or federal law.

Principal and interest requirements to maturity on all outstanding bonds, loans and obligations as of June 30, 2021, are as follows:

Year Ending <u>June 30,</u>	Sanitation Fund	
	<u>Principal</u>	<u>Interest</u>
2023	25,400	3,103
2024	25,900	2,625
2025	26,400	2,120
2026	26,900	1,605
2027	27,400	1,080
2028	<u>28,000</u>	<u>546</u>
Total	<u>160,000</u>	<u>11,079</u>

CITY OF LORETTO, TENNESSEE

Notes to Financial Statements

June 30, 2022

(6) Pension Plan

General Information about the Pension Plan

Plan description. Employees of Loretto 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 <http://treasury.tn.gov/Retirement/Boards-and-Governance/Reporting-and-Investment-Policies>.

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

Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent. 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, 2021, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	8
Inactive employees entitled to but not yet receiving benefits	13
Active employees	<u>16</u>
Total	<u>37</u>

CITY OF LORETTA, TENNESSEE

Notes to Financial Statements

June 30, 2022

(6) Pension Plan, Continued

Contributions. Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5 percent of salary. Loretto makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2022, employer contributions for Loretto were (\$59,968) based on a rate of (3.00%) percent of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept Loretto's state shared taxes if required employer contributions are not remitted. The employers actuarially determined contribution (ADC) and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Liability (Asset)

Loretto's net pension liability (asset) was measured as of June 30, 2021, 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, 2021, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used in the June 30, 2021 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.

Changes of assumptions: In 2021, the following assumptions were changed: decreased inflation rate from 2.50 percent to 2.25 percent; decreased the investment rate of return from 7.25 percent to 6.75 percent; decreased the cost-of-living adjustment from 2.25 percent to 2.125 percent; and modified mortality assumptions.

CITY OF LORETTA, TENNESSEE

Notes to Financial Statements

June 30, 2022

(6) Pension Plan, Continued

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 by return by the target asset allocation percentage and by adding expected inflation of 2.25 percent. The best-estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major asset class are summarized in the following table:

<i>Asset class</i>	<i>Long-term Expected Real Rate of Return</i>	<i>Target Allocation</i>
U.S. equity	4.88%	31%
Developed market international equity	5.37%	14%
Emerging market 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%	<u>1%</u>
Total		<u>100%</u>

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

Discount rate. The discount rate used to measure the total pension liability was 6.75 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from Loretto 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.

CITY OF LORETTA, TENNESSEE

Notes to Financial Statements

June 30, 2022

(6) Pension, Continued

Changes in the Net Pension Liability (Asset)

	Total Pension Liability (Asset)	Increase (Decrease) Plan Fiduciary Net Position	Net Pension Liability (Asset)
	(a)	(b)	(a) - (b)
Balance at 6/30/20	\$2,341,161	\$2,569,267	(228,106)
Changes for the Year:			
Service Cost	48,947	-	48,947
Interest	169,804	-	169,804
Differences between expected and actual experience	(21,317)	-	(21,317)
Changes in Benefit Terms	-	-	-
Changes in assumptions	271,265	-	271,265
Contributions-employer	-	19,846	(19,846)
Contributions-employees	-	33,076	(33,076)
Net investment income	-	657,049	(657,049)
Benefit payments, including refunds of employee contributions	(95,957)	(95,957)	-
Administrative expense	-	(1,480)	1,480
Other changes	-	-	-
Net changes	372,742	612,534	(239,792)
Balance at 6/30/21	\$2,713,903	\$3,181,801	\$(467,898)

Sensitivity of the net pension liability (asset) to changes in the discount rate. The following presents the net pension liability (asset) of Loretto calculated using the discount rate of 6.75 percent, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (7.75 percent) than the current rate:

	1% Decrease (<u>5.75%</u>)	Current Discount Rate (<u>6.75%</u>)	1% Increase (<u>7.75%</u>)
Loretto's net pension Liability (asset)	(99,073)	(467,898)	(774,827)

CITY OF LORETTO, TENNESSEE

Notes to Financial Statements

June 30, 2022

(6) Pension, Continued

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

Pension expense. For the year ended June 30, 2022, Loretto recognized pension expense of \$53,056.

Deferred outflows of resources and deferred inflows of resources. For the year ended June 30, 2022, Loretto reported deferred outflows or 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>
Differences between expected and		
Actual experience	16,104	55,746
Net difference between projected and		
Actual earning on pension plan		
Investments	-	350,455
Changes in assumptions	241,781	-
Contributions subsequent to the		
Measurement date of June 30, 2021	<u>59,968</u>	<u>-</u>
Total	<u>317,853</u>	<u>406,201</u>

The amounts shown above for 'Contributions subsequent to the measurement date of June 30, 2021', will be recognized as a reduction (increase) to net position liability (asset) in the following measurement period.

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

Year Ended June 30:

2023	(41,837)
2024	(46,700)
2025	(43,964)
2026	(57,471)
2027	41,658

Thereafter

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

CITY OF LORETTA, TENNESSEE

Notes to Financial Statements

June 30, 2022

(7) Other Postemployment Benefits For Retiree Health Insurance

Plan description – Employees of the City, who were hired prior to July 1, 2015, are provided with pre-65 retiree health insurance benefits through the closed Local Government OEB Plan (LGOP) administered by the Tennessee Department of Finance and Administration. This plan is considered to be multiple-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB). However, for accounting purposes, this plan will be treated as a single-employer plan. All eligible pre-65 retired employees and disability participants of local governments, who chose coverage, participate in the LGOP.

Benefits provided -The City offers the LGOP to provide health insurance coverage to eligible pre-65 retirees and disabled participants of local governments. Insurance coverage is the only postemployment benefit provided to retirees. An insurance committee created in accordance with TCA 8-27-701 establishes and amends the benefit terms of the LGOP. All members have the option of choosing between the premier preferred provider organization (PPO), standard PPO, limited PPO or the wellness health-savings consumer-driven health plan (CDHP) for healthcare benefits. Retired plan members, of the LGOP, receives the same plan benefits as active employees, at a blended premium rate that considers the cost of all participants. This creates an implicit subsidy for retirees. Participating employers determine their own policy related to direct subsidies provided for the retiree premiums. The City does not directly subsidize and are only subject to the implicit. The LGOP is funded on a pay-as-you-go basis and there are no assets accumulating in a trust that meets the criteria of paragraph 4 of GASB Statement NO. 75.

Employees covered by benefit terms. At July 1, 2021, the following employees were covered by the benefit terms of the LGOP:

Inactive employees or beneficiaries currently receiving benefits	1
Inactive employees entitled to but not yet receiving benefits	0
Active employees	<u>17</u>
Total	<u>18</u>

An insurance committee, created in accordance with TCA 8-27-701, establishes the required payments to the LGOP by member employers and employees through the blended premiums established for active and retired employees. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to established premium rates. For the fiscal year ended June 30, 2022, the City paid \$4,660 to the LGOP for OPEB benefits as they came due.

CITY OF LORETTO, TENNESSEE

Notes to Financial Statements

June 30, 2022

(7) Other Postemployment Benefits For Retiree Health Insurance, Continued

Total OPEB Liability

Actuarial assumptions-The total OPEB liability on the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all the periods included in the measurement, unless otherwise specified.

Inflation -	2.25%
Salary increases -	Graded salary ranges from 3.44 to 8.72 percent based on age, including inflation, averaging 4 percent.
Healthcare cost trend rates -	7.36% for pre-65 in 2022, decreasing annually over a 10-year period to an ultimate rate of 4.50%. 7.32% for post-65 in 2022, decreasing annually over a 4-year period to an ultimate rate of 4.50%
Retiree's share of benefit-related costs -	Members are required to make monthly contributions in order to maintain their coverage. For the purpose of this valuation a weighted average has been used with weights derived from the current distributions of members among plans offered.

Unless noted otherwise, the actuarial demographic assumptions used in the June 30, 2021, valuations were the same as those employed in the July 1, 2020 Pension Actuarial Valuation of the Tennessee Consolidated Retirement System (TCRS). These assumptions were developed by TCRS based on the results of an actuarial experience study for the period July 1, 2016 - June 30, 2020. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. The mortality rates employed in this valuation are taken from the PUB-2010 Headcount-Weighted Employee mortality table for General Employees for non-disabled pre-retirement mortality, with mortality improvement projected generationally with MP-2020 from 2010. Post-retirement tables are Headcount-Weighted Below Median Healthy Annuitant and adjusted with a 6% load for males and a 14% load for females, projected generationally from 2010 with MP-2020. Mortality rates for impaired lives are the same as those used by TCRS and are taken from a gender distinct table published in the IRS Ruling 96-7 for disabled lives with a 10% load, projected generationally from 2018 with MP-2020.

Discount rate-The discount rate used to measure the total OPEB liability was 2.16 percent. This rate reflects the interest rate derived from yields on a 20-year, tax exempt general obligation municipal bonds, prevailing on the measurement date, with an average rating of AA/Aa as shown on the Bond Buyer 20-year Municipal GO AA index.

CITY OF LORETTA, TENNESSEE

Notes to Financial Statements

June 30, 2022

(7) Other Postemployment Benefits For Retiree Health Insurance, Continued

Changes in the Total OPEB Liability

	Total OPEB Liability (a)
Total OPEB liability - beginning balance	<u>\$ 31,323</u>
Changes for the year:	
Service cost	3,220
Interest	755
Changes of benefit terms	0
Differences between expected and actual experience	7,680
Change in assumptions	(10,358)
Benefit payments	(808)
Net changes	<u>489</u>
Total OPEB liability - ending balance	<u>\$ 31,812</u>

Changes in assumptions-The discount rate was changed from 2.21% as of the beginning of the measurement period to 2.16% as of June 30, 2021. This change in assumption decreased the total OPEB liability. Other changes in assumptions include adjustments to initial per capita costs and health trend rates.

Sensitivity of total OPEB liability to changes in the discount rate-The following presents the total OPEB liability related to the LGOP, as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage higher than the current discount rate.

	Current Discount	
	Rate Assumption	1% Increase
1% Decrease	(1.16%)	(2.16%)
	\$ 33,405	\$ 30,303

Sensitivity of total OPEB liability to changes in the healthcare cost trend rate – The following presents the total OPEB liability related to the LGOP, as well as what the total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-lower or 1-percentage-point-higher than the current healthcare cost trend rate.

	Current Healthcare Cost	
	Trend Rate Assumption	1% Increase
1% Decrease	(6.36/6.32% Decreasing to 3.50%)	(8.36/8.32% decreasing to 5.50%)
	\$ 29,269	\$ 34,837

CITY OF LORETTA, TENNESSEE

Notes to Financial Statements

June 30, 2022

(7) Other Postemployment Benefits For Retiree Health Insurance, Continued

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

OPEB Expense - For the fiscal year ended June 30, 2022, the City of Loretto recognized OPEB expense of (\$320).

Deferred Outflows of Resources and Deferred Inflows of Resources - For the year ended June 30, 2022, the City of Loretto reported deferred outflows of resources and deferred inflows of resources related to OPEB benefits in the LGOP from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and		
Actual experience	6,516	(18,545)
Changes in assumptions	3,642	(10,025)
Employer payments subsequent to		
The measurement date	4,660	-
Total	<u>14,818</u>	<u>(28,570)</u>

The amounts shown above for "Employer payments subsequent to the measurement date" will be recognized as a reduction to total OPEB liability in the following measurement period.

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

Year Ended June 30:

2023	(4,295)
2024	(4,295)
2025	(4,295)
2026	(3,807)
2027	(1,318)
Thereafter	(402)

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

Plan Assets

There are no plan assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

CITY OF LORETTA, TENNESSEE

Notes to Financial Statements

June 30, 2022

(8) Commitments and Contingencies

Litigation:

Management of the City estimates that potential claims against the City resulting from such litigation will not materially affect the financial statements of the City at yearend.

Grants:

Amounts received from Grantor agencies are subject to audit and adjustment by Grantor agencies, principally the Federal government. Any disallowed claims including amounts already collected, could become a liability of the applicable fund.

(9) Risk Management

The City is exposed to various risks to general liability and property and casualty losses. The City has decided it is more economically feasible to be in a public entity risk pool as opposed to purchasing commercial insurance for general liability and property and casualty coverage. The City participates in the Public Entity Partners (formerly TML Insurance Pool), which is a public entity risk pool established by the Tennessee Municipal League, an association of member cities. The City pays an annual premium to the PEP for its general liability and property and casualty insurance coverage. The pool reinsures through commercial insurance companies. The City has not had claims in excess of insurance coverage during the last three years.

(10) Restatement

The City has restated its beginning net position in the Water and Sewer fund to write off certain prepaid maintenance costs of \$97,010. Additionally, the government -wide governmental activities beginning net position was restated to include loan amounts of \$223,853.

REQUIRED
SUPPLEMENTARY
INFORMATION

CITY OF LORETTA, TENNESSEE

Schedule of Required Supplementary Information

**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

	2014	2015	2016	2017	2018	2019	2020	2021
Total pension liability (asset)								
Service cost	\$ 39,586	\$ 37,097	\$ 42,899	\$ 43,062	\$ 45,490	\$ 52,523	\$ 52,591	\$ 48,947
Interest	\$ 117,502	\$ 120,242	\$ 128,357	\$ 140,962	\$ 143,702	\$ 153,409	\$ 162,980	\$ 169,804
Changes in benefit terms	-	-	-	-	-	-	-	-
Differences between actual & expected experience	\$ (51,857)	\$ 10,543	\$ 65,998	\$ (67,825)	\$ 10,147	\$ 4,655	\$ (27,904)	\$ (21,317)
Change of assumptions	-	-	-	\$ 55,042	-	-	-	\$ 271,265
Benefit payments, including refunds of employee contributions	\$ (69,519)	\$ (62,908)	\$ (68,054)	\$ (70,653)	\$ (71,476)	\$ (73,483)	\$ (83,817)	\$ (95,957)
Net change in total pension liability (asset)	\$ 35,712	\$ 104,974	\$ 169,200	\$ 100,588	\$ 127,863	\$ 137,104	\$ 103,850	\$ 372,742
Total pension liability (asset)-beginning	\$ 1,561,870	\$ 1,597,582	\$ 1,702,556	\$ 1,871,756	\$ 1,972,344	\$ 2,100,207	\$ 2,237,311	\$ 2,341,161
Total pension liability (asset)-ending (a)	\$ 1,597,582	\$ 1,702,556	\$ 1,871,756	\$ 1,972,344	\$ 2,100,207	\$ 2,237,311	\$ 2,341,161	\$ 2,713,903
<hr/>								
Plan fiduciary net position								
Contributions-employer	\$ -	\$ -	\$ -	\$ 5,255	\$ 11,633	\$ 12,732	\$ 19,932	\$ 19,846
Contributions-employee	\$ 20,542	\$ 22,734	\$ 25,407	\$ 26,277	\$ 29,082	\$ 31,829	\$ 33,220	\$ 33,076
Net investment income	\$ 283,431	\$ 60,237	\$ 52,351	\$ 224,823	\$ 180,331	\$ 172,863	\$ 122,176	\$ 657,049
Benefit payments, including refunds of employee contributions	\$ (69,519)	\$ (62,908)	\$ (68,054)	\$ (70,653)	\$ (71,476)	\$ (73,483)	\$ (83,817)	\$ (95,957)
Administrative expense	\$ (538)	\$ (711)	\$ (1,082)	\$ (1,259)	\$ (1,476)	\$ (1,403)	\$ (1,506)	\$ (1,480)
Other	-	-	-	-	-	-	-	-
Net change in plan fiduciary net position	\$ 233,916	\$ 19,352	\$ 8,622	\$ 184,443	\$ 148,094	\$ 142,538	\$ 90,005	\$ 612,534
Plan fiduciary net position-beginning	\$ 1,742,300	\$ 1,976,216	\$ 1,995,568	\$ 2,004,190	\$ 2,188,633	\$ 2,336,727	\$ 2,479,265	\$ 2,569,267
Plan fiduciary net position-ending (b)	\$ 1,976,216	\$ 1,995,568	\$ 2,004,190	\$ 2,188,633	\$ 2,336,727	\$ 2,479,265	\$ 2,569,270	\$ 3,181,801
Net Pension Liability (asset)-ending (a) - (b)	\$ (378,634)	\$ (293,012)	\$ (132,434)	\$ (216,289)	\$ (236,520)	\$ (241,954)	\$ (228,109)	\$ (467,898)
<hr/>								
Plan fiduciary net position as a percentage of total pension liability	123.70%	117.21%	107.08%	110.97%	111.26%	110.81%	109.74%	117.24%
Covered payroll	\$ 410,847	\$ 454,679	\$ 508,141	\$ 525,544	\$ 581,636	\$ 636,587	\$ 664,397	\$ 661,521
Net pension liability (asset) as a percentage of covered payroll	92.16%	-64.44%	-26.06%	-41.16%	-40.66%	-38.01%	-34.33%	-70.73%

Changes of assumptions: In 2021, amounts reported as changes of assumptions resulted from changes to the inflation rate, investment rate of return, cost-of-living adjustment, and mortality improvements. In 2017, amounts reported as changes of assumptions resulted from changes to the inflation rate, investment rate of return, cost-of-living adjustment, salary growth and mortality improvements.

GASB 68 requires a 10-year schedule for this data to be presented starting with the implementation of GASB 68. The information in this schedule is not required to be presented retroactively prior to the implementation date. Please refer to previously supplied data from TCRS GASB website for prior years' data, if needed.

CITY OF LORETTO, TENNESSEE

**Schedule of Contributions Based on Participation in the
Public Employee Pension Plan of TCRS**

For the Year Ended June 30, 2022

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Actuarially determined contribution	0	0	0	0	5,816	6,366	10,497	10,452
Contributions in relation to the actuarially determined contribution	0	0	0	5,255	11,633	12,732	19,832	19,846
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>(\$5,255)</u>	<u>(\$5,817)</u>	<u>(\$6,366)</u>	<u>(\$9,435)</u>	<u>(\$9,394)</u>
Covered-employee payroll	410,847	454,679	508,141	525,544	581,636	636,587	664,397	661,521
Contributions as a percentage covered-employee payroll	0.00%	0.00%	0.00%	1.00%	2.00%	2.00%	3.00%	3.00%

GASB 68 requires 10-year schedule for this data to be presented starting with the implementation of GASB 68. The information in this schedule is not required to be presented retroactively prior to the implementation date. Please refer to previously supplied data from the TCRS GASB website for prior years' data, in needed.

Notes to Schedule

Valuation date: Actuarially determined contribution rates for fiscal year 2021 were calculated based on the June 30, 2020 actuarial valuation.

Methods and assumptions used to determine contribution rates:

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

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

CITY OF LORETTA, TENNESSEE

Schedule of Required Supplementary Information- OPEB

Schedule of Changes in Total OPEB Liability and Related Ratios

Measurement Year ending June 30

	2018	2019	2020	2021	2021
Total OPEB Liability					
Service Cost	\$ 3,080	\$ 2,856	\$ 3,090	\$ 2,832	\$ 3,220
Interest on the Total OPEB Liability	\$ 1,362	\$ 1,716	\$ 1,726	\$ 1,128	\$ 755
Change in Benefit Terms	\$ -	\$ -	\$ -	\$ 280,882	\$ -
Difference between expected and actual experience of the Total OPEB Liability	\$ -	\$ (8,144)	\$ (20,385)	\$ (3,566)	\$ 7,680
Changes in assumptions and other inputs	\$ (2,471)	\$ 3,222	\$ 874	\$ 1,894	\$ (10,358)
Benefit payments	\$ -	\$ (319)	\$ (569)	\$ (559)	\$ (808)
Net change in Total OPEB Liability	\$ 1,971	\$ (669)	\$ (15,264)	\$ 1,729	\$ 489
Total OPEB Liability - Beginning	\$ 43,557	\$ 45,528	\$ 44,858	\$ 29,594	\$ 31,323
Total OPEB Liability - Ending	\$ 45,528	\$ 44,859	\$ 29,594	\$ 31,323	\$ 31,812
 Estimated Covered -Employee Payroll	 \$ 508,141	 \$ 581,636	 \$ 636,587	 \$ 664,397	 \$ 661,521
 Total OPEB Liability as a Percentage of Covered- Employee Payroll	 8.96%	 7.71%	 4.65%	 4.71%	 4.81%

Notes to Schedule

Note: There are no assets accumulating, in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, related to this OPEB plan. The amounts reported for each fiscal year were determined as of the prior fiscal year-end. The amounts reported for each fiscal year were determined as of the prior fiscal year-end. This schedule is intended to display ten years of information. Additional years will be displayed as they become available.

SUPPLEMENTAL INFORMATION

CITY OF LORETTO, TENNESSEE

Capital Assets Used in the Operation of the Governmental Funds

Schedule of Changes in Capital Assets By Type

June 30, 2022

<u>Description</u>	<u>Balance July 1, 2021</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2022</u>
Land	\$150,185	22,000	0	172,185
Buildings	812,510	72,883	0	885,393
Improvements	1,917,053	0	0	1,917,053
Equipment	1,138,006	0	333,340	804,666
Total Capital Assets	<u>\$4,017,754</u>	<u>94,883</u>	<u>333,340</u>	<u>3,779,297</u>

CITY OF LORETTA, TENNESSEE

**Schedule of Cash and Cash Equivalents and Certificate of Deposits
All Funds**

June 30, 2022

	Carrying Value
General Fund:	
Demand deposits	\$206,966
Certificate of Deposits	60,774
Total General Fund	<u>267,740</u>
State Street Aid Fund - demand deposit	<u>121,398</u>
Water and Sewer Fund:	
Demand deposits	546,159
Certificate of Deposits	98,714
Total Water and Sewer Fund	<u>644,873</u>
Natural Gas Fund:	
Demand deposits	241,617
Total Natural Gas Fund	<u>241,617</u>
Sanitation Fund:	
Demand deposits	72,133
Total Sanitation Fund	<u>72,133</u>
Total Cash and Cash Equivalents - All Funds	<u>\$1,347,761</u>

CITY OF LORETTO, TENNESSEE

Schedule of Changes in Property Taxes Receivable

For the Year Ended June 30, 2022

Tax Year	Balance July 1, 2021	Levy	Collections and Changes in Assessment	Balance June 30, 2022
2022	\$ -	137,050	0	137,050
2021	111,460	0	104,580	6,880
2020	5,554	0	3,326	2,228
2019	2,694	0	1,485	1,209
2018	1,214	0	710	504
2017	395	0	72	323
2016	93	0	79	14
2015	53	0	12	41
2014	96	0	12	84
2013	33	0	13	20
2012	22	0	14	8
	<u>121,614</u>	<u>137,050</u>	<u>110,303</u>	<u>148,361</u>

Tax Year	Tax Rate	Tax Levy	Tax Adjustment and Collections	Outstanding Taxes
2022	\$ 0.4000	\$ 137,050	\$ 0	\$ 137,050
2021	0.4000	111,460	104,580	6,880
2020	0.4000	109,169	106,941	2,228
2019	0.40	106,679	105,470	1,209
2018	0.35	87,057	86,553	504
2017	0.25	60,680	60,357	323
2016	0.25	61,131	61,117	14
2015	0.19	44,446	44,405	41
2014	0.19	42,675	42,591	84
2013	0.19	42,271	42,251	20
2012	0.19	42,240	42,232	8

All delinquent taxes have been turned over to the County.

CITY OF LORETO, TENNESSEE

Schedule of Debt Service Requirements-
General Obligation Debt

June 30, 2022

Year	Capital Outlay Note Sidewalk		Capital Outlay Note State Bank		Capital Outlay Note State Bank		Capital Leases Payable Bank of Waynesboro		Bond Security Bank & Trust		Capital Outlay Note State Bank		Capital Outlay Note State Bank		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2023	\$ 20,000	1,352	24,662	3,015	24,376	4,272	31,990	357	39,000	6,649	11,130	780	7,985	178	159,143	16,803
2024	20,000	1,014	25,402	2,275	25,176	3,472	-	-	40,000	5,785	9,704	221	678	2	120,960	12,769
2025	20,000	507	26,165	1,512	26,002	2,646	-	-	41,000	5,033	-	-	-	-	113,167	9,598
2026	20,000	253	26,664	1,013	26,856	1,792	-	-	42,000	3,775	-	-	-	-	115,520	6,833
2027	-	-	-	-	27,737	911	-	-	44,000	2,525	-	-	-	-	71,737	3,436
2028	-	-	-	-	-	-	-	-	45,000	1,221	-	-	-	-	45,000	1,221
	\$ 80,000	3,126	102,893	7,815	130,147	13,093	31,990	357	251,000	24,988	20,834	1,001	8,663	180	625,527	50,560

Additionally, the City has an interim loan of \$30,000.

CITY OF LORETTO, TENNESSEE

**Schedule of Debt Service Requirements
Water and Sewer Fund**

June 30, 2022

Year	1995 Water Revenue Bond		2017 Water and Sewer Revenue and Tax Bond		TOTAL Principal	TOTAL Interest
	Principal	Interest	Principal	Interest		
2023	\$ 39,987	13,277	22,805	10,513	62,792	23,790
2024	41,000	11,551	23,324	9,994	64,324	21,545
2025	42,100	10,050	23,853	9,464	65,953	19,514
2026	43,100	8,744	24,396	8,922	67,496	17,666
2027	44,200	7,608	24,951	8,367	69,151	15,975
2028	45,400	6,619	25,516	7,800	70,916	14,419
2029	46,500	5,759	26,099	7,220	72,599	12,979
2030	47,700	5,011	26,691	6,626	74,391	11,637
2031	48,900	3,758	27,297	6,020	76,197	9,778
2032	50,200	2,556	27,919	5,399	78,119	7,955
2033	51,400	1,278	28,554	4,764	79,954	6,042
2034	52,700	653	29,204	4,115	81,904	4,768
2035			29,866	3,451	29,866	3,451
2036			30,546	2,772	30,546	2,772
2037			31,239	2,078	31,239	2,078
2038			31,950	1,368	31,950	1,368
2039			28,666	641	28,666	641
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	\$ 553,187	76,864	462,876	99,514	1,016,063	176,378

CITY OF LORETTO, TENNESSEE

Schedule of Debt Service Requirements
Natural Gas Fund

June 30, 2022

Natural Gas Revenue
Series 2021

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2023	\$ 32,500	1,323
2024	33,000	974
2025	33,500	493
	<hr/>	<hr/>
	\$ <u>99,000</u>	<u>2,790</u>

CITY OF LORETTO, TENNESSEE

**Schedule of Debt Service Requirements
Sanitation Fund**

June 30, 2022

Capital Outlay Note

Trustmark Bank

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2023	\$ 25,400	3,103
2024	25,900	2,625
2025	26,400	2,120
2026	26,900	1,605
2027	27,400	1,080
2028	<u>28,000</u>	<u>546</u>
	<u>\$ 160,000</u>	<u>11,079</u>

CITY OF LORETTA, TENNESSEE

Schedule of Changes in Long-term Debt by Individual Issue

June 30, 2022

Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding 7/1/2021	Issued During Period	Matured During Period	Paid and/or Refunded During Period	Outstanding 6/30/2022
Business-Type Activities								
Water and Sewer Fund								
1995 Water Revenue	709,000	4.875%	1996	6/30/2034	\$ 389,167	-	389,167	\$0
1995A Water Revenue	300,000	4.875%	1996	6/30/2034	\$ 164,801	-	164,801	\$0
Series 2021	553,187	2.400%	2021	6/30/2034	\$ -	553,187	-	\$553,187
Series 2017	536,000	2.25%	2019	11/17/2039	\$ 485,173	-	22,297	\$462,876
Total Water and Sewer					\$ 1,039,141	\$ 553,187	-	\$ 576,265
 Natural Gas Fund								
Series 2021	99,000	1.47%	2021	6/30/2025	\$ -	99,000	-	\$99,000
Total Natural Gas Fund					\$ -	\$ 99,000	-	\$ 99,000
 Sanitation Fund								
Series 2021	99,000	1.95%	2021	11/1/2027	\$ -	160,000	-	\$160,000
Total Sanitation Fund					\$ -	\$ 160,000	-	\$ 160,000
 Governmental Activities								
Sidewalk loan	100,000	1.69%	2021	6/30/2026	100,000		20,000	\$80,000
Capstar	123,853	2.93%	2021	6/30/2026	123,853		20,960	\$102,893
Bond	289,000	2.79%	2021	3/27/2025	289,000		38,000	\$251,000
Bank of Waynesboro	250,000	2.05%	2016	5/1/2023	\$ 69,239		37,249	\$31,990
Interim loan	1,000,000		2022		\$ -	30,000	-	\$30,000
State Bank	33,080	3.968%	2021	4/1/2024	\$ 31,428		10,594	\$20,834
State Bank	23,243	2.888%	2020	7/1/2023	\$ 16,374		7,711	\$8,663
State Bank	179,000	3.23%	2020	2/1/2027	\$ 153,748		23,601	\$130,147
Total Governmental Activities					\$ 783,642	\$ 30,000	\$ -	\$ 158,115
								\$ 655,527

CITY OF LORETTO, TENNESSEE

Schedule of Utility Rates in Force

June 30, 2022

<u>Water Rates- Residential</u>	<u>Inside City</u>	<u>Outside City</u>
Up to 2,000 gallons	\$9.50 Minimum charge	\$19.50 Minimum charge
Next 8,000 gallons	\$4.80 per 1,000 gallons	\$4.80 per 1,000 gallons
Next 40,000 gallons	\$4.25 per 1,000 gallons	\$4.25 per 1,000 gallons
All over 50,000 gallons	\$3.60 per 1,000 gallons	\$3.60 per 1,000 gallons
<u>Sewer Rates- Residential</u>	<u>Inside City</u>	<u>Outside City</u>
Up to 2,000 gallons	\$17.50 Minimum charge	\$17.50 Minimum charge
Next 8,000 gallons	\$5.00 per 1,000 gallons	\$5.00 per 1,000 gallons
All over 10,000 gallons	\$4.25 per 1,000 gallons	\$4.25 per 1,000 gallons
<u>Natural Gas Rates - Residential</u>		
0 - 300cu. ft.	\$3.00	\$3.00
All over 300 cu.ft.	\$9.50	\$9.50
Large Commercial and Industrial	\$9.50	\$9.50
<u>Sanitation Rates - Residential</u>		
	\$8.50	\$8.50

There were approximately 1,645 water customers, approximately 793 sewer customers and approximatley 750 natural gas customers at yearend.

CITY OF LORETTO, TENNESSEE

Schedule of Federal and State Financial Assistance

For the Year Ended June 30, 2022

CFDA Number	State Grant Number	Grantor Agency	Receivable (Deferred) Balance June 30, 2021	Grant Receipts	Other Receipts	Grant Expenditures	Receivable (Deferred) Balance June 30, 2022
State Program:							
N/A	Z-21THSO128	Tennessee Department of Transportation	0	5,000	0	5,000	0
N/A	50952-2509-94	Tennessee Department of Transportation	0	17,434	0	17,434	0
N/A	Governors Appropriation	Tennessee Department of Finance	0	34,376	0	34,376	0
Federal Program:							
14.228	2018 CDBG Water System Improvement	Tennessee Department of Economic and Community Development from U. S Department of HUD	51,821	70,970	0	19,149	0
21.027	American Rescue Plan Act	US Department of Treasury thru the State of Tennessee	50	262,740	0	46,471	(\$216,269)
84.923	Utility Improvements	Appalachian Regional Commission Program	0	16,848	0	16,848	0
Total Federal							
Total Federal and State							

This schedule prepared on the accrual basis of accounting.

COMPLIANCE AND INTERNAL CONTROL

JOHN R. POOLE, CPA
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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

Mayor and Members of the City Council
City of Loretto, Tennessee
Loretto, Tennessee

I have audited 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, the financial statements of the governmental activities, the business type activities and each major fund as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City of Loretto's basic financial statements, and have issued a report thereon dated November 30, 2022.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the City of Loretto'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 an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Loretto's internal control. Accordingly, I do not express an opinion on the effectiveness of the City of Loretto'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 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.

My consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. I did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as item 2022-001 and 2022-002, that I consider to be material weaknesses.

Compliance and Other Matters

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

Response to Findings

The City of Loretto's response to the finding identified in the audit is described in the Schedule of Findings and Responses. The City of Loretto's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of the testing of internal control and compliance and the result 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.

Jdu R Pool, CPA

November 30, 2022

CITY OF LORETTO, TENNESSEE

Schedule of Findings and Responses

June 30, 2022

2022-001 - Separation of Duties

Condition: The City of Loretto currently has three employees that works in performing the majority of the accounting functions for the City. Due to only having three employees performing the accounting transactions there is currently an inadequate segregation of duties.

Criteria: Generally accepted accounting principles require that accounting functions be adequately segregated to ensure that the internal accounting controls are effective.

Cause: The City has a limited number of office employees to provide for a proper division of duties.

Effect: The risk of errors and irregularities occurring and not being detected in a timely manner along with the possibility of fraud or misappropriation of assets increases when accounting functions are not adequately segregated.

Recommendation: For adequate separation of duties, the employee who writes receipts, prepares and makes bank deposits, or writes checks should neither reconcile bank statements nor post to the cash receipts and disbursements journals.

Response: "We agree that the staff size will not allow the City to segregate duties. There are only three employees working in the accounting/finance department so it is not possible to segregate duties unless more staff were hired. At the present time we do believe this would not benefit the City to hire additional employees."

2022-002 - Journal Entries

Condition: Several year-end journal entries were needed to agree the general ledger to the supporting detail records.

Cause: The City does not have adequate staffing for this accounting to occur.

Criteria: Generally accepted accounting principles require that the general ledger agree to these detailed records.

Effect: The risk of errors and irregularities occurring and not being detected in a timely manner increases when such accounts do not agree to the general ledger.

Recommendation: The general ledger should be reconciled to the account details on at least a monthly basis.

CITY OF LORETO, TENNESSEE

Schedule of Findings and Responses

June 30, 2022

Response: "We agree. We will work to reduce the journal entries needed at year end. The contact person for this activity is our CMFO."

CITY OF LORETTO, TENNESSEE

Schedule of Disposition of Prior Year Comments

June 30, 2022

Finding Number

Finding Title

Status

2021 - 001

Separation of Duties

Repeated

The original finding number was 2007-001. The current year finding number is 2022-001.

2021 - 002

Journal Entries

Repeated

The original finding number was 2020-002. The current year finding number is 2022-002.



CITY OF
LORETTO, TENNESSEE

Management's Corrective Action Plan

Audit period: June 30, 2022

The findings from the June 30, 2022, *Schedule of Findings and Responses* are discussed below.

2022-001 Segregation of Duties (Internal Control)

Contact person: Jesse Turner

Planned Corrective Action: We do not think hiring additional staff to adequately separate the duties is an appropriate action at this time. The Board of Aldermen continues to monitor our finances and internal control.

Anticipated Completion Date: At the current time, due to our size, we do not believe we can fully segregate these duties. We will continue to improve and strengthen our internal controls, but we cannot give a definite date.

2022-002 - Journal Entries

Contact person: Jesse Turner

Planned Corrective Action: We will work to reduce the journal entries needed at year end.

Anticipated Completion Date: June 30, 2023

Signature: