AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

# TENNESSEE DUCK RIVER DEVELOPMENT AGENCY

June 30, 2022

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# INTRODUCTORY SECTION

**TENNESSEE DUCK RIVER DEVELOPMENT AGENCY**

**LIST OF PRINCIPAL OFFICIALS**

**June 30, 2022**

## BOARD OF DIRECTORS:

| Director Position | Director | DRA Officer Position |
|---|---|---|
| Bedford County Citizen | Charles McDonald | |
| Coffee County Citizen | Vacant | |
| Hickman County Citizen | Hershel Mayberry | |
| Marshall County Citizen | Tony White | |
| Maury County Citizen | Joanne Pogue | Secretary/Treasurer |
| Member-At-Large | Tommy Peebles | Chairman |
| Member-At-Large | Eslick Daniel | Vice Chairman |
| City Mayor-At-Large, Columbia | Andy Ogles | |
| City Mayor-At-Large, Lewisburg | Jim Bingham | |
| City Mayor-At-Large, Manchester | Vacant | |
| County Mayor-At-Large, Marshall County | Mike Keny | |
| Governor's Representative | April Grippo | |

## MANAGEMENT:

| | |
|---|---|
| Executive Director: | Doug Murphy |
| Director of Finance and Administration: | Jamey Owen |

# FINANCIAL SECTION

WINNETT
Associates, PLLC
Certified Public Accountants and Consultants

514 Elm Street, P. O. Box 745
Shelbyville, Tennessee 37162

# INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Tennessee Duck River Development Agency
Shelbyville, Tennessee

**Report on the Audit of the Financial Statements**

***Opinions***

We have audited the accompanying financial statements of the governmental activities and the major fund of the Tennessee Duck River Development Agency (the "Agency"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Tennessee Duck River Development Agency, as of June 30, 2022, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Basis for Opinions***

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

***Responsibilities of Management for the Financial Statements***

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Tennessee Duck River Development Agency'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 Responsibility for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that include our opinions.

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Tennessee Duck River Development Agency's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Tennessee Duck River Development Agency's ability to continue as a going concern for a reasonable period of time.

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

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, the schedule of changes in Tennessee Duck River Development Agency's net pension liability(asset) and related ratios based on participation in the public employee pension plan of TCRS, and the schedule of Tennessee Duck River Development Agency's contributions based on participation in the public employee pension plan of TCRS be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information on pages 26 and 27 in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. Management has omitted the management's discussion and analysis. Our opinion on the basic financial statements is not affected by this missing information.

***Supplementary Information***

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

***Other Information***

Management is responsible for the other information included in the annual report. The other information comprises the information on page 4 but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2022, on our consideration of Tennessee Duck River Development Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Tennessee Duck River Development Agency'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 Tennessee Duck River Development Agency's internal control over financial reporting and compliance.

Winnett Associates, PLLC

December 20, 2022

# TENNESSEE DUCK RIVER DEVELOPMENT AGENCY

## STATEMENT OF NET POSITION

**June 30, 2022**

| | PRIMARY GOVERNMENT<br>GOVERNMENTAL ACTIVITIES |
|---|---|
| **ASSETS AND DEFERRED OUTFLOWS OF RESOURCES** | |
| ASSETS | |
| Cash and cash equivalents - unrestricted | $ 161,712 |
| Due from Operating and Project Fund | 8,410 |
| Prepaid expenses | 2,674 |
| Deposits | 300 |
| Net pension asset | 71,836 |
| Capital assets, net of accumulated depreciation | 9,461 |
| Total assets | 254,393 |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Deferred outflows related to pensions | 47,035 |
| **LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION** | |
| LIABILITIES | |
| Contract payables and accrued expenses | 22,274 |
| DEFERRED INFLOWS OF RESOURCES | |
| Deferred inflows related to pensions | 68,822 |
| NET POSITION | |
| Investment in capital assets | 9,461 |
| Restricted for other purposes | 71,836 |
| Unrestricted | 129,035 |
| Total net position | $ 210,332 |

The accompanying notes are an integral part of this financial statement.

## TENNESSEE DUCK RIVER DEVELOPMENT AGENCY
## STATEMENT OF ACTIVITIES

**For the Year Ended June 30, 2022**

| FUNCTIONS/PROGRAMS | EXPENSES | PROGRAM REVENUES OPERATING GRANTS AND CONTRIBUTION | NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION GOVERNMENTAL ACTIVITIES |
|---|---|---|---|
| Governmental activities: | | | |
| Environmental programs | $ 372,293 | $ 372,301 | $ 8 |
| Administration | 221,937 | 273,861 | 51,924 |
| Total governmental activities: | $ 594,230 | $ 646,162 | $ 51,932 |
| General revenues: | | | |
| **Net Position - beginning of year** | | | 158,400 |
| **Net Position - end of year** | | | $ 210,332 |

The accompanying notes are an integral part of this financial statement.

**TENNESSEE DUCK RIVER DEVELOPMENT AGENCY**
**BALANCE SHEET**
**GOVERNMENTAL FUND**

**June 30, 2022**

| | | General Fund |
|---|---|---|
| ASSETS | | |
| Cash and cash equivalents - unrestricted | | $ 161,712 |
| Due from Operating and Project Fund | | 8,410 |
| Prepaid items | | 2,674 |
| Deposits | | 300 |
| | TOTAL ASSETS | $ 173,096 |
| LIABILITIES AND FUND BALANCE | | |
| Contracts payable and accrued expenses | | $ 22,274 |
| | TOTAL LIABILITIES | 22,274 |
| FUND BALANCE | | |
| Nonspendable | | 2,674 |
| Unassigned | | 148,148 |
| | TOTAL FUND BALANCE | 150,822 |
| TOTAL LIABILITIES AND FUND BALANCE | | $ 173,096 |
| Total Fund Balance | | $ 150,822 |
| Amounts reported for governmental activities in the Statement of Net Position are different because: | | |
| Net pension asset in governmental activities is not a current financial resource and, therefore, is not reported in the governmental funds Balance Sheet. | | 71,836 |
| Deferred inflows and outflows of resources that are not financial resources or payable from current financial resources and therefore are not reported on the governmental fund Balance Sheet: | | |
| Deferred inflows related to pensions | | (68,822) |
| Deferred outflows related to pensions | | 41,562 |
| Employer contributions made since the measurement date are deferred outflows of resources in governmental activities, but have been expensed in the governmental funds. | | 5,473 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds. | | 9,461 |
| Net Position of Governmental Activities | | $ 210,332 |

The accompanying notes are an integral part of this financial statement.

# TENNESSEE DUCK RIVER DEVELOPMENT AGENCY
## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
## GOVERNMENTAL FUND
**June 30, 2022**

| | | General Fund |
|---|---|---|
| REVENUES | | |
| Operating and Project Fund - Administrative | $ | 273,861 |
| Operating and Project Fund - Program revenues | | 81,090 |
| Water supply projects | | 291,211 |
| TOTAL REVENUES | | 646,162 |
| EXPENDITURES | | |
| Current: | | |
| Environmental programs | | 372,293 |
| Administration | | 232,134 |
| TOTAL EXPENDITURES | | 604,427 |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | | 41,735 |
| NET CHANGE IN FUND BALANCE | | 41,735 |
| FUND BALANCE, beginning of year | | 109,087 |
| FUND BALANCE, end of year | $ | 150,822 |
| Net change in Fund Balance - Governmental Funds | $ | 41,735 |

Amounts reported for governmental activities in the Statement of Activities are different from amounts reported for governmental funds in the Schedule of Revenues, Expenditures, and Net Change in Fund Balance because:

| | |
|---|---|
| Governmental funds report capital outlays as expenditures. However, the cost of those assets is allocated over their useful lives and reported as depreciation expense for governmental activities. | (390) |
| Pension contributions in excess of pension expense | 10,587 |
| Change in Net Position of Governmental Activities | $ 51,932 |

The accompanying notes are an integral part of this financial statement.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General and nature of entity

The Tennessee Duck River Development Agency (the "Agency") was established by a Public Act of the General Assembly of the State of Tennessee (the "State") in 1965 for the purpose of developing the natural and economic resources of the Duck River Basin (TCA 64-1-601 as amended). A Board of Directors ("DRA Board"), whose members are appointed by the Governor of Tennessee, governs the Agency. In 1998, the Agency adopted a new mission - "to develop, protect, and sustain a clean and dependable water resource for all citizens of the Duck River region."

The Agency receives funding from two trust funds. The Water Supply Project Trust is to be used only for the support of new or improved water supply infrastructure projects in the Duck River basin. The Duck River Agency Operating and Project Fund (Operating and Project Fund) receives a nickel for every 1,000 gallons of water sold by seven Water Systems in the Duck River region under a fifty-year agreement dated September 13, 1971. This agreement allowed the Agency to make annual withdrawals for its administrative budget up to 60% of the prior year's total contributions to the Operating and Project Fund, and additional amounts for projects recommended by the Duck River Agency Technical Advisory Committee (DRATAC) and approved by the DRA Board. This agreement was amended August 16, 2021, effective as of July 1, 2021, and extends the term of the agreement through June 30, 2024, unless sooner replaced or terminated by agreement of the Agency and a majority of the water systems. The agreement also acknowledges the terms of an amendment to the Operating and Project Trust Agreement to allow the agency to make annual withdrawals for its administrative budget up to 70% of the prior year's total contributions to the operating and project fund made by the seven water systems.

Financial reporting entity

The financial statements present the accounts and operations of the Agency, which is the reporting entity. Because the Water Supply Project Trust and the Operating and Project Fund are separate legal entities from the Agency and the Agency is not financially accountable for the Water Supply Project Trust or the Operating and Project Fund, the Trusts' assets, liabilities, and operations are excluded from the reporting entity.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the activities of the special purpose government.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as *general revenues.*

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.* Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting.* Revenues are recognized as soon as they are measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. All revenues collected by the Agency are susceptible to accrual. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

The *general fund* is the Agency's primary operating fund. It accounts for all financial resources of the Agency and is reported as a major governmental fund.

Budgetary data

Formal budgetary accounting is employed as a management control by the Agency. A schedule of revenues and expenditures for the general fund and net changes in fund balance, budget to actual is included as supplementary information, although the budget is not required to be legally adopted.

Cash and cash equivalents

Cash and cash equivalents include highly liquid investments that have an original maturity date when acquired of three months or less.

Statutes authorize the Agency to invest in: (1) U.S. government securities and obligations guaranteed by the U.S. government; (2) deposit accounts at state and federal chartered banks and savings and loan associations; (3) the Local Government Investment Pool of the State of Tennessee; and (4) obligations of the United States or its agencies under repurchase agreements with certain restrictions.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Cash and cash equivalents (continued)

Deposits in financial institutions are required by State statute to be secured and collateralized by the institutions. The collateral must meet certain requirements and must have a total minimum market value of 105% of the value of the deposits placed in the institutions less the amount protected by federal depository insurance. Financial institutions that participate in the bank collateral pool, as administered by the Treasurer of the State of Tennessee, determine the aggregate balance of their deposits for the Agency. Securities are pledged to the State Treasurer on behalf of the bank collateral pool as collateral for the participating institution's public deposits. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

Receivables

Receivables consist of payments due from other government agencies for contracted services and reimbursements due from the Water Supply Project Trust and the Operating and Project Fund for environmental program and project expenditures. Based on favorable collection history, no provision for uncollectible accounts receivable has been recorded.

Prepaid items and supplies inventory

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The cost of supplies is recorded as an expenditure/expense when purchased.

Capital assets

Capital assets acquired for general governmental purposes are recorded as expenditures of the governmental fund and accounted for in the government-wide Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are recorded at estimated fair market value at the time received. Depreciation expense is recorded on a straight-line basis, with lives ranging from 5 - 20 years. In the government-wide financial statements, capital assets used in governmental activities with a per unit cost of greater than $5,000 are capitalized at historical cost. Certain exceptions may apply to this policy depending on the nature and expected life of the asset.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Pensions

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

Deferred outflows of resources

*Deferred outflows of resources* represent 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. Deferred outflows in the financial statements consist of amounts related to pensions (differences between expected and actual experience, differences between projected and actual earnings in pension plan investments, changes in assumptions, and employer contributions subsequent to the measurement date).

Deferred inflows of resources

*Deferred inflows of resources* represent 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 Agency has items which arise under the accrual basis of accounting that qualify for reporting in this category. Accordingly, the items are reported in the governmental activities Statement of Net Position. The amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Differences between expected and actual experience in the calculation of the total pension liability are included in deferred inflows.

Compensated Absences

The Agency's policy permits employees to accumulate earned but unused vacation benefits, which may be taken subsequent to June 30. The liability for such leave and salary-related benefits is reported as incurred in the government-wide fund statements, if significant. Unused sick leave is treated as additional service time in the calculation of postemployment benefits.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Net position

Government-wide net position is divided into three components:

- Investment in capital assets, net of related debt - consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets, if applicable.
- Restricted net position – consists of the portion of net position for which use is constrained to a particular purpose. Restrictions are imposed by external organizations such as the Agency's creditors and by other contributors. The Agency has restricted net position related to the net pension asset as of June 30, 2022.
- Unrestricted net position - consists of all other net position that does not meet the definition of the above two components and is available for general use by the Agency.

Governmental fund balances

In the governmental fund financial statements, fund balances are defined as follows:

- Nonspendable - Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.
- Restricted - Amounts that can be spent only for specific purposes because of conditions externally imposed by grantors.
- Committed - Amounts that can be used only for specific purposes determined by a formal action by the DRA Board. Conversely, to rescind or modify a fund balance commitment, action by the DRA Board is also required.
- Assigned - Amounts that are designated by the DRA Board or management for a particular purpose but do not meet the criteria to be restricted or committed.
- Unassigned - All amounts not included in other spendable classifications.

The Agency has no restricted, committed, or assigned fund balances as of June 30, 2022.

Use of restricted resources

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Agency's policy is to first apply the expense toward restricted resources and then toward unrestricted resources. In governmental funds, the Agency's policy is to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications - committed and then assigned fund balances before using unassigned fund balances.

NOTE 2 - CASH AND CASH EQUIVALENTS

As of June 30, 2022, the Agency's demand deposit accounts amounted to $161,562, and the petty cash balance amounted to $150. Bank balances for such accounts totaled $185,085, all of which was covered by federal depository insurance.

NOTE 3 - PROPERTY AND EQUIPMENT

A summary of changes in capital assets for the year ended June 30, 2022, is presented below:

| | Beginning Balance | Additions | Ending Balance |
|---|---|---|---|
| Governmental activities: | | | |
| Capital assets, not being depreciated: | | | |
| Land | $ 6,000 | $ - | $ 6,000 |
| Capital assets, being depreciated: | | | |
| Buildings and improvements | 111,796 | - | 111,796 |
| Equipment | 7,800 | - | 7,800 |
| Total capital assets, being depreciated | 119,596 | | 119,596 |
| Less accumulated depreciation for: | | | |
| Buildings and improvements | (111,795) | - | (111,795) |
| Equipment | (3,950) | (390) | (4,340) |
| Total accumulated depreciation | (115,745) | (390) | (116,135) |
| Total capital assets, being depreciated, net | 3,851 | (390) | 3,461 |
| Governmental activities capital assets, net | $ 9,851 | $ (390) | $ 9,461 |

Depreciation expense of $390 was charged to administration.

NOTE 4 - RISK MANAGEMENT

The Agency has purchased commercial insurance against the risk of losses on property, general liability, and workers compensation. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

NOTE 5 - RETIREMENT PLAN

Plan description

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

Benefits provided

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

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 CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

Employees covered by benefit terms

At the measurement date of June 30, 2021, the following employees were covered by the benefit terms:

| | |
|---|---|
| Inactive employees or beneficiaries currently receiving benefits | - |
| Inactive employees entitled to but not yet receiving benefits | 1 |
| Active employees | 2 |
| Total Employees | 3 |

NOTE 5 - RETIREMENT PLAN (CONT'D)

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. The Agency 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, the employer contributions for the Agency were $5,473 based on a rate of 3.49 percent of covered payroll. By law, employer contributions are required to be paid. The employer's actuarially determined contribution (ADC) and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

**Net pension liability (asset)**

The Agency'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 the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in measurement:

| | |
|---|---|
| Inflation | 2.25 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 | 6.75 percent, net of pension plan investment expenses, including inflation |
| Cost-of-living adjustment | 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.

NOTE 5 - RETIREMENT PLAN (CONT'D)

Changes in 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 cost-of-living adjustment from 2.25 percent to 2.125 percent; and modified mortality assumptions.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2020 actuarial experience study. A blend of future capital market projections and historical market returns was used in a building-block method in which a best-estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best estimates are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.25 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:

| Asset Class | Real Rate of Return | Target Allocation |
|---|---|---|
| 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% | 1% |
| | | 100% |

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 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 the Agency 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.

NOTE 5 - RETIREMENT PLAN (CONT'D)

**Changes in the net pension liability (asset)**

| | Increase (Decrease) | | |
|---|---|---|---|
| | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability (Asset) |
| BALANCE AT JUNE 30, 2020 | $ 206,031 | $ 267,030 | $ (60,999) |
| CHANGES FOR THE YEAR: | | | |
| Service cost | 14,281 | - | 14,281 |
| Interest | 15,973 | - | 15,973 |
| Difference between expected and actual experience | (2,502) | - | (2,502) |
| Changes in assumptions | 45,069 | - | 45,069 |
| Contributions-employer | - | 5,452 | (5,452) |
| Contributions-employee | - | 7,811 | (7,811) |
| Net investment income | - | 70,574 | (70,574) |
| Benefit payments, including refunds of employee contributions | - | - | - |
| Administrative expense | | (179) | 179 |
| Net changes | 72,821 | 83,658 | (10,837) |
| BALANCE AT JUNE 30, 2021 | $ 278,852 | $ 350,688 | $ (71,836) |

Sensitivity of the net pension liability (asset) to changes in the discount rate

The following presents the net pension liability (asset) of the Agency 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 (5.75 percent) or 1-percentage-point higher (7.75 percent) than the current rate:

| | 1% Decrease (5.75%) | Current Discount Rate (6.75%) | 1% Increase (7.75%) |
|---|---|---|---|
| Agency's net pension liability (asset) | $ (38,308) | $ (71,836) | $ (100,213) |

NOTE 5 - RETIREMENT PLAN (CONT'D)

**Pension expense (negative pension expense) and deferred outflows of resources and deferred inflows of resources related to pensions**

Pension expense (negative pension expense)

For the year ended June 30, 2022, the Agency recognized pension expense (negative pension expense) of ($5,114).

Deferred outflows of resources and deferred inflows of resources

For the year ended June 30, 2022, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ 1,517 | $ 31,064 |
| Net difference between projected and actual earnings on pension plan investments | - | 37,758 |
| Changes in assumptions | 40,045 | - |
| Contributions subsequent to the measurement date of June 30, 2021 | 5,473 | (Not applicable) |
| Totals | $ 47,035 | $ 68,822 |

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

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

| Year Ended June 30: | |
|---|---|
| 2023 | $ (6,627) |
| 2024 | (6,220) |
| 2025 | (6,134) |
| 2026 | (7,271) |
| 2027 | (1,011) |
| Thereafter | - |

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

NOTE 5 - RETIREMENT PLAN (CONT'D)

**Payable to the Pension Plan**

At June 30, 2022, the Tennessee Duck River Development Agency reported no amounts payable to the pension plan for outstanding contributions for the year ended June 30, 2022.

NOTE 6 - PROJECT COMMITMENTS

The Board has approved $405,000 in funding for conducting the environmental review for the Optimization and Drought Management of Normandy Reservoir. The status of this project as of June 30, 2022, is as follows:

| Contractor | Total approved | Incurred through June 30 |
|---|---|---|
| TVA | $ 222,589 | $ 152,091 |
| HydroLogics, Inc. | 45,300 | 45,300 |
| Ramboll Americas Engineering Solutions, Inc. | 137,111 | 125,691 |

On January 27, 2022, the Board approved using $10,000,000 from the Water Supply Trust Fund to partially fund a new downstream intake in Maury County, a project of Columbia Power & Water Systems (CPWS). Once both governing boards of the Agency and CPWS have approved an agreement, it will be submitted to all the member water systems for approval. See Note 7.

NOTE 7 - SUBSEQUENT AGREEMENT

On November 16, 2022, the Agency and CPWS signed the agreement for partial funding of a downstream intake. The agreement provides for the funding to be disbursed as follows:

$3,000,000 to be disbursed upon final approval by a simple majority vote from the seven contributing water systems to assist CPWS in finalizing engineering and permitting for the new downstream intake and transmission lines;

$1,000,000 upon land acquisition of the downstream intake site;

$6,000,000 upon permitting of the downstream intake and execution of the contracts to construct both the downstream intake and the transmission line.

If the project is not completed within 10 years of the date of the agreement, CPWS will repay the Agency its funding contribution.

The agreement must now be approved by the member water systems.

# REQUIRED SUPPLEMENTARY INFORMATION

**TENNESSEE DUCK RIVER DEVELOPMENT AGENCY**
**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 | | | | | | | | |
| Service cost | $ 11,192 | $ 11,624 | $ 11,924 | $ 12,189 | $ 13,270 | $ 12,882 | $ 13,199 | $ 14,281 |
| Interest | 6,614 | 8,027 | 9,486 | 11,012 | 13,175 | 14,075 | 15,824 | 15,973 |
| Differences between expected and actual experience | 590 | (494) | (1,328) | 2,634 | (13,644) | (3,157) | (28,051) | (2,502) |
| Changes in assumptions | - | - | - | 7,985 | - | - | - | 45,069 |
| Benefit payments, including refunds of employee contributions | - | - | - | - | - | - | - | - |
| NET CHANGE IN TOTAL PENSION LIABILITY | 18,396 | 19,157 | 20,082 | 33,820 | 12,801 | 23,800 | 972 | 72,821 |
| TOTAL PENSION LIABILITY - BEGINNING | 77,003 | 95,399 | 114,556 | 134,638 | 168,458 | 181,259 | 205,059 | 206,031 |
| TOTAL PENSION LIABILITY - ENDING (A) | 95,399 | 114,556 | 134,638 | 168,458 | 181,259 | 205,059 | 206,031 | 278,852 |
| PLAN FIDUCIARY NET POSITION | | | | | | | | |
| Contributions - employer | 1,438 | 1,355 | 1,384 | 1,454 | 1,597 | 4,859 | 5,354 | 5,452 |
| Contributions - employee | 6,419 | 6,579 | 6,720 | 7,057 | 6,825 | 6,961 | 7,671 | 7,811 |
| Net investment income | 19,087 | 4,375 | 4,093 | 18,873 | 16,077 | 16,360 | 12,315 | 70,574 |
| Benefit payments, including refunds of employee contributions | - | - | - | - | - | - | - | - |
| Administrative expense | (74) | (102) | (151) | (170) | (190) | (178) | (199) | (179) |
| NET CHANGE IN FIDUCIARY NET POSITION | 26,870 | 12,207 | 12,046 | 27,214 | 24,309 | 28,002 | 25,141 | 83,658 |
| FIDUCIARY NET POSITION - BEGINNING | 111,241 | 138,111 | 150,318 | 162,364 | 189,578 | 213,887 | 241,889 | 267,030 |
| FIDUCIARY NET POSITION - ENDING (B) | 138,111 | 150,318 | 162,364 | 189,578 | 213,887 | 241,889 | 267,030 | 350,688 |
| NET PENSION LIABILITY (ASSET) - ENDING (A) - (B) | $ (42,712) | $ (35,762) | $ (27,726) | $ (21,120) | $ (32,628) | $ (36,830) | $ (60,999) | $ (71,836) |
| **Plan fiduciary net position as a percentage of total pension liability** | 144.77% | 131.22% | 120.59% | 112.54% | 118.00% | 117.96% | 129.61% | 125.76% |
| **Covered payroll** | $ 128,383 | $ 131,584 | $ 134,399 | $ 141,147 | $ 136,492 | $ 139,222 | $ 153,410 | $ 156,220 |
| **Net pension liability (asset) as a percentage of covered payroll** | -33.27% | -27.18% | -20.63% | -14.96% | -23.90% | -26.45% | -39.76% | -45.98% |

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively.

*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.

**TENNESSEE DUCK RIVER DEVELOPMENT AGENCY**

**SCHEDULE OF CONTRIBUTIONS**
**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 | 2022 |
|---|---|---|---|---|---|---|---|---|---|
| Actuarially determined contribution | $ 1,438 | $ 1,355 | $ 1,384 | $ 1,454 | $ 1,597 | $ 4,859 | $ 4,480 | $ 4,562 | $ 4,562 |
| Contributions in relation to the actuarially determined contribution | 1,438 | 1,355 | 1,384 | 1,454 | 1,597 | 4,859 | 5,354 | 5,452 | 5,473 |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - | $ - | $ - | $ (874) | $ (890) | $ (911) |
| Covered employee payroll | $ 128,383 | $ 132,164 | $ 134,399 | $ 141,147 | $ 136,492 | $ 139,222 | $ 153,410 | $ 156,220 | $ 156,220 |
| Contribution as a percentage of covered payroll | 1.12% | 1.03% | 1.03% | 1.03% | 1.17% | 3.49% | 3.49% | 3.49% | 3.49% |

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

**Notes to the Schedule**

Valuation date: Actuarially determined contribution rates for fiscal year 2022 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 method | 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 projection of mortality improvement using Scale MP-2019 (static projection to 6 years beyond the valuation date) |
| 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 modified mortality assumptions.

# SUPPLEMENTARY INFORMATION

**TENNESSEE DUCK RIVER DEVELOPMENT AGENCY**
**GENERAL FUND**
## SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE, BUDGET TO ACTUAL
**For the year ended June 30, 2022**

| | BUDGETED AMOUNTS | | | VARIANCE WITH FINAL BUDGET |
|---|---|---|---|---|
| | ORIGINAL | FINAL | ACTUAL | OVER (UNDER) |
| REVENUES | | | | |
| Operating and Project Fund: | | | | |
| Administrative | $ 235,002 | $ 273,861 | $ 273,861 | $ - |
| Program revenues | 77,400 | 83,280 | 81,090 | (2,190) |
| Water supply projects | 417,435 | 398,035 | 291,211 | (106,824) |
| TOTAL REVENUES | 729,837 | 755,176 | 646,162 | (109,014) |
| EXPENDITURES | | | | |
| Current: | | | | |
| Administration: | | | | |
| Salaries and benefits | 187,820 | 192,770 | 187,031 | (5,739) |
| Occupancy | 7,487 | 8,390 | 6,900 | (1,490) |
| Professional services | 21,400 | 29,474 | 22,272 | (7,202) |
| Professional development | 1,850 | 2,000 | - | (2,000) |
| Office expense | 5,185 | 6,935 | 5,841 | (1,094) |
| Insurance | 3,500 | 3,500 | 3,368 | (132) |
| Meeting expense | 5,000 | 8,000 | 5,208 | (2,792) |
| Staff travel expense | 2,000 | 2,000 | 1,111 | (889) |
| Miscellaneous | 700 | 700 | 403 | (297) |
| Total Administration | 234,942 | 253,769 | 232,134 | (21,635) |
| Environmental programs: | | | | |
| Annual programs and contracts | 77,400 | 83,280 | 81,083 | (2,197) |
| Water supply projects | 102,935 | 106,396 | 24,272 | (82,124) |
| Duck River Welcome Center | 289,500 | 226,640 | 218,293 | (8,347) |
| Program support | 25,000 | 35,000 | 18,227 | (16,773) |
| Legal Consulting | - | 30,000 | 30,418 | 418 |
| Total environmental programs | 494,835 | 481,316 | 372,293 | (109,023) |
| TOTAL EXPENDITURES | 729,777 | 735,085 | 604,427 | (130,658) |
| NET CHANGE IN FUND BALANCE | $ 60 | $ 20,091 | $ 41,735 | $ 21,644 |

See independent auditor's report.

NOTE 1 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and budgetary accounting

Annual budgets are adopted for the general fund on a basis consistent with generally accepted accounting principles ("GAAP"). Prior to June 30, the Finance Committee prepares a proposed operating budget for the fiscal year beginning July 1. This budget is submitted to the DRA Board for review and approval. The budget includes all proposed expenditures and the anticipated means of financing them. Any revisions to the budget must be approved by the DRA Board.

# OTHER REPORT

WINNETT
Associates, PLLC
Certified Public Accountants and Consultants

514 Elm Street, P. O. Box 745
Shelbyville, Tennessee 37162

# 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*

The Board of Directors
Tennessee Duck River Development Agency
Shelbyville, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of the Tennessee Duck River Development Agency (the "Agency"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated December 20, 2022.

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

## REPORT ON COMPLIANCE AND OTHER MATTERS

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

PURPOSE OF THIS REPORT

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



December 20, 2022

## SCHEDULE OF PRIOR YEAR FINDINGS

## TENNESSEE DUCK RIVER DEVELOPMENT AGENCY

**June 30, 2022**

PRIOR YEAR

There were no prior year findings reported.