

**ROCKWOOD WATER, WASTEWATER  
AND NATURAL GAS  
ROCKWOOD, TENNESSEE**

**AUDITED FINANCIAL STATEMENTS WITH  
SUPPLEMENTAL FINANCIAL INFORMATION**

**JUNE 30, 2016**

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS**  
**ROCKWOOD, TENNESSEE**  
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## INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners of  
Rockwood Water, Wastewater and Natural Gas  
Rockwood, Tennessee

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Rockwood Water, Wastewater and Natural Gas (the Utility), an enterprise fund of the City of Rockwood, Tennessee as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Utility's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rockwood Water, Wastewater and Natural Gas, Rockwood, Tennessee as of June 30, 2016, and the changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in NOTE A, the financial statements present only Rockwood Water, Wastewater and Natural Gas, an enterprise fund, and do not purport to, and do not, present fairly the financial position of City of Rockwood, Tennessee, as of June 30, 2016, the changes in its financial position or its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion on pages 3-14 and the schedule of changes in net pension liability and related ratios based on participation in public employee pension plan of TCRS and the schedule of changes in contributions based on participation in the public employee pension plan of TCRS on pages 34 and 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Rockwood Water, Wastewater and Natural Gas, Rockwood, Tennessee's basic financial statements. The accompanying statements and schedules listed in the supplemental information section of the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The statements and schedules listed in the supplemental information section of the Table of Contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 4, 2017, on our consideration of Rockwood Water, Wastewater and Natural Gas, Rockwood, Tennessee'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 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 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 Rockwood Water, Wastewater and Natural Gas, Rockwood, Tennessee's internal control over financial reporting and compliance.

Parsons & Wright, CPAs

Parsons & Wright  
Certified Public Accountants  
Kingston, Tennessee

January 4, 2017

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
ROCKWOOD, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016**

The Management's Discussion and Analysis (MD&A) portion of this audit has been prepared by the management of Rockwood Water, Wastewater and Natural Gas (Utility) and presents a narrative overview and analysis of the department's financial performance for the fiscal year ending June 30, 2016. Fund and account balances shown in the MD&A are taken directly from the accompanying financial statements for the year ending June 30, 2016. These are proprietary enterprise funds. The MD&A is intended as a generalized overview of the Utility's financial status and should be read in conjunction with the Utility's financial statements which follow this section.

**FINANCIAL HIGHLIGHTS**

Water and Wastewater Department

- Total assets compared to the prior year, decreased \$451,603 to \$16,255,563.
- Total liabilities compared to the prior year, decreased \$589,084 to \$5,746,765.
- Operating revenue compared to the prior year, decreased \$22,401 to \$3,707,867.
- Operating expenses were \$8,655 higher than the prior year.
- Capital contributions and grants received in the amount of \$7,743.

Gas Department

- Total assets compared to the prior year, increased \$354,278 to \$8,490,366.
- Total liabilities compared to the prior year, increased \$57,111 to \$539,238.
- Operating revenue compared to the prior year, decreased \$1,158,862 to \$2,574,292.
- Operating expenses compared to the prior year, decreased \$1,045,709 to \$1,878,553 primarily due to decrease cost of natural gas.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report includes this management's discussion and analysis report, the independent auditors' report and the basic financial statements of the Utility. The financial statements also include notes that explain, in more detail, some of the information in the financial statements.

**REQUIRED FINANCIAL STATEMENTS**

The financial statements of the Utility report information of the Utility using accounting methods similar to those used by private sector companies. These statements offer short and long term financial information about its activities. The Statement of Net Position includes all of the Utility's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Utility creditors (liabilities). It also provides the basis for evaluating the capital structure of the Utility and assessing the liquidity and financial flexibility of the Utility.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the Utility's operations over the past year and can be used to determine whether the Utility has successfully recovered all its costs through user fees and other charges.

The final required financial statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, financing and investing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
ROCKWOOD, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016**

**FINANCIAL ANALYSIS OF THE UTILITY**

One of the most important questions asked about the Utility's finances is "Is the Utility as a whole better off or worse off as a result of this year's activities?" The Statement of Net Position, and the Statement of Revenues, Expenses and Changes in Net Position report information about the Utility's activities in a way that will help answer this question. These two statements report the net position of the Utility and the changes in them. One can think of the Utility's net position – the difference between assets and liabilities – as one way to measure the Utility's financial health. Over time, increases or decreases in the Utility's net position are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, and new or changed government legislation.

**NET POSITION**

To begin our analysis, a summary of the Utility's Statement of Net Position by Fund is presented in Table A-1 W&WW and Table A-1 Gas.

	<u>FYE 2016</u>	<u>FYE 2015</u>	<u>Dollar Change</u>	<u>Total Percent Change</u>
Current and Other Assets	\$ 2,577,507	\$ 2,931,250	\$ (353,743)	-12.1%
Capital Assets	13,678,056	13,775,916	(97,860)	-0.7%
Total Assets	<u>\$ 16,255,563</u>	<u>\$ 16,707,166</u>	<u>\$ (451,603)</u>	<u>-2.7%</u>
Long-Term Debt Outstanding	\$ 4,927,643	\$ 5,755,421	\$ (827,778)	-14.4%
Other Liabilities	819,122	580,428	238,694	41.1%
Total Liabilities	<u>\$ 5,746,765</u>	<u>\$ 6,335,849</u>	<u>\$ (589,084)</u>	<u>-9.3%</u>
Net Investment in Capital Assets	\$ 8,336,395	\$ 7,760,765	\$ 575,630	7.4%
Restricted	1,663,470	1,958,366	(294,896)	-15.1%
Unrestricted	550,965	624,866	(73,901)	-11.8%
Total Net Position	<u>\$ 10,550,830</u>	<u>\$ 10,343,997</u>	<u>\$ 206,833</u>	<u>2.0%</u>

As can be seen from the table above, the net position of the Water and Wastewater department increased \$206,833 to \$10,550,830 in 2016 from \$10,343,997 in 2015. The increase in net position reflects the use of cash for capital improvements and to reduce the outstanding long-term debt.

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016**

**NET POSITION - Continued**

<b>Table A-1 Gas</b>				
<b>Gas Condensed Statements of Net Position</b>				
	<b>FYE 2016</b>	<b>FYE 2015</b>	<b>Dollar Change</b>	<b>Total Percent Change</b>
Current and Other Assets	\$ 5,302,368	\$ 4,997,236	\$ 305,132	6.1%
Capital Assets	3,187,998	3,138,852	49,146	1.6%
Total Assets	\$ 8,490,366	\$ 8,136,088	\$ 354,278	4.4%
Deferred Outflow of Resources	\$ 30,186	\$ 11,928	\$ 18,258	n/a
Long-Term Debt Outstanding	\$ 0	\$ 0	\$ 0	n/a
Other Liabilities	539,238	482,127	57,111	11.8%
Total Liabilities	\$ 539,238	\$ 482,127	\$ 57,111	11.8%
Deferred Inflow of Resources	\$ 185,881	\$ 413,123	\$ (227,242)	-55.0%
Net Investment in Capital Assets	\$ 3,187,998	\$ 3,138,852	\$ 49,146	1.6%
Restricted	36,620	49,507	(12,887)	n/a
Unrestricted	4,570,815	4,064,407	506,408	12.5%
Total Net Position	\$ 7,795,433	\$ 7,252,766	\$ 542,667	7.5%

As can be seen from the table above, the net position of the Gas department increased \$542,667 to \$7,795,433 in 2016 from \$7,252,766 in 2015. The increase in net position reflects an improved cash position, the depreciation of prior capital improvements, and a slight increase in other liabilities.

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
ROCKWOOD, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016**

**NET POSITION - Continued**

While the Statement of Net Position shows the change in the Utility's financial condition, the Statements of Revenues, Expenses, and Changes in Net Position provides answers as to the nature and source of these changes.

A summary of the Utility's Statements of Revenues, Expenses and Changes in Net Position by Fund is presented in Table A-2 W&WW and Table A-2 Gas.

	<b>FYE 2016</b>	<b>FYE 2015</b>	<b>Dollar Change</b>	<b>Total Percent Change</b>
Operating revenues	\$ 3,707,867	\$ 3,730,268	\$ (22,401)	-0.6%
Nonoperating revenues	36,428	48,463	(12,035)	-24.8%
<b>Total Revenues</b>	<b>\$ 3,744,295</b>	<b>\$ 3,778,731</b>	<b>\$ (34,436)</b>	<b>-0.9%</b>
Depreciation & Amortization Expense	\$ 639,554	\$ 571,127	\$ 68,427	12.0%
Other operating expense	2,768,902	2,760,247	8,655	0.3%
Nonoperating expense	136,749	147,765	(11,016)	-7.5%
<b>Total Expenses</b>	<b>\$ 3,545,205</b>	<b>\$ 3,479,139</b>	<b>\$ 66,066</b>	<b>1.9%</b>
Income (Loss) Before Capital Contributions	\$ 199,090	\$ 299,592	\$ (100,502)	-33.5%
Capital contributions and grants	7,743	98,143	(90,400)	-92.1%
<b>Changes in Net Position</b>	<b>\$ 206,833</b>	<b>\$ 397,735</b>	<b>\$ (190,902)</b>	<b>-48.0%</b>
Beginning Net Position	10,343,997	9,946,262	397,735	4.0%
<b>Total Net Position</b>	<b>\$ 10,550,830</b>	<b>\$ 10,343,997</b>	<b>\$ 206,833</b>	<b>2.0%</b>

As can be seen in Table A-2 W&WW above, the income before capital contributions is \$199,090 and capital contributions and grants are \$7,743 in 2016.

The Utility's operating revenues decreased by \$22,401 to \$3.70 million in 2016 from \$3.73 million in 2015 due to decreased sales to customers and wholesale customers and increased tap fees. Non-operating revenues decreased by \$12,035 to \$36,428 in 2016, from \$48,463 in 2015. This decrease is due to less equipment sold and lower pension income.

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016**

**NET POSITION – Continued**

	<u>FYE 2016</u>	<u>FYE 2015</u>	<u>Dollar Change</u>	<u>Total Percent Change</u>
Operating revenues	\$ 2,574,292	\$ 3,733,154	\$ (1,158,862)	-31.0%
Nonoperating revenues	2,611	15,157	(12,546)	-82.8%
Total Revenues	<u>\$ 2,576,903</u>	<u>\$ 3,748,311</u>	<u>\$ (1,171,408)</u>	<u>-31.3%</u>
Depreciation & Amortization Expense	\$ 156,454	\$ 144,665	\$ 11,789	8.1%
Other operating expense	1,878,553	2,924,262	(1,045,709)	-35.8%
Nonoperating expense	0	0	0	n/a
Total Expenses	<u>\$ 2,035,007</u>	<u>\$ 3,068,927</u>	<u>\$ (1,033,920)</u>	<u>-33.7%</u>
Income (Loss) Before Capital Contributions	\$ 541,896	\$ 679,384	\$ (137,488)	-20.2%
Capital contributions and grants	771	0	771	n/a
Changes in Net Position	<u>\$ 542,667</u>	<u>\$ 679,384</u>	<u>\$ (136,717)</u>	<u>-20.1%</u>
Beginning Net Position	<u>7,252,766</u>	<u>6,573,382</u>	<u>679,384</u>	<u>10.3%</u>
Total Net Position	<u><u>\$ 7,795,433</u></u>	<u><u>\$ 7,252,766</u></u>	<u><u>\$ 542,667</u></u>	<u><u>7.5%</u></u>

As can be seen in Table A-2 Gas above, the increase in Net Position is \$542,667 in 2016.

The Utility's operating revenues decreased by \$1,158,862 to \$2.57 million in 2016 from \$3.73 million in 2015 due to decreased sales to residential, commercial and industrial and transportation customers. Non-operating revenues decreased by \$12,546 to \$2,611 in 2016, from \$15,157 in 2015. This decrease is due to less equipment sold and lower pension income.

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
ROCKWOOD, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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**BUDGETARY HIGHLIGHTS**

The Utility adopts an annual Operating Budget by fund. The Operating Budget includes proposed expenses and the means of financing them. The Utility's operating budget remains in effect the entire year and is not revised. A Fiscal Year 2016 budget comparison and analysis is presented to management as interim financial statements; however they are not reported on nor shown in the financial statement section of this report.

A 2016 budget comparison and analysis by fund is presented in Table A-3 W&WW and Table A-3 Gas.

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable / (Unfavorable)</u>
<b>Revenues</b>			
Operating	\$ 3,759,000	\$ 3,707,867	\$ (51,133)
Non-operating	36,200	36,428	228
<b>Total Revenues</b>	<u>\$ 3,795,200</u>	<u>\$ 3,744,295</u>	<u>\$ (50,905)</u>
<b>Operating Expenses</b>			
Employee Costs	\$ 1,476,075	\$ 1,441,715	\$ 34,360
Utilities	448,000	426,784	21,216
Purification Supplies	165,000	163,208	1,792
Maintenance	170,000	147,513	22,487
Contracted Services	206,000	129,722	76,278
Insurance	103,000	104,679	(1,679)
Supplies, Postage and Advertising	159,500	200,887	(41,387)
Depreciation & Amortization	685,000	639,554	45,446
Payments to City of Rockwood	134,000	134,000	0
Other	44,000	20,394	23,606
Non-operating	142,113	136,749	5,364
<b>Total Expenses</b>	<u>\$ 3,732,688</u>	<u>\$ 3,545,205</u>	<u>\$ 187,483</u>
<b>Income (Loss) Before Capital Contributions</b>	<u>\$ 62,512</u>	<u>\$ 199,090</u>	<u>\$ 136,578</u>

Operating revenues were 1.4% less than budgeted revenues as a result of the following categories reporting more than budgeted amounts: \$52,400 more than budget metered water sales, \$16,087 less than budget wastewater sales, \$13,431 less than budget forfeited discount and penalty income, \$5,572 more than budget in other water revenues and \$25,213 more than budget tap fees. Non-operating revenues were more than the budget due to less than expected proceeds from the sale equipment and more than expected interest income and pension income. The majority of categories of operating expenses were more than budgeted as a resulting the change in the shared expense allocation between departments. Non-operating expenses were less than budget because of interest expense was less than anticipated.

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
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**BUDGETARY HIGHLIGHTS - Continued**

<b>Table A-3 Gas Gas Budget vs. Actual FYE 2016</b>			
	<u>Budget</u>	<u>Actual</u>	<b>Variance Favorable / (Unfavorable)</b>
Revenues			
Operating	\$ 3,659,961	\$ 2,574,292	\$ (1,085,669)
Non-operating	3,000	2,611	(389)
Total Revenues	<u>\$ 3,662,961</u>	<u>\$ 2,576,903</u>	<u>\$ (1,086,058)</u>
Operating Expenses			
Natural Gas Purchases	\$ 2,486,392	\$ 1,044,815	\$ 1,441,577
Employee Costs	578,100	455,923	122,177
Utilities	17,000	13,013	3,987
Maintenance	34,500	31,249	3,251
Contracted Services	93,000	62,903	30,097
Insurance	58,200	51,700	6,500
Supplies, Postage and Advertising	113,000	110,741	2,259
Depreciation & Amortization	166,000	156,454	9,546
Payments to City of Rockwood	66,000	66,000	-
Other	42,000	42,209	(209)
Total Expenses	<u>\$ 3,654,192</u>	<u>\$ 2,035,007</u>	<u>\$ 1,619,185</u>
Income (Loss) Before Capital Contributions	<u>\$ 8,769</u>	<u>\$ 541,896</u>	<u>\$ 533,127</u>

Operating revenues were 29.7% less than budgeted revenues as a result of \$1,288,760 less than expected residential and commercial gas sales, \$163,300 more than expected transport sales and \$39,948 more than expected tap fees. Non-operating revenues were less than the budget due to less interest income, more gain on the sale of equipment, and more pension income. The majority of the expenses were less than budgeted as a result of a change in the shared expense allocation between departments.

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
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**CAPITAL ASSETS**

At June 30, 2016, the Utility has invested \$28,051,260 in capital assets as shown in Table A-4 W&WW. The \$530,199 increase in capital assets is made up of several items. There are several construction projects underway. The capital assets saw increases for upgrades to tube settlers, new roof, backwash rebuild, various pump rebuilds, software upgrades, bobcat repairs, HVAC repairs, finalization of the waste water treatment plant transmission repair, and two Ford F-150s.

	<u>FYE 2016</u>	<u>FYE 2015</u>	<u>Dollar Change</u>	<u>Total Percent Change</u>
Cost of Plant in Service	\$ 26,716,690	\$ 26,530,873	\$ 185,817	0.7%
Land	25,455	25,455	0	0.0%
Machinery & Equipment	723,623	685,740	37,883	5.5%
Software	95,225	0	95,225	n/a
Vehicles	245,909	224,436	21,473	9.6%
Construction in Progress	244,358	54,557	189,801	347.9%
<b>Total Capital Assets</b>	<b>\$ 28,051,260</b>	<b>\$ 27,521,061</b>	<b>\$ 530,199</b>	<b>1.9%</b>
Less: Accumulated Depreciation	<u>(14,373,204)</u>	<u>(13,745,145)</u>	<u>\$ (628,059)</u>	<u>4.6%</u>
<b>Net Capital Assets</b>	<b><u>\$ 13,678,056</u></b>	<b><u>\$ 13,775,916</u></b>	<b><u>\$ (97,860)</u></b>	<b><u>-0.7%</u></b>

At June 30, 2016, the Gas fund has invested \$5,776,643 in capital assets as shown in Table A-4 Gas. The \$241,819 increase in capital assets is made up of several items including software upgrades, bobcat repairs, HVAC repairs, an odorator, transmission repair, meters and transmitters, two Ford F-150s and other system and meter upgrades still underway that remain in construction in progress.

	<u>FYE 2016</u>	<u>FYE 2015</u>	<u>Dollar Change</u>	<u>Total Percent Change</u>
Cost of Plant in Service	\$ 4,518,912	\$ 4,454,246	\$ 64,666	1.5%
Machinery & Equipment	851,991	838,905	13,086	1.6%
Software	47,613	0	47,613	n/a
Vehicles	215,633	212,297	3,336	1.6%
Construction in Progress	94,881	29,376	65,505	223.0%
<b>Total Capital Assets</b>	<b>\$ 5,729,030</b>	<b>\$ 5,534,824</b>	<b>\$ 194,206</b>	<b>3.5%</b>
Less Accumulated Depreciation	<u>(2,541,032)</u>	<u>(2,395,972)</u>	<u>\$ (145,060)</u>	<u>6.1%</u>
<b>Net Capital Assets</b>	<b><u>\$ 3,187,998</u></b>	<b><u>\$ 3,138,852</u></b>	<b><u>\$ 49,146</u></b>	<b><u>1.6%</u></b>

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
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**CAPITAL ASSETS – Continued**

The Utility's five-year capital plan includes capital improvements related to safety, security, sewer line upgrades, water plant and distribution improvements, automated meter reading, various service expansions into unserved areas and maintenance with an anticipated remaining cost of \$1,247,000.

The maintenance program has been minimized to only complete the minimum requirements for the various regulatory agencies during the past two years. FY2016 is slated to have numerous projects in the survey, design and investigation stages in order to proceed with the capital improvements plan. As these preliminary stages are completed, we anticipate that more needs will be exposed and they will be prioritized and added to the five-year capital plan or master plan as necessary based on cost estimates.

**DEBT ADMINISTRATION**

In order to meet the Utility's debt requirements, the Utility maintains cash and investments in a sinking fund in an amount no less than what is required to meet the balance of the current year's debt service requirements. In addition, as required by the bond documents, the Utility maintains a debt service reserve fund with enough to pay one year's principal and interest payments. The Utility's revenues are pledged as security for the outstanding debt. Indebtedness outstanding at June 30, 2016 amounted to \$5,312,731. The Utility made principal payments during the fiscal year ending June 30, 2016 totaling \$667,467 on outstanding debt. A summary of the changes in Water & Wastewater Long-Term Debt for the fiscal year are shown in Table A-5. The Gas fund does not have long term debt.

<b>Table A-5 Water &amp; Wastewater Long-Term Debt</b>			
	<u>FYE 2016</u>	<u>FYE 2015</u>	<u>Dollar Change</u>
<b>Bond Payable</b>			
Waterworks Revenue Bond, 2012	\$ 2,815,000	\$ 2,925,000	\$ (110,000)
Waterworks Revenue Bond, 2007	495,410	502,940	(7,530)
USDA Revenue and Tax Bond 2013A	673,712	684,578	(10,866)
USDA Revenue and Tax Bond 2013B	747,472	760,947	(13,475)
<b>Notes Payable</b>			
Wastewater Department			
State Revolving Loan (SRF2000-139)	581,137	659,953	(78,816)
State Revolving Loan (SRF2004-178)	-	446,780	(446,780)
<b>Total Long-Term Debt</b>	<u>\$ 5,312,731</u>	<u>\$ 5,980,198</u>	<u>\$ (667,467)</u>
<b>Current Portion of Long Term Debt</b>	<u>(408,497)</u>	<u>(254,072)</u>	<u>(154,425)</u>
<b>Total Long-Term Debt, Excluding Current Maturities</b>	<u>\$ 4,904,234</u>	<u>\$ 5,726,126</u>	<u>\$ (821,892)</u>
<b>2012 Bond Premium and Discount, Net of Amortization</b>	<u>23,409</u>	<u>29,295</u>	<u>(5,886)</u>
<b>Net Long-Term Debt</b>	<u><u>\$ 4,927,643</u></u>	<u><u>\$ 5,755,421</u></u>	<u><u>\$ (827,778)</u></u>

More detailed information regarding long-term debt is presented in Note J of the financial statements.

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
ROCKWOOD, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016**

**ECONOMIC FACTORS AND CONDITIONS OF FUTURE SIGNIFICANCE**

Residential and commercial development continued to be very slow in the year ended June 30, 2016 with the extended economic downturn.

The Utility received a Director Order from the State of Tennessee Department of Environment and Conservation (TDEC) in January 2011. The Utility had already been operating under a previous Director's Order since 2006 to correct the system inflow and infiltration (I/I) and correct violations at the Wastewater Treatment Plant (WWTP) within a defined time frame or be subject to financial sanctions.

The current Director's Order continued with the same program and extended the date for the WWTP upgrade until August 2014. The plant upgrade involved replacing the trickling filter technology with activated sludge treatment with an oxidation ditch. This has resulted in the plant meeting permit limits. The project was substantially complete and online in July 2014. The final work with the contract, including the construction of a new lab building was completed by February 2015. The project was funded by CDBG and Rural Development grants and loans and utility resources. The utility continues to operate under the 2011 Director's Order until TDEC releases the utility from those requirements. The utility has met the requirements in the Director's Order but still has I/I issues to be addressed.

The Utility entered into an electrical curtailment agreement with EnerNoc, a Tennessee Valley Authority (TVA) agent. The basic concept is that the Utility would have to curtail electrical usage for a specified time period at its 6 MGD water treatment plant if called upon by TVA to do so. If no curtailments are called by TVA, the Utility still receives a percentage of the anticipated electrical curtailment load and did receive \$6,332 from EnerNoc during the fiscal year. The Utility has adapted its water production to the time frames specified by TVA for possible curtailments without any additional costs incurred.

The Utility has a water sales agreement with the City of Kingston, Tennessee (Kingston); however the sale of water anticipated has not been realized as of the close of fiscal year 2016. The original decision by Kingston to purchase water from the Utility was driven by the cost of having to expand their existing water treatment plant; however, changes within the City of Kingston have resulted in no water purchases by Kingston to date. The Kingston City Council decided to continue with the engineering and construction of the interconnection and transfer station which was completed in 2012.

Late in the fiscal year ended 2013, the Utility entered into a water sales agreement with the North Utility District of Rhea County (NRUD); NRUD invested in the engineering and subsequent line extension to interconnect with the Utility's service line in South Roane County. NRUD has also reimbursed the Utility for the meter pit and meter at the interconnection site. Construction of this interconnect was completed in 2013 and NRUD began purchasing water in June 2014. The utility works closely with NRUD to anticipate future needs. We are predicting an increase in purchased water over the next 18-24 months due to proposed industrial development in their service area. The utility also provides water to Roane Central Utility District and we are anticipating increased purchasing by this utility due to increased development of their service area. The current capacity of the water plant is adequate to provide for increased water consumption, although some distribution system improvements may be necessary.

The Utility's aging infrastructure has been compromised over time and during periods of heavy rains large amounts of water enter our wastewater collection system (I & I). This additional water then must be treated as wastewater. This situation increases the cost of treatment and has also caused overflow violations at the wastewater treatment plant. A significant investment is needed for further identification, engineering, and replacement of this aging infrastructure. The utility's budget and capital plan addresses the anticipated needs and begins the implementation of a more aggressive I & I program. The utility has construction on-going to address segments of our sanitary sewer system and will continue to fund future improvements.

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
ROCKWOOD, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016**

**ECONOMIC FACTORS AND CONDITIONS OF FUTURE SIGNIFICANCE – Continued**

The Board and management of the Utility considered many factors when setting the fiscal year ended 2016 budget, user fees and charges. Among the factors considered are the current and expected costs of operations, debt service requirements, and anticipated capital projects. Our focus is to provide reliable utility service at a reasonable price for all our divisions while maintaining a safe working environment for the employees of the Utility.

**UTILITY RATES**

**Water & Wastewater Rates:** The last rate increase was a 5% water rate increase and a 6% wastewater rate increase approved June 26, 2014 effective September 2014. The rates have been established based upon recovery of the current and expected costs of operations, debt service requirements, and anticipated capital projects.

**Natural Gas Rates:** There continues to be both increases and decreases in the price of natural gas. With the overall volatility in the natural gas market, the Utility continues to apply long range planning for procuring natural gas at the best possible price.

The Utility utilizes a Price of Gas Adjustment (PGA) policy, which calculates the actual cost of gas from the transportation charges, commodity charges, demand charges, storage charges, and consultant charges based on a Dekatherm (Dth). Once the actual cost of a Dth of gas is determined each month, the Utility then adds \$4.04 per Dth, which is the Utility's cost of operations and includes, but is not limited to: overhead, operating requirements, and capital retention. This customer base rate was established by the Board in October 2013 to adequately cover the O & M expenses of the gas utility and were developed for all customers within the City Limits of Rockwood. For those customers who live outside the City Limits of Rockwood, they have a Utility cost of operations factor of \$6.54/Dth. The average rate for a customer inside the City Limits of Rockwood for FY-16 was \$8.30/Dth. The cost to the Utility's customer for a consumption of 72 Dth's per year would have been \$629.76. At June 30, 2014, the Utility implemented deferred gas cost accounting whereby actual costs incurred for natural gas and costs recovered through the application of the PGA are reflected as a net deferred charge or credit on the balance sheet.

In January 2016, the Utility began providing qualified industrial customers uninterruptable service through its FT-1 rates that were established by the Board in December 2015. As of June 30, 2016 there are two industrial customers utilizing the FT-1 rate structure.

In addition to its firm gas sales customers, the Utility provides transportation to three (3) industrial interruptible customers. The transport customers employ a marketing company to procure their gas needs and then rely on various interstate pipeline companies to supply the gas to the Utility's purchase meter station with East Tennessee Natural Gas. The Utility then provides transportation of the natural gas through its pipeline facilities and infrastructure to the transport customer's facilities. Each transport customer enters into a Natural Gas Transportation Agreement with the Utility, which outlines the transportation rate schedules and the Utility's tariffs. Each month the transport customers are billed according to the tariffs and the rate schedules.

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
ROCKWOOD, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016**

**CONTACTING THE UTILITY'S FINANCIAL MANAGER**

This Financial report is designed to provide citizens, our customers and creditors with a general overview of the Utility's finances and to demonstrate the Utility's accountability for the money it receives. If you have questions about this report or need additional financial information, contact:

Rockwood Water, Wastewater & Gas  
110 N. Chamberlain Avenue  
Rockwood, TN 37854  
Telephone: (865) 354-0163

If you have questions about the report or require additional information contact:

Darryl Meadows, Chairman  
Loren Bone, Vice Chairman  
Timothy Couch, Commissioner  
Dudley Evans, Commissioner  
Joe Moore, Commissioner  
Kim Ramsey, General Manager  
Joan Kerley, Secretary/Treasurer

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
ROCKWOOD, TENNESSEE**

**FINANCIAL STATEMENTS**

**JUNE 30, 2016**

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
ROCKWOOD, TENNESSEE  
STATEMENTS OF NET POSITION  
JUNE 30, 2016**

	<b>ASSETS</b>		
	<u>WATER AND WASTEWATER</u>	<u>NATURAL GAS</u>	<u>TOTAL</u>
<b>CAPITAL ASSETS</b>			
Cost of Plant in Service	\$ 26,716,690	\$ 4,518,912	\$ 31,235,602
Land	25,455	0	25,455
Machinery & Equipment	723,623	851,991	1,575,614
Software	95,225	47,613	142,838
Vehicles	245,909	215,633	461,542
Construction in Progress	244,358	94,881	339,239
Less: Accumulated Depreciation	<u>(14,373,204)</u>	<u>(2,541,032)</u>	<u>(16,914,236)</u>
<b>Net Capital Assets</b>	<b>\$ 13,678,056</b>	<b>\$ 3,187,998</b>	<b>\$ 16,866,054</b>
<b>CURRENT ASSETS</b>			
Cash	\$ 476,932	\$ 4,343,560	\$ 4,820,492
Accounts Receivable			
Less: Allowance for Doubtful Accounts	229,446	82,366	311,812
Materials and Supplies Inventory	96,524	51,974	148,498
Natural Gas Inventory	0	400,612	400,612
Prepaid Expense	8,461	4,221	12,682
Due From Other Funds	<u>0</u>	<u>105,483</u>	<u>105,483</u>
<b>Total Current Assets</b>	<b>\$ 811,363</b>	<b>\$ 4,988,216</b>	<b>\$ 5,799,579</b>
<b>RESTRICTED ASSETS</b>			
Debt Service Fund	\$ 872,714	\$ 0	\$ 872,714
Water & Wastewater Construction Fund	720,859	0	720,859
Cash held for Customer Deposits	102,650	31,540	134,190
Roane County Wastewater	83	0	83
Net Pension Asset	<u>69,838</u>	<u>35,130</u>	<u>104,968</u>
<b>Total Restricted Assets</b>	<b>\$ 1,766,144</b>	<b>\$ 66,670</b>	<b>\$ 1,832,814</b>
<b>OTHER ASSETS</b>			
Due from Mid-Tennessee NG	<u>0</u>	<u>247,482</u>	<u>247,482</u>
<b>Total Other Assets</b>	<b>\$ 0</b>	<b>\$ 247,482</b>	<b>\$ 247,482</b>
<b>TOTAL ASSETS</b>	<b>\$ 16,255,563</b>	<b>\$ 8,490,366</b>	<b>\$ 24,745,929</b>
<b>DEFERRED OUTFLOWS OF RESOURCES RELATED TO PENSIONS</b>			
	<u>96,172</u>	<u>30,186</u>	<u>126,358</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 16,351,735</b>	<b>\$ 8,520,552</b>	<b>\$ 24,872,287</b>

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

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
ROCKWOOD, TENNESSEE  
STATEMENTS OF NET POSITION  
JUNE 30, 2016**

**LIABILITIES & NET POSITION**

	WATER AND WASTEWATER	NATURAL GAS	TOTAL
<b>LONG TERM DEBT</b>			
Bonds and Notes Payable	\$ 5,336,140	\$ 0	\$ 5,336,140
Less: Current Maturities	(408,497)	0	(408,497)
<b>Total Long-Term Liabilities</b>	<b>\$ 4,927,643</b>	<b>\$ 0</b>	<b>\$ 4,927,643</b>
<b>CURRENT LIABILITIES (PAYABLE FROM CURRENT ASSETS)</b>			
Accounts Payable	\$ 102,250	\$ 118,574	\$ 220,824
Over Recovered ACA Current Portion	0	296,002	296,002
Sales Tax Payable	13,860	983	14,843
Accrued Salaries	72,758	24,369	97,127
Accrued Expenses	8,079	69,260	77,339
Due To Other Funds	105,483	0	105,483
<b>Total Current Liabilities (Payable from Current Assets)</b>	<b>\$ 302,430</b>	<b>\$ 509,188</b>	<b>\$ 811,618</b>
<b>CURRENT LIABILITIES (PAYABLE FROM RESTRICTED ASSETS)</b>			
Bonds and Notes Payable - Current	\$ 408,497	\$ 0	\$ 408,497
Accrued Interest Payable	5,521	0	5,521
Customer Deposits	102,674	30,050	132,724
<b>Total Current Liabilities (Payable from Restricted Assets)</b>	<b>\$ 516,692</b>	<b>\$ 30,050</b>	<b>\$ 546,742</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 5,746,765</b>	<b>\$ 539,238</b>	<b>\$ 6,286,003</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred Revenue	\$ 0	\$ 55,846	\$ 55,846
Gas Rebates	0	25,940	25,940
Over Recovered ACA - Future Portion	0	74,001	74,001
Deferred Inflows Related to Pensions	54,140	30,094	84,234
<b>Total Deferred Inflows of Resources</b>	<b>54,140</b>	<b>185,881</b>	<b>240,021</b>
<b>NET POSITION:</b>			
Net Investment in Capital Assets	\$ 8,336,395	\$ 3,187,998	\$ 11,524,393
Restricted	1,663,470	36,620	1,700,090
Unrestricted	550,965	4,570,815	5,121,780
<b>Total Net Position</b>	<b>\$ 10,550,830</b>	<b>\$ 7,795,433</b>	<b>\$ 18,346,263</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<b>\$ 16,351,735</b>	<b>\$ 8,520,552</b>	<b>\$ 24,872,287</b>

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

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS**  
**ROCKWOOD, TENNESSEE**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	<u>WATER AND WASTEWATER</u>	<u>NATURAL GAS</u>	<u>TOTAL</u>
<b>OPERATING REVENUES</b>			
Metered Gas Sales (Less Bad Debt \$0)	\$ 0	\$ 2,213,201	\$ 2,213,201
Metered Water Sales (Less Bad Debt \$0)	2,347,600	0	2,347,600
Wastewater Service (Less Bad Debt \$0)	1,207,913	0	1,207,913
Tap Fees	90,213	65,948	156,161
Forfeited Discounts and Penalties	56,569	28,552	85,121
Local Transportation	0	263,300	263,300
Other Operating Revenue	5,572	3,291	8,863
<b>Total Operating Revenues</b>	<b>\$ 3,707,867</b>	<b>\$ 2,574,292</b>	<b>\$ 6,282,159</b>
<b>OPERATING EXPENSES</b>			
Natural Gas Purchases	\$ 0	\$ 1,044,815	\$ 1,044,815
Salaries	1,102,054	328,887	1,430,941
Payroll Taxes	79,638	24,262	103,900
Unemployment Insurance	3,060	1,851	4,911
Health Insurance	233,846	89,989	323,835
Training	12,993	6,287	19,280
Other Employee Benefits	7,340	2,283	9,623
Postage and Box Rent	13,170	9,511	22,681
Publicity and Subscriptions	757	589	1,346
Publication of Legal Notices	1,008	3,372	4,380
Membership and Registration Fees	5,118	16,823	21,941
Utility Services	403,227	3,322	406,549
Telephone	23,557	9,691	33,248
Professional Services	129,722	62,903	192,625
Motor Repair and Maintenance	24,358	11,803	36,161
Equipment Repair and Maintenance	41,964	10,722	52,686
Building Repair and Maintenance	1,127	404	1,531
Travel	2,784	2,364	5,148
Plant Landfill Expense	74,919	169	75,088
Office Supplies	10,800	5,457	16,257
Small Equipment	1,234	163	1,397
Operating Supplies	148,667	58,380	207,047
Chemical and Laboratory	163,208	0	163,208
Clothing and Uniforms	6,065	3,116	9,181
Gas and Oil	18,760	15,251	34,011
Safety Supplies	2,607	1,358	3,965
Meters	3,911	7,988	11,899
Liability Insurance	26,559	12,640	39,199
Building Insurance	37,787	18,893	56,680
Workers' Compensation Insurance	40,333	20,167	60,500
City Services Rendered	134,000	66,000	200,000
Rent Expense	0	30,000	30,000
Miscellaneous Expense Accounts	14,329	9,093	23,422
<b>Total Operating Expenses</b>	<b>\$ 2,768,902</b>	<b>\$ 1,878,553</b>	<b>\$ 4,647,455</b>
<b>NET OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION</b>	<b>\$ 938,965</b>	<b>\$ 695,739</b>	<b>\$ 1,634,704</b>

Continued on Next Page

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
ROCKWOOD, TENNESSEE  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2016**

(Continued)

	<u>WATER AND WASTEWATER</u>	<u>NATURAL GAS</u>	<u>TOTALS</u>
<b>NET OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (FROM PREVIOUS PAGE)</b>	\$ 938,965	\$ 695,739	\$ 1,634,704
Depreciation Expense	<u>(639,554)</u>	<u>(156,454)</u>	<u>(796,008)</u>
<b>NET OPERATING INCOME</b>	<u>\$ 299,411</u>	<u>\$ 539,285</u>	<u>\$ 838,696</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Interest Income	\$ 3,138	\$ 15	\$ 3,153
Interest Expense	(136,749)	0	(136,749)
Gain/(Loss) on Sale of Equipment	2,400	2,300	4,700
Rent Income	30,000	0	30,000
Pension Income	<u>890</u>	<u>296</u>	<u>1,186</u>
<i>Total Non-Operating Revenues (Expenses)</i>	<u>\$ (100,321)</u>	<u>\$ 2,611</u>	<u>\$ (97,710)</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS</b>	\$ 199,090	\$ 541,896	\$ 740,986
<b>CAPITAL CONTRIBUTIONS AND GRANTS</b>			
Capital Contributions and Grants	<u>\$ 7,743</u>	<u>\$ 771</u>	<u>\$ 8,514</u>
<b>CHANGE IN NET POSITION</b>	<u>\$ 206,833</u>	<u>\$ 542,667</u>	<u>\$ 749,500</u>
<b>TOTAL NET POSITION - BEGINNING OF YEAR</b>	<u>\$ 10,343,997</u>	<u>\$ 7,252,766</u>	<u>\$ 17,596,763</u>
<b>TOTAL NET POSITION - END OF YEAR</b>	<u><u>\$ 10,550,830</u></u>	<u><u>\$ 7,795,433</u></u>	<u><u>\$ 18,346,263</u></u>

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

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
ROCKWOOD, TENNESSEE  
STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2016**

	WATER AND WASTEWATER	NATURAL GAS	TOTAL
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Receipts from Customers	\$ 3,747,426	\$ 2,610,120	\$ 6,357,546
Payments to Suppliers	(1,614,242)	(1,692,354)	(3,306,596)
Payments to Employees	(1,093,580)	(326,525)	(1,420,105)
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>\$ 1,039,604</b>	<b>\$ 591,241</b>	<b>\$ 1,630,845</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition and Construction of Capital Assets	\$ (542,894)	\$ (206,900)	\$ (749,794)
Payment of Long-Term Debt	(667,467)	0	(667,467)
Proceeds from Sale of Assets	3,600	3,600	7,200
Grants & Capital Contributions	7,743	771	8,514
Interest Paid on Revenue Bonds and Notes	(142,772)	0	(142,772)
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<b>\$ (1,341,790)</b>	<b>\$ (202,529)</b>	<b>\$ (1,544,319)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest Received	\$ 3,138	\$ 15	\$ 3,153
Administrative Fees & Rental Income	30,000	0	30,000
Pension Income	890	296	1,186
(Increase) Decrease in Amounts owed to Water and Sewer Dept.	0	4,866	4,866
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>\$ 34,028</b>	<b>\$ 5,177</b>	<b>\$ 39,205</b>
<b>NET INCREASE (DECREASE) IN CASH &amp; CASH EQUIVALENTS</b>	<b>\$ (268,158)</b>	<b>\$ 393,889</b>	<b>\$ 125,731</b>
<b>BEGINNING CASH BALANCES</b>	<b>2,441,313</b>	<b>3,981,211</b>	<b>6,422,524</b>
<b>ENDING CASH BALANCES</b>	<b>\$ 2,173,155</b>	<b>\$ 4,375,100</b>	<b>\$ 6,548,255</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>			
Operating Income (Loss)	\$ 299,411	\$ 539,285	\$ 838,696
<i>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:</i>			
Depreciation and Amortization	639,554	156,454	796,008
(Increase) Decrease in Net Accounts Receivable	39,559	35,828	75,387
(Increase) Decrease in Materials and Supplies Inventory	25,758	38,119	63,877
(Increase) Decrease in Prepaid Expenses	656	349	1,005
(Increase) Decrease in Net Pension Asset	19,612	9,595	29,207
(Increase) Decrease in Deferred Outflows of Resources	(51,212)	(18,258)	(69,470)
Increase (Decrease) in Accounts Payable	72,655	39,400	112,055
Increase (Decrease) in Over Recovered ACA	0	1,430	1,430
Increase (Decrease) in Customer Deposits	7,934	4,150	12,084
Increase (Decrease) in Other Accrued Liabilities	3,817	12,131	15,948
Increase (Decrease) in Deferred Inflows of Resources	(18,140)	(227,242)	(245,382)
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>\$ 1,039,604</b>	<b>\$ 591,241</b>	<b>\$ 1,630,845</b>

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

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
ROCKWOOD, TENNESSEE  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**NOTE A – HISTORY/PURPOSE**

Rockwood Water, Wastewater and Natural Gas (the Utility) was established in 1937 under Chapter 509 of the Private Acts of Tennessee 1937 and is an Enterprise Fund of the City of Rockwood, Tennessee. The Utility provides water, wastewater and natural gas services to residents of Rockwood, Tennessee and the surrounding area. The Utility is managed by a five member board, all of whom are appointed by the city council. All powers, duties, and responsibilities of the Utility were assumed by the five-member Board of Water, Wastewater and Natural Gas as a result of an August 31, 1991 council resolution.

The Utility, for financial reporting purposes, includes the water, wastewater and natural gas departments of the City of Rockwood, Tennessee. The financial statements presented herein include only these departments.

**NOTE B - SUMMARY OF ACCOUNTING POLICIES**

The following items set forth the significant accounting policies, not disclosed elsewhere in the notes to the financial statements, which the Rockwood Water, Wastewater and Natural Gas (the Utility) follows in presenting its financial statements:

*1. Reporting Entity*

Rockwood Water, Wastewater and Natural Gas (the Utility) is a self-supporting governmental enterprise fund of the City of Rockwood, Tennessee (the City). The Utility is managed and controlled by a Board of Commissioners which is appointed by the City. The Utility manages, operates and maintains the gas, water and sewer utilities servicing the citizens of the City and surrounding areas. The Utility issues an annual financial report.

*2. Basis of Presentation, Measurement Focus and Basis of Accounting*

The accounting and reporting policies of the Utility included in the accompanying financial statements conform to accounting principles generally accepted in the United States of America that are applicable to state and local governments. The Utility applies all applicable pronouncements of the Governmental Accounting Standards Board (GASB).

The accounts for the Utility are maintained as an enterprise fund. An enterprise fund is a proprietary type fund used to account for operations 1) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or 2) services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

In June 2011, the GASB issued Statement No. 63 (*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*), effective for the Utility's fiscal year beginning October 1, 2012. GASB Statement No. 63 amends the net asset reporting requirements in Statement No. 34 and other pronouncements. Under these new standards, financial statements include deferred outflows of resources and deferred inflows of resources, in addition to assets and liabilities, and will report *net position* instead of net assets. GASB Statement No. 63 requires the classification of net position into three components – 1) net investment in capital assets; 2) net position - restricted; and 3) net position - unrestricted.

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**NOTE B - SUMMARY OF ACCOUNTING POLICIES – Continued**

*2. Basis of Presentation, Measurement Focus and Basis of Accounting - Continued*

These classifications are defined as follows:

*Net Investment in Capital Assets* - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

*Net Position – Restricted for Debt Service* - This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally a liability relates to restricted assets if the assets result from a resource flow that also results in a recognition of a liability or if the liability will be liquidated with the restricted assets reported. Restrictions are constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, laws, or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

*Net Position – Unrestricted* - This component of net position consists of assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Measurement focus is a term used to describe “which” transactions are recorded in the financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied. The accompanying financial statements of the Utility are reported using the “economic resources measurement focus” and the “accrual basis of accounting.” Revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of related cash flows.

*Implementation of GASB Statement No. 68*

During the year ended June 30, 2015, the District implemented GASB Statement No. 68, Financial Reporting for Pensions, which separates the accounting for pensions from the funding of pensions. It establishes a net pension liability (asset), pension expense (income) and established deferred outflows of resources related to pensions and deferred inflows of resources related to pensions.

Significant accounting policies of the Utility are described below:

Restricted and Unrestricted Resources – When both restricted and unrestricted resources are available for use, it is the government’s policy to use restricted resources first, then unrestricted resources as they are needed.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent 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 the estimates.

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**NOTE B - SUMMARY OF ACCOUNTING POLICIES – Continued**

*2. Basis of Presentation, Measurement Focus and Basis of Accounting - Continued*

Significant accounting policies of the Utility – Continued:

Retirement Plan – The Utility participates in the Tennessee Consolidated Retirement System, an employee benefit plan established as an individual entity, and accrues all proportionate costs associated with the operation and administration of the plan. However, control over the operation and administration of the plan, including investment decisions, is vested in the State of Tennessee along with custody of plan assets.

Compensated Absences – The Utility recognizes the cost of vacation and sick pay as it is earned. Accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. Full-time employees are entitled to receive payment for any unused vacation leave upon retirement or termination of employment. Full-time employees, upon retirement, are entitled to receive payment for up to a maximum of 960 hours of accumulated sick pay. Upon termination, the Utility has no obligation to pay employees for unused sick leave.

Revenues and Expenses – Revenues and expenses are distinguished between operating and non-operating items. Operating revenues generally result from providing services in connection with the Utility's principal ongoing operations. The principal operating revenues of the Utility are fees for gas sales, water sales and sewer treatment services.

Operating expenses include the costs associated with the Utility's pumping, distribution, natural gas purchased, sewage treatment and operations, customer account services, administrative expenses, maintenance, taxes and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

Taxes – Municipal utilities are exempt from federal and state income taxes.

Capitalization of Interest – Interest expense in excess of interest earnings on unexpended construction funds from related debt issues is capitalized when considered material. The amount of capitalized interest for the year ended June 30, 2016 was \$0.

Uncollectible Accounts Receivable – Charges to customers for services provided by the Water and Wastewater System are billed and collected by the Natural Gas System. Periodically, the Natural Gas System pays the other department for its respective share of customer billings. Uncollectible accounts are charged to the respective system. The allowance for uncollectible accounts was \$21,000 for the Water and Wastewater Department and \$20,801 for the Natural Gas Department for the year ended June 30, 2016.

*3. Basis of Presentation, Measurement Focus and Basis of Accounting*

Cash Equivalents – Cash equivalents consist of certificates of deposit and money market investment accounts with local banks maturing in less than ninety days from date of acquisition. In addition the Utility has cash and US Treasuries held in a broker account.

Inventories – Inventories are recorded at lower of cost (first-in, first-out method) or market.

Prepaid Expenses – Prepaid expenses include payments made to vendors that will benefit periods beyond the end of the current fiscal year.

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ROCKWOOD, TENNESSEE  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**NOTE B - SUMMARY OF ACCOUNTING POLICIES – Continued**

*3. Basis of Presentation, Measurement Focus and Basis of Accounting – Continued*

Interdepartmental Receivables and Payables – These accounts reflect the outstanding balance of monies loaned from one department to another.

Utility Plant – Utility plant is stated at historical cost for items constructed or acquired by purchase and at estimated fair market value on the date received for contributed capital.

Depreciation of all exhaustible utility plant assets, including those acquired through intergovernmental grants externally restricted to capital acquisitions, is charged as an expense against operations. Accumulated depreciation is reported on the statement of net position. Depreciation is calculated using the straight-line method over the following estimated useful lives:

Structures and improvements	40 – 50 years
Equipment	5 – 20 years
Transmission, Distribution & Collection Plants	15 – 40 years

Net interest costs during construction periods are capitalized for assets acquired by the issuance of long-term debt. Major additions and betterments \$1,000 and greater are capitalized while expenditures for maintenance and repairs that do not add value to the asset or materially extend asset lives are charged to operations as incurred.

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 Rockwood's participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System (TCRS), and additions to/deductions from Rockwood'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.

Long-Term Liabilities – Bonds and notes payable are reported net of any applicable bond premiums and discounts. Bond premiums and discounts are deferred and amortized over the life of the bonds and notes using the straight-line method. Debt issuance costs are reported as deferred charges and amortized over the term of the related debt.

Deferred Gas Costs and Over Recovered ACA – At June 30, 2015, the Utility implemented deferred gas cost accounting whereby actual costs incurred for natural gas and costs recovered through the application of the PGA are reflected as a net deferred charge or credit on the balance sheet. The Utility is calculating deferred gas costs in a manner that is similar to the Purchased Gas Adjustment Rules allowed for regulated entities. Annually, the Utility measures the over or under recovered actual cost adjustment and adjusts the billing rates to either recover or to credit back the difference between the gas cost recovery and actual gas costs.

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
ROCKWOOD, TENNESSEE  
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FOR THE YEAR ENDED JUNE 30, 2016**

**NOTE C – CASH AND CASH EQUIVALENTS**

Restricted and unrestricted cash and cash equivalents are carried at cost and consisted of the following at June 30, 2016:

	<u>WATER AND SEWER</u>		<u>GAS</u>		<u>TOTAL</u>
Cash on hand, in banks and broker accounts:					
Unrestricted	\$ 476,932	\$	4,343,560	\$	4,820,492
Restricted Cash	975,364		31,540		1,006,904
Restricted Cash Equivalents	720,859		0		720,859
Total Deposits	<u>\$ 2,173,155</u>	<u>\$</u>	<u>4,375,100</u>	<u>\$</u>	<u>6,548,255</u>

The carrying amount of the Utility's deposits, including restricted deposits, for the year ended June 30, 2016 was \$6,548,254. The bank balance was \$5,813,104. The Utility was covered by \$250,000 of federal depository insurance at June 30, 2016. Additionally, the Utility was covered by the financial institution's participation in the State of Tennessee Bank Collateral Pool for the bank balances. In addition to bank balances the Utility had cash equivalents comprised of cash and one-month US Treasuries and municipal bonds with a maturity of 30 days or less of \$720,859 in a brokerage account at June 30, 2016. This account is a category 3. The bank balance is a category 1 for the year ended June 30, 2016. The three categories of collateralization are as follows:

- (1) Insured or collateralized with securities held by the entity or by its agent in the entity's name.
- (2) Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.
- (3) Uncollateralized. (This includes any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the entity's name.)

State of Tennessee law authorizes the Utility to invest in obligations of the United States or its agencies, non-convertible debt securities of certain federal agencies, other obligations guaranteed as to principal and interest by the United States or any of its agencies, secured certificates of deposit and other evidences of deposit in state and federal banks and loan associations, and the state treasurer's investment pool.

The pool contains investments in certificates of deposit, U.S. Treasury securities and repurchase agreements, backed by the U.S. Treasury securities. The Treasurer of the State of Tennessee administers the investment pool. Although the Utility may participate in the state investment pool, it elects not to. Utility policy dictates that collateral meet certain requirements, such as, be deposited in an institution which participates in the state collateral pool or be deposited in an escrow account in another institution for the benefit of the Utility and must be a minimum of 105% of the value of the deposits placed in the institution less the amount protected by federal deposit insurance.

The state collateral pool is administered by the State of Tennessee. Members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional agreement, public fund accounts covered by the pool are considered to be classified as category one insured credit risk in accordance with GASB Statement No. 3, *Deposits with Financial Institutions, Investments (Including Repurchase Agreements) and Reverse Repurchase Agreements*.

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
ROCKWOOD, TENNESSEE  
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**NOTE D – INTER-DEPARTMENTAL RECEIVABLES AND PAYABLES**

The balance due to the Gas department from the Water and Wastewater Department was \$105,483 at June 30, 2016. The balance of \$105,483 at June 30, 2016 was paid to the Gas department in July 2016.

**NOTE E – CAPITAL CONTRIBUTIONS AND GRANTS**

The Utility received \$8,514 for the current year that is reflected as a capital contribution and grant.

**NOTE F – RISK MANAGEMENT**

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

**NOTE G – PREPAID EXPENSES**

Prepaid expenses consisted of the following at June 30, 2016:

	<u>WATER AND WASTEWATER</u>		<u>GAS</u>		<u>TOTAL</u>
Prepaid insurance and postage	\$ 8,461	\$	4,221	\$	12,682

**NOTE H - LITIGATION**

There are no claims pending against Rockwood Water, Wastewater and Natural Gas at June 30, 2016.

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
ROCKWOOD, TENNESSEE  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE I – CAPITAL ASSETS**

Activity for the Capital Asset and Accumulated Depreciation accounts was as follows:

	<u>BALANCE JUNE 30, 2015</u>	<u>ADDITIONS</u>	<u>RETIREMENTS</u>	<u>BALANCE JUNE 30, 2016</u>
<b>CAPITAL ASSETS</b>				
<b>CAPITAL ASSETS, NOT BEING DEPRECIATED</b>				
Land and Easements	\$ 25,455	\$ 0	\$ 0	\$ 25,455
Construction in Progress	83,933	323,432	(68,126)	339,239
<b>Total Capital Assets, Not Being Depreciated</b>	<b>\$ 109,388</b>	<b>\$ 323,432</b>	<b>\$ (68,126)</b>	<b>\$ 364,694</b>
<b>CAPITAL ASSETS, BEING DEPRECIATED</b>				
Distribution and Collection	14,512,597	76,554	0	14,589,151
Utility Plant	16,472,522	173,929	0	16,646,451
Transportation Equipment	436,733	50,197	(25,388)	461,542
Machinery and Equipment	1,324,721	48,377	0	1,373,098
Software	0	142,838	0	142,838
Furniture and Fixtures	199,924	2,592	0	202,516
<b>Total Capital Assets, being Depreciated</b>	<b>\$ 32,946,497</b>	<b>\$ 494,487</b>	<b>\$ (25,388)</b>	<b>\$ 33,415,596</b>
<b>TOTAL CAPITAL ASSETS</b>	<b>\$ 33,055,885</b>	<b>\$ 817,919</b>	<b>\$ (93,514)</b>	<b>\$ 33,780,290</b>
<b>LESS: ACCUMULATED DEPRECIATION</b>				
Distribution and Collection	\$ 6,907,234	\$ 253,025	\$ 0	\$ 7,160,259
Utility Plant	7,844,588	436,757	0	8,281,345
Transportation Equipment	333,100	30,928	(22,888)	341,140
Machinery and Equipment	861,447	72,048	0	933,495
Software	0	1,617	0	1,617
Furniture and Fixtures	194,748	1,632	0	196,380
<b>TOTAL ACCUM. DEPRECIATION</b>	<b>\$ 16,141,117</b>	<b>\$ 796,007</b>	<b>\$ (22,888)</b>	<b>\$ 16,914,236</b>
<b>NET CAPITAL ASSETS</b>	<b>\$ 16,914,768</b>	<b>\$ 21,912</b>	<b>\$ (70,626)</b>	<b>\$ 16,866,054</b>

Depreciation expense charged to income for the year ended June 30, 2016 totaled \$639,554 for the Water and Wastewater Department and \$156,454 for the Gas Department.

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
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**NOTE J – LONG-TERM DEBT**

The following is a summary of changes in long-term debt for the year ended June 30, 2016:

	<u>JULY 1, 2015</u>	<u>ADDITIONS</u>	<u>RETIREMENTS</u>	<u>JUNE 30, 2016</u>	<u>DUE WITHIN ONE YEAR</u>
<b>BONDS PAYABLE</b>					
Water Revenue & Tax Bonds:					
Series 2012	\$ 2,925,000	\$ 0	\$ 110,000	\$ 2,815,000	\$ 295,000
USDA 91-02	502,940	0	7,530	495,410	7,599
USDA Revenue and Tax Bond 2013A	684,578	0	10,866	673,712	11,230
USDA Revenue and Tax Bond 2013B	760,947	0	13,475	747,472	14,097
<b>Total Bonds</b>	<b>\$ 4,873,465</b>	<b>\$ 0</b>	<b>\$ 141,871</b>	<b>\$ 4,731,594</b>	<b>\$ 327,926</b>
<b>NOTES PAYABLE</b>					
Wastewater Department					
State Revolving Loan (SRF2000-139)	\$ 659,953	\$ 0	\$ 78,816	\$ 581,137	\$ 80,571
State Revolving Loan (SRF2004-178)	446,780	0	446,780	0	0
<b>Total Notes Payable</b>	<b>\$ 1,106,733</b>	<b>\$ 0</b>	<b>\$ 525,596</b>	<b>\$ 581,137</b>	<b>\$ 80,571</b>
<b>BONDS &amp; NOTES PAYABLE</b>	<b>\$ 5,980,198</b>	<b>\$ 0</b>	<b>\$ 667,467</b>	<b>\$ 5,312,731</b>	<b>\$ 408,497</b>
Series 2012 Bond Premium/(Discount)	\$ 29,295	\$ 0	\$ 5,886	\$ 23,409	\$ 0
<b>TOTAL BONDS &amp; NOTES PAYABLE</b>	<b>\$ 6,009,493</b>	<b>\$ 0</b>	<b>\$ 673,353</b>	<b>\$ 5,336,140</b>	<b>\$ 408,497</b>

Long-Term Debt of \$5,336,140 at June 30, 2016 on the Statement of Net Position includes Bond Premiums and Discounts (net of accumulated amortization) of \$23,409. This is for the Series 2012 Bonds.

During the year ended June 30, 2013, the Utility refunded Water and Wastewater Revenue Bonds, Series 2003 with the issuance of Water and Sewer General Obligation Bonds, Series 2012. The refunding was undertaken to reduce total debt service payments over the next eighteen years by \$110,399 and to obtain an economic gain difference (difference between the present value of the debt service payments of the refunded and refunding bonds) of \$21,956.

The Water and Sewer (original balance) \$541,500 (balance is \$495,410 at 06/30/2016) Rural Development Bond bears the interest at 4.50% and is payable in monthly installments of \$2,481 through 2047 and is secured by the Water and Sewer Revenue and Tax Bond Series 2007. This Bond was used to pay off the interim financing for the Mountain View/Black Creek water line extension. The Rural Development Bond requires the Utility to deposit one tenth of one annual payment, \$29,832, each year for ten years. The amount required to be deposited for the year ended June 30, 2016 was \$21,379. These amounts were included in a restricted deposit account with balances of \$872,714 at June 30, 2016.

The net revenues of the Utility and the taxing authority of the City of Rockwood are pledged to secure long-term debt.

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
ROCKWOOD, TENNESSEE  
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**NOTE J – LONG-TERM DEBT – Continued**

The Wastewater Department (original balance) \$1,498,604 (balance is \$581,137 at 06/30/2016) State Revolving Loan from the State of Tennessee (SRF 2000-139) bears interest at 2.20% and is payable in monthly installments of \$7,724 through 2023 and is secured by the revenues of the Utility and state shared revenues.

The Wastewater Department (original balance) \$700,000 (balance is \$446,780 at 06/30/2016) State Revolving Loan from the State of Tennessee (SRF 2004-178) bears interest at 1.98% and was payable in monthly installments of \$3,487 through 2027 and is secured by the revenues of the Utility and state shared revenues. This debt was paid off by 6/30/2016.

Interest costs incurred for the year ended June 30, 2016 was \$136,749. Long-term debt consisted of the following at June 30, 2016:

**BONDS PAYABLE**

Water & Sewer Revenue and Tax Refunding Bonds, Series 2012, interest rates ranging for 1.00% to 3.00%; payable in annual installments ranging from \$110,000 to \$350,000.	\$ 2,815,000
Net 2012 Bond Premiums / (Discounts)	23,409
Water & Sewer Revenue and Tax Refunding Bonds, Series 2007, interest rates 4.50%; payable in monthly installments of \$2,481 through 2047.	495,410
Water & Sewer Revenue and Tax, Series 2013A, interest rate 2.75%; payable in monthly installments of \$2,468 through 2052.	673,712
Water & Sewer Revenue and Tax, Series 2013B, interest rate 2.125%; payable in monthly installments of \$2,487 through 2052.	<u>747,472</u>
<b>Total Bonds Payable</b>	<b>\$ <u>4,755,003</u></b>

**NOTES PAYABLE**

2.20% wastewater department state revolving loan, payable in monthly installments of \$7,724 through 2023.	\$ 581,137
1.98% wastewater department state revolving loan, payable in monthly installments of \$3,487 through 2027.	<u>0</u>
<b>Total Notes Payable</b>	<b>\$ <u>581,137</u></b>

<b>TOTAL LONG-TERM DEBT</b>	<b>\$ 5,336,140</b>
<b>LESS CURRENT MATURITIES</b>	<u>(408,497)</u>
<b>TOTAL LONG-TERM DEBT, EXCLUDING CURRENT MATURITIES</b>	<b>\$ <u><u>4,927,643</u></u></b>

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
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FOR THE YEAR ENDED JUNE 30, 2016**

**NOTE J – LONG-TERM DEBT – Continued**

Future annual principal and interest maturities of the long-term debt payable, not including the bond premium, at June 30, 2016 are as follows:

	<b>BONDS PAYABLE</b>		<b>LOANS PAYABLE</b>		<b>TOTAL</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2017	\$ 327,926	\$ 122,544	\$ 80,571	\$ 12,120	\$ 408,497	\$ 134,664
2018	368,901	115,678	82,361	10,332	451,262	126,010
2019	374,896	107,983	84,191	8,496	459,087	116,479
2020	375,925	99,305	86,062	6,624	461,987	105,929
2021	386,987	90,592	87,975	4,716	474,962	95,308
2022-2026	757,122	367,493	159,977	3,684	917,099	371,177
2027-2031	834,459	264,210	0	0	834,459	264,210
2032-2036	272,603	173,541	0	0	272,603	173,541
2037-2041	317,723	128,421	0	0	317,723	128,421
2042-2046	371,246	74,898	0	0	371,246	74,898
2047-2051	298,254	23,351	0	0	298,254	23,351
2052	45,552	476	0	0	45,552	476
	<u>\$ 4,731,594</u>	<u>\$ 1,568,492</u>	<u>\$ 581,137</u>	<u>\$ 45,972</u>	<u>\$ 5,312,731</u>	<u>\$ 1,614,464</u>

**NOTE K - PENSIONS**

*Plan description*

Employees of Rockwood 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 publically available financial report that can be obtained at [www.treasury.tn.gov/tcrs](http://www.treasury.tn.gov/tcrs).

*Benefits provided*

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

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**NOTE K – PENSIONS – Continued**

Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

*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 (*alternatively-Employees are non-contributory*). Rockwood makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2015, the Actuarially Determined Contribution (ADC) for Rockwood was \$144,375 based on a rate of 4.63 percent of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept Rockwood's state shared taxes if required employer contributions are not remitted. The employer's ADC and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

***Net Pension Liability (Asset)***

Rockwood's net pension liability (asset) was measured as of June 30, 2015, and the total pension liability (asset) 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, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary Increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment Rate of Return	7.5 percent, net of pension plan investment expenses, including inflation
Cost-of-Living Adjustment	2.5 percent ( <i>use only if COLA is provided</i> )

Mortality rates were based on actual experience from the June 30, 2012 actuarial experience study adjusted for some of the expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2015 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
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FOR THE YEAR ENDED JUNE 30, 2016**

**NOTE K – PENSIONS – 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, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established 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 inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Long Term Expected Real Rate of Return</u>	<u>Target Allocation</u>
U.S. Equity	6.46%	33%
Developed Market International Equity	6.26%	17%
Emerging Market International Equity	6.40%	5%
Private Equity and Strategic Lending	4.61%	8%
U.S. Fixed Income	0.98%	29%
Real Estate	4.73%	7%
Short-Term Securities	0.00%	1%
		<u>100%</u>

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

*Discount rate*

The discount rate used to measure the total pension liability was 7.5 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 Rockwood 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.

Sensitivity of the net pension liability (asset) to changes in the discount rate. The following presents the net pension liability (asset) of Rockwood calculated using the discount rate of 7.5 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 (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
	6.50%	7.50%	8.50%
Rockwood's Net Pension Liability (Asset)	\$ <u>175,427</u>	\$ <u>(104,968)</u>	\$ <u>(338,712)</u>

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
ROCKWOOD, TENNESSEE  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**NOTE K – PENSIONS – Continued**

***Negative Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

*Negative pension expense*

For the year ended June 30, 2016, Rockwood recognized negative pension expense of \$1,186.

*Deferred outflows of resources and deferred inflows of resources*

For the year ended June 30, 2016, Rockwood reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 16,002	\$ 18,297
Net Difference between projected and actual earnings on pension plan investments	47,093	65,937
Contributions subsequent to the measurement date of June 30, 2015	63,263	n/a
<b>Total</b>	<b>\$ 126,358</b>	<b>\$ 84,234</b>

The amount shown above for "Contributions subsequent to the measurement date of June 30, 2015," will be recognized as an increase to the net pension 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:

2017	\$ (20,629)
2018	(20,629)
2019	(20,629)
2020	(20,629)
2021	(1,718)
Thereafter	0

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

***Payable to the Pension Plan***

At June 30, 2016, Rockwood reported a payable of \$9,647 with Water and Wastewater representing \$7,429 and \$2,218 representing Gas for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2016.

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
ROCKWOOD, TENNESSEE  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**NOTE L – INTERFUND RENT**

The Gas Department pays the Water and Wastewater Department \$2,500 per month for the usage of the Church Street facility. As of June 30, 2016, the total rent paid by the Gas Department was \$30,000.

**NOTE M – COMMITMENTS**

There were no commitments at June 30, 2016.

**NOTE N – SUBSEQUENT EVENTS**

The Utility's management evaluated subsequent events through January 4, 2017, the date the financial statements were available to be issued, for items requiring disclosure in the financial statements.

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS**

**ROCKWOOD, TENNESSEE**

**REQUIRED SUPPLEMENTAL INFORMATION**

**JUNE 30, 2016**

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
 ROCKWOOD, TENNESSEE  
 FOR THE YEAR ENDED JUNE 30, 2016  
 SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS  
 BASED ON PARTICIPATION IN PUBLIC EMPLOYEE PENSION PLAN OF TCRS  
 LAST FISCAL YEAR ENDING JUNE 30**

	<u>2014</u>	<u>2015</u>
<b>Employers proportionate share of the collective net pension liability (asset)</b>	\$ <u>(134,175)</u>	\$ <u>(104,968)</u>
<b>Employers portion of the collective net pension liability (asset)</b>	<u>15.18%</u>	<u>14.57%</u>
<b>Plan fiduciary net position as a percentage of total pension liability</b>	<u>110.68%</u>	<u>104.88%</u>
<b>Covered-employee payroll</b>	\$ <u>1,126,738</u>	\$ <u>1,230,841</u>
<b>Net pension liability (asset) as a percentage of covered-employee payroll</b>	<u>11.91%</u>	<u>8.53%</u>

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

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
ROCKWOOD, TENNESSEE  
SCHEDULE OF CHANGES IN CONTRIBUTIONS BASED ON PARTICIPATION IN THE  
PUBLIC EMPLOYEE PENSION PLAN OF TCRS FOR THE YEAR ENDED JUNE 30, 2016  
LAST FISCAL YEAR ENDING JUNE 30**

**Schedule of Rockwood's Contributions  
Based on Participation in the Public Employee Pension Plan of TCRS  
Last Fiscal Year ending June 30**

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Actuarially determined contribution	\$ 79,322	\$ 56,688	\$ 63,263
Contributions in relation to the actuarially determined contribution	<u>(79,322)</u>	<u>(56,688)</u>	<u>(63,263)</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered-Employee Payroll	\$ 1,126,738	\$ 1,230,841	\$ 1,351,806
Contributions as a percentage of covered-employee payroll	7.04%	4.61%	4.68%

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

**Notes to the Schedule**

Last Fiscal Year ending June 30

Valuation date: Actuarially determined contribution rates for 2016 were calculated based on the July 1, 2013 actuarial valuation.

*Methods and assumptions used to determine contribution rates:*

Actuarial Cost Method	Frozen initial liability
Amortization Method	Level dollar, closed (not to exceed 20 years)
Remaining Amortization Period	1 years
Asset Valuation	10-year smoothed within a 20 percent corridor to market value
Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation
Investment Rate of Return	7.5 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	2.5 percent

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS**  
**ROCKWOOD, TENNESSEE**  
**SUPPLEMENTAL FINANCIAL INFORMATION**  
**JUNE 30, 2016 AND 2015**

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
SCHEDULE OF REVENUE AND EXPENSES  
BUDGET VS ACTUAL  
WATER AND WASTEWATER DEPARTMENT  
JUNE 30, 2016**

	ORIGINAL AND FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
<b>OPERATING REVENUES</b>			
Metered Water Sales (Less Bad Debt \$0)	\$ 2,400,000	\$ 2,347,600	\$ (52,400)
Wastewater Service (Less Bad Debt \$0)	1,224,000	1,207,913	(16,087)
Tap Fees	65,000	90,213	25,213
Forfeited Discounts and Penalties	70,000	56,569	(13,431)
Other Operating Revenue	0	5,572	5,572
<b>Total Operating Revenues</b>	<b>\$ 3,759,000</b>	<b>\$ 3,707,867</b>	<b>\$ (51,133)</b>
<b>OPERATING EXPENSES</b>			
Salaries	\$ 1,050,000	\$ 1,102,054	\$ (52,054)
Payroll Taxes	80,325	79,638	687
Retirement	52,500	0	52,500
Unemployment Insurance	7,000	3,060	3,940
Health Insurance	266,000	233,846	32,154
Training	8,000	12,993	(4,993)
Other Employee Benefits	6,250	7,340	(1,090)
Postage and Box Rent	15,000	13,170	1,830
Publicity and Subscriptions	3,000	757	2,243
Publication of Legal Notices	1,500	1,008	492
Membership and Registration Fees	8,000	5,118	2,882
Utility Services	425,000	403,227	21,773
Telephone	23,000	23,557	(557)
Professional Services	206,000	129,722	76,278
Motor Repair and Maintenance	25,000	24,358	642
Equipment Repair and Maintenance	60,000	41,964	18,036
Building Repair and Maintenance	8,000	1,127	6,873
Travel	6,000	2,784	3,216
Plant Landfill Expense	59,000	74,919	(15,919)
Office Supplies	14,000	10,800	3,200
Small Equipment	8,000	1,234	6,766
Operating Supplies	75,000	148,667	(73,667)
Chemical and Laboratory	165,000	163,208	1,792
Clothing and Uniforms	9,000	6,065	2,935
Gas and Oil	33,000	18,760	14,240
Safety Supplies	10,000	2,607	7,393
Meters	10,000	3,911	6,089
Liability Insurance	27,000	26,559	441
Building Insurance	36,000	37,787	(1,787)
Workers' Compensation Insurance	40,000	40,333	(333)
City Services Rendered	134,000	134,000	0
Rent Expense	5,000	0	5,000
Miscellaneous Expense Accounts	30,000	14,329	15,671
<b>Total Operating Expenses</b>	<b>\$ 2,905,575</b>	<b>\$ 2,768,902</b>	<b>\$ 136,673</b>
<b>NET OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION</b>			
	<b>\$ 853,425</b>	<b>\$ 938,965</b>	<b>\$ 85,540</b>

Continued on Next Page

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
SCHEDULE OF REVENUE AND EXPENSES  
BUDGET VS ACTUAL  
WATER AND WASTEWATER DEPARTMENT  
JUNE 30, 2016  
(Continued)**

	<u>ORIGINAL AND FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
<b>NET OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (FROM PREVIOUS PAGE)</b>	\$ 853,425	\$ 938,965	\$ 85,540
Depreciation Expense	<u>(685,000)</u>	<u>(639,554)</u>	<u>45,446</u>
<b>NET OPERATING INCOME</b>	<u>\$ 168,425</u>	<u>\$ 299,411</u>	<u>\$ 130,986</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Interest Income	\$ 1,200	\$ 3,138	\$ 1,938
Interest Expense	(142,113)	(136,749)	5,364
Gain/(Loss) on Sale of Equipment	5,000	2,400	(2,600)
Rent Income	30,000	30,000	0
Pension Income	<u>0</u>	<u>890</u>	<u>890</u>
<i>Total Non-Operating Revenues (Expenses)</i>	<u>\$ (105,913)</u>	<u>\$ (100,321)</u>	<u>\$ 5,592</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTION</b>	<u>\$ 62,512</u>	<u>\$ 199,090</u>	<u>\$ 136,578</u>
<b>CAPITAL CONTRIBUTIONS AND GRANTS</b>			
Capital Contributions and Grants	<u>\$ 0</u>	<u>\$ 7,743</u>	<u>\$ 7,743</u>
<b>CHANGE IN NET POSITION</b>	<u>\$ 62,512</u>	<u>\$ 206,833</u>	<u>\$ 144,321</u>
<b>TOTAL NET POSITION - BEGINNING OF YEAR</b>	<u>\$ 10,343,997</u>	<u>\$ 10,343,997</u>	<u>\$ 0</u>
<b>TOTAL NET POSITION - END OF YEAR</b>	<u><u>\$ 10,406,509</u></u>	<u><u>\$ 10,550,830</u></u>	<u><u>\$ 144,321</u></u>

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
SCHEDULE OF REVENUE AND EXPENSES  
BUDGET VS ACTUAL  
NATURAL GAS DEPARTMENT  
JUNE 30, 2016**

	<u>ORIGINAL AND FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
<b>OPERATING REVENUES</b>			
Metered Gas Sales (Less Bad Debt \$0)	\$ 3,501,961	\$ 2,213,201	\$ (1,288,760)
Tap Fees	26,000	65,948	39,948
Forfeited Discounts and Penalties	30,000	28,552	(1,448)
Local Transportation	100,000	263,300	163,300
Other Operating Revenue	2,000	3,291	1,291
<b>Total Operating Revenues</b>	<b>\$ 3,659,961</b>	<b>\$ 2,574,292</b>	<b>\$ (1,085,669)</b>
<b>OPERATING EXPENSES</b>			
Natural Gas Purchases	\$ 2,486,392	\$ 1,044,815	\$ 1,441,577
Salaries	400,000	328,887	71,113
Payroll Taxes	30,600	24,262	6,338
Retirement	20,000	0	20,000
Unemployment Insurance	3,000	1,851	1,149
Health Insurance	112,000	89,989	22,011
Training	6,000	6,287	(287)
Other Employee Benefits	4,000	2,283	1,717
Postage and Box Rent	12,000	9,511	2,489
Publicity and Subscriptions	2,000	589	1,411
Publication of Legal Notices	7,000	3,372	3,628
Membership and Registration Fees	13,000	16,823	(3,823)
Utility Services	4,000	3,322	678
Telephone	13,000	9,691	3,309
Professional Services	93,000	62,903	30,097
Motor Repair and Maintenance	10,000	11,803	(1,803)
Equipment Repair and Maintenance	15,000	10,722	4,278
Building Repair and Maintenance	2,500	404	2,096
Travel	2,500	2,364	136
Office Supplies	9,000	5,457	3,543
Small Equipment	2,000	163	1,837
Operating Supplies	43,000	58,380	(15,380)
Clothing and Uniforms	4,000	3,116	884
Gas and Oil	25,000	15,251	9,749
Safety Supplies	2,000	1,358	642
Meters	5,000	7,988	(2,988)
Liability Insurance	15,300	12,640	2,660
Building Insurance	21,100	18,893	2,207
Workers' Compensation Insurance	21,800	20,167	1,633
City Services Rendered	66,000	66,000	0
Rent Expense	33,000	30,000	3,000
Miscellaneous Expense Accounts	5,000	9,093	(4,093)
<b>Total Operating Expenses</b>	<b>\$ 3,488,192</b>	<b>\$ 1,878,553</b>	<b>\$ 1,609,639</b>
<b>NET OPERATING INCOME BEFORE DEPRECIATION</b>	<b>\$ 171,769</b>	<b>\$ 695,739</b>	<b>\$ 523,970</b>

Continued on Next Page

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
SCHEDULE OF REVENUE AND EXPENSES  
BUDGET VS ACTUAL  
NATURAL GAS DEPARTMENT  
JUNE 30, 2016  
(Continued)**

	<u>ORIGINAL AND FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
<b>NET OPERATING INCOME BEFORE DEPRECIATION (FROM PREVIOUS PAGE)</b>	\$ 171,769	\$ 695,739	\$ 523,970
Depreciation Expense	<u>(166,000)</u>	<u>(156,454)</u>	<u>9,546</u>
<b>TOTAL OPERATING INCOME</b>	<u>\$ 5,769</u>	<u>\$ 539,285</u>	<u>\$ 533,516</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Interest Income	\$ 3,000	\$ 15	\$ (2,985)
Gain/(Loss) on Sale of Equipment	0	2,300	2,300
Pension Income	<u>0</u>	<u>296</u>	<u>296</u>
<i>Total Non-Operating Revenues (Expenses)</i>	<u>\$ 3,000</u>	<u>\$ 2,611</u>	<u>\$ (389)</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS</b>	<u>\$ 8,769</u>	<u>\$ 541,896</u>	<u>\$ 533,127</u>
<b>CAPITAL CONTRIBUTIONS AND GRANTS</b>			
Capital Contributions and Grants	<u>\$ 0</u>	<u>\$ 771</u>	<u>\$ 771</u>
<b>CHANGE IN NET POSITION</b>	<u>\$ 8,769</u>	<u>\$ 542,667</u>	<u>\$ 533,898</u>
<b>TOTAL NET POSITION - BEGINNING OF YEAR</b>	<u>\$ 7,252,766</u>	<u>\$ 7,252,766</u>	<u>\$ 0</u>
<b>TOTAL NET POSITION - END OF YEAR</b>	<u><u>\$ 7,261,535</u></u>	<u><u>\$ 7,795,433</u></u>	<u><u>\$ 533,898</u></u>

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
ROCKWOOD, TENNESSEE  
SCHEDULE OF UTILITY PLANT AND ACCUMULATED DEPRECIATION  
WATER AND WASTEWATER DEPARTMENT  
JUNE 30, 2016**

	<u>BALANCE JUNE 30, 2015</u>	<u>ADDITIONS</u>	<u>RETIREMENTS</u>	<u>BALANCE JUNE 30, 2016</u>
<b>CAPITAL ASSETS</b>				
<b>CAPITAL ASSETS, NOT BEING DEPRECIATED</b>				
Land and Easements	\$ 25,455	\$ 0	\$ 0	25,455
Construction in Progress	54,557	228,551	(38,750)	244,358
<b>Total Capital Assets, Not Being Depreciated</b>	<b>\$ 80,012</b>	<b>\$ 228,551</b>	<b>\$ (38,750)</b>	<b>269,813</b>
<b>CAPITAL ASSETS, BEING DEPRECIATED</b>				
Distribution and Collection	\$ 10,600,962	\$ 47,177	\$ 0	10,648,139
Utility Plant	15,929,911	138,640	0	16,068,551
Transportation Equipment	224,436	34,167	(12,694)	245,909
Machinery and Equipment	574,093	35,291	0	609,384
Software	0	95,225	0	95,225
Furniture and Fixtures	111,647	2,592	0	114,239
<b>Total Capital Assets, Being Depreciated</b>	<b>\$ 27,441,049</b>	<b>\$ 353,092</b>	<b>\$ (12,694)</b>	<b>27,781,447</b>
<b>TOTAL CAPITAL ASSETS</b>	<b>\$ 27,521,061</b>	<b>\$ 581,643</b>	<b>\$ (51,444)</b>	<b>28,051,260</b>
<b>ACCUMULATED DEPRECIATION</b>				
Distribution and Collection	\$ 5,521,691	\$ 171,444	\$ 0	5,693,135
Utility Plant	7,589,937	415,514	0	8,005,451
Transportation Equipment	165,857	15,871	(11,494)	170,234
Machinery and Equipment	359,189	34,525	0	393,714
Software	0	1,078	0	1,078
Furniture and Fixtures	108,471	1,121	0	109,592
<b>TOTAL ACCUM. DEPRECIATION</b>	<b>\$ 13,745,145</b>	<b>\$ 639,553</b>	<b>\$ (11,494)</b>	<b>14,373,204</b>
<b>NET CAPITAL ASSETS</b>	<b>\$ 13,775,916</b>	<b>\$ (57,910)</b>	<b>\$ (39,950)</b>	<b>13,678,056</b>

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
ROCKWOOD, TENNESSEE  
SCHEDULE OF UTILITY PLANT AND ACCUMULATED DEPRECIATION  
NATURAL GAS DEPARTMENT  
JUNE 30, 2016**

	<u>BALANCE JUNE 30, 2015</u>	<u>ADDITIONS</u>	<u>RETIREMENTS</u>	<u>BALANCE JUNE 30, 2016</u>
<b>CAPITAL ASSETS</b>				
<b>CAPITAL ASSETS, NOT BEING DEPRECIATED</b>				
Construction in Progress	\$ 29,376	\$ 94,881	\$ (29,376)	\$ 94,881
<b>Total Capital Assets, Not Being Depreciated</b>	<b>\$ 29,376</b>	<b>\$ 94,881</b>	<b>\$ (29,376)</b>	<b>\$ 94,881</b>
<b>CAPITAL ASSETS, BEING DEPRECIATED</b>				
Distribution and Collection	\$ 3,911,635	\$ 29,377	\$ 0	\$ 3,941,012
Utility Plant	542,611	35,289	0	577,900
Transportation Equipment	212,297	16,030	(12,694)	215,633
Machinery and Equipment	750,628	13,086	0	763,714
Software	0	47,613	0	47,613
Furniture and Fixtures	88,277	0	0	88,277
<b>Total Capital Assets, Being Depreciated</b>	<b>\$ 5,505,448</b>	<b>\$ 141,395</b>	<b>\$ (12,694)</b>	<b>\$ 5,634,149</b>
<b>TOTAL CAPITAL ASSETS</b>	<b>\$ 5,534,824</b>	<b>\$ 236,276</b>	<b>\$ (42,070)</b>	<b>\$ 5,729,030</b>
<b>ACCUMULATED DEPRECIATION</b>				
Distribution and Collection	\$ 1,385,543	\$ 81,581	\$ 0	\$ 1,467,124
Utility Plant	254,651	21,243	0	275,894
Transportation Equipment	167,243	15,057	(11,394)	170,906
Machinery and Equipment	502,258	37,523	0	539,781
Software	0	539	0	539
Furniture and Fixtures	86,277	511	0	86,788
<b>TOTAL ACCUM. DEPRECIATION</b>	<b>\$ 2,395,972</b>	<b>\$ 156,454</b>	<b>\$ (11,394)</b>	<b>\$ 2,541,032</b>
<b>NET CAPITAL ASSETS</b>	<b>\$ 3,138,852</b>	<b>\$ 79,822</b>	<b>\$ (30,676)</b>	<b>\$ 3,187,998</b>

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
ROCKWOOD, TENNESSEE  
SCHEDULE OF INSURANCE IN FORCE  
JUNE 30, 2016**

<u>COVERAGE</u>	<u>COVERAGE AMOUNT</u>
General and Excess Liability Bodily Injury and Property Damage	\$ 2,000,000
Automobile Liability	2,000,000
Workers' Compensation	Statutory
Fire, Extended Coverage and Malicious Mischief:	
Buildings and Personal Property (\$5,000 Deductible)	44,949,559
Electronic Data Processing Equipment (\$500 Deductible)	75,000
Mobile Equipment (\$500 Deductible)	603,356
Equipment Breakdown (\$5,000 Deductible)	45,552,915
Crime	150,000
Public Officials Liability	2,000,000

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
ROCKWOOD, TENNESSEE  
SCHEDULE OF RATES IN FORCE  
JUNE 30, 2016**

*Water Rates*

<u>USAGE</u>	<u>INSIDE CITY</u>	<u>OUTSIDE CITY</u>	<u>SOUTH ROANE COUNTY</u>
0 - 200 Cubic Feet (Minimum)	\$ 12.75	\$ 22.30	\$ 29.04
201 - 1,000 Cubic Feet (Per 100 Cubic Feet)	3.76	6.57	7.00

*Sewer Rates*

160% of Bill for Water Services

*Gas Rates*

	<u>INSIDE CITY</u>	<u>OUTSIDE CITY</u>
Residential	\$ 8.30/Dth	\$ 10.08/Dth
Commercial	8.30/Dth	10.08/Dth
Industrial	8.30/Dth	10.08/Dth
Transportation	varies on metered consumption	

In addition a Purchase Gas Adjustment (PGA) is included on monthly gas bills. The PGA can fluctuate monthly depending on purchased gas prices.

*Tap Fees*

	<u>INSIDE CITY</u>	<u>OUTSIDE CITY</u>
3/4 " Tap Fee	\$ 650.00	\$ 800.00
1 " Tap Fee	750.00	1,075.00
2 " and Larger Tap Fee	Priced as Needed	Priced as Needed
Sewer- residential 4" Tap Fee	1,000.00	1,000.00
Sewer- residential 6" Tap Fee	1,100.00	1,100.00
Sewer- Grinder Pump and Tap	6,000.00	32,000.00
Installation fee on private property up to 100'	1,000.00	600.00
Per Foot charge after first 100' on private property	1.00	1.50
Natural Gas	400.00	400.00
Gas lines assessed at \$1.00 per foot (property line to meter) over 150 feet.		

Average number of customers: water	3,845
Average number of customers: wastewater	1,834
Average number of customers: gas	2,728

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
ROCKWOOD, TENNESSEE  
AWWA WATER LOSS REPORTING WORKSHEET  
JUNE 30, 2016**

AWWA Free Water Audit Software:  
Reporting Worksheet

WAB v5.0  
American Water Works Association  
Copyright © 2014, All Rights Reserved.

Water Audit Report for: **Rockwood Water Sewer and Gas (0000530)**  
 Reporting Year: **2016** 7/2015 - 6/2016

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

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

To select the correct data grading for each input, determine the highest grade where the utility meets or exceeds all criteria for that grade and all grades below it.

**WATER SUPPLIED**

Volume from own sources:  MG/yr

Water imported:  MG/yr

Water exported:  MG/yr

---

**WATER SUPPLIED:**  MG/yr

**AUTHORIZED CONSUMPTION**

Billed metered:  MG/yr

Billed unmetered:  MG/yr

Unbilled metered:  MG/yr

Unbilled unmetered:  MG/yr

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

**AUTHORIZED CONSUMPTION:**  MG/yr

---

**WATER LOSSES (Water Supplied - Authorized Consumption)**  MG/yr

**Apparent Losses**

Unauthorized consumption:  MG/yr

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

Customer metering inaccuracies:  MG/yr

Systematic data handling errors:  MG/yr

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

**Apparent Losses:**  MG/yr

---

**Real Losses (Current Annual Real Losses or CARR)**

**Real Losses = Water Losses - Apparent Losses:**  MG/yr

---

**WATER LOSSES:**  MG/yr

---

**NON-REVENUE WATER**

**NON-REVENUE WATER:**  MG/yr

- Water Leaker + Unbilled Metered + Unbilled Unmetered

**SYSTEM DATA**

Length of mains:  miles

Number of active AND inactive service connections:

Service connection density:  conn./mile main

Are customer meters typically located at the curbside or property line?  (length of service line, beyond the property boundary, that is the responsibility of the utility)

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

Average operating pressure:  psi

---

**COST DATA**

Total annual cost of operating water system:  \$/Year

Customer retail unit cost (applied to Apparent Losses):  \$/100 cubic feet (ccf)

Variable production cost (applied to Real Losses):  \$/Million gallons  Use Customer Retail Unit Cost to value real losses

---

**WATER AUDIT DATA VALIDITY SCORE:**

\*\*\* YOUR SCORE IS: 77 out of 100 \*\*\*

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

**PRIORITY AREAS FOR ATTENTION:**

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

1: Customer retail unit cost (applied to Apparent Losses)

2: Billed metered

3: Unauthorized consumption

See independent auditor's report.

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**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
ROCKWOOD, TENNESSEE  
AWWA WATER LOSS REPORTING WORKSHEET  
JUNE 30, 2016**

AWWA Free Water Audit Software: System Attributes and Performance Indicators		WAS v5.0 American Water Works Association Copyright © 2014, All Rights Reserved.
<b>Water Audit Report for:</b> <span style="border: 1px solid black; padding: 2px;">Rockwood Water Sewer and Gas (0000590)</span> <b>Reporting Year:</b> <span style="border: 1px solid black; padding: 2px;">2016</span> / <span style="border: 1px solid black; padding: 2px;">7/2015 - 6/2016</span>		
*** YOUR WATER AUDIT DATA VALIDITY SCORE IS: 77 out of 100 ***		
Annual cost of Apparent Losses: <span style="border: 1px solid black; padding: 2px;">\$271,625</span>		
Annual cost of Real Losses: <span style="border: 1px solid black; padding: 2px;">\$28,328</span>		Valued at <b>Variable Production Costs</b> <small>Return to Reporting Worksheet to change this as</small>
<b>Performance Indicators:</b>		
Non-revenue water as percent by volume of Water Supplied:	<span style="border: 1px solid black; padding: 2px;">17.4%</span>	
Non-revenue water as percent by cost of operating system:	<span style="border: 1px solid black; padding: 2px;">14.5%</span>	Real Losses valued at Variable Production Costs
Operational Efficiency:	Apparent Losses per service connection per day: <span style="border: 1px solid black; padding: 2px;">17.50</span>	gallons/connection/day
	Real Losses per service connection per day: <span style="border: 1px solid black; padding: 2px;">N/A</span>	gallons/connection/day
	Real Losses per length of main per day*: <span style="border: 1px solid black; padding: 2px;">1,009.75</span>	gallons/mile/day
	Real Losses per service connection per day per psi pressure: <span style="border: 1px solid black; padding: 2px;">N/A</span>	gallons/connection/day/psi
From Above, Real Losses = Current Annual Real Losses (CARL): <span style="border: 1px solid black; padding: 2px;">65.23</span>		million gallons/year
Infrastructure Leakage Index (ILI) [CARL/UARL]: <span style="border: 1px solid black; padding: 2px;">1.11</span>		
* This performance indicator applies for systems with a low service connection density of less than 32 service connections/mile of pipeline		

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
ROCKWOOD, TENNESSEE  
SCHEDULE OF DEBT REQUIREMENTS  
JUNE 30, 2016**

YEAR END	SRF 2000-139		USDA 91-02		2013A Bonds		2013B Bonds		2012 Bonds		2012 Bonds		TOTAL	
	PRIN PMTS	INT PMTS	PRIN PMTS	INT PMTS	PRIN PMTS	INT PMTS	PRIN PMTS	INT PMTS	PRIN PMTS	INT PMTS	PRIN PMTS	INT PMTS	PRIN PMTS	INT PMTS
2017	\$ 80,571	\$ 12,120	\$ 7,599	\$ 22,161	\$ 11,230	\$ 18,386	\$ 14,097	\$ 15,747	\$ 285,000	\$ 35,200	\$ 10,000	\$ 31,050	\$ 408,497	\$ 134,664
2018	82,361	10,332	7,958	21,811	11,543	18,073	14,400	15,444	325,000	29,500	10,000	30,850	451,262	126,010
2019	84,191	8,496	8,323	21,446	11,864	17,752	14,709	15,135	325,000	23,000	15,000	30,650	459,087	116,479
2020	86,062	6,624	8,706	21,063	12,195	17,421	15,024	14,820	325,000	15,688	15,000	30,313	461,987	105,929
2021	87,975	4,716	9,106	20,663	12,534	17,082	15,347	14,497	335,000	8,375	15,000	29,975	474,962	95,308
2022	89,930	2,760	9,524	20,245	12,883	16,733	15,676	14,168			110,000	29,600	238,013	83,506
2023	70,047	924	9,961	19,808	13,242	16,374	16,012	13,832			110,000	27,180	219,262	78,118
2024			10,419	19,350	13,611	16,005	16,356	13,488			110,000	24,760	150,386	73,603
2025			10,898	18,871	13,990	15,626	16,707	13,137			110,000	22,230	151,595	69,864
2026			11,398	18,371	14,380	15,236	17,065	12,779			115,000	19,700	157,843	66,086
2027			11,922	17,847	14,780	14,836	17,432	12,412			115,000	16,825	159,134	61,920
2028			12,470	17,299	15,192	14,424	17,806	12,038			120,000	13,950	165,468	57,711
2029			13,042	16,726	15,615	14,001	18,188	11,656			120,000	10,650	166,845	53,033
2030			13,642	16,127	16,050	13,566	18,578	11,266			120,000	7,350	168,270	48,309
2031			14,268	15,501	16,497	13,119	18,977	10,867			125,000	3,750	174,742	43,237
2032			14,924	14,845	16,956	12,660	19,384	10,460					51,264	37,965
2033			15,609	14,159	17,428	12,188	19,800	10,044					52,837	36,391
2034			16,327	13,442	17,914	11,702	20,225	9,619					54,466	34,763
2035			17,077	12,692	18,412	11,204	20,659	9,185					56,148	33,081
2036			17,861	11,908	18,925	10,691	21,102	8,742					57,888	31,341
2037			18,682	11,087	19,452	10,164	21,555	8,289					59,689	29,540
2038			19,540	10,229	19,994	9,622	22,017	7,827					61,551	27,678
2039			20,437	9,331	20,551	9,065	22,490	7,354					63,478	25,750
2040			21,376	8,393	21,123	8,493	22,972	6,872					65,471	23,758
2041			22,358	7,411	21,711	7,905	23,465	6,379					67,534	21,695
2042			23,386	6,383	22,316	7,300	23,969	5,875					69,671	19,558
2043			24,460	5,309	22,938	6,678	24,483	5,361					71,881	17,348
2044			25,584	4,185	23,576	6,040	25,009	4,835					74,169	15,060
2045			26,759	3,010	24,233	5,383	25,545	4,299					76,537	12,692
2046			27,987	1,781	24,908	4,708	26,093	3,751					78,988	10,240
2047			23,807	498	25,601	4,015	26,653	3,191					76,061	7,704
2048					26,314	3,302	27,225	2,619					53,539	5,921
2049					27,047	2,569	27,809	2,035					54,856	4,604
2050					27,801	1,815	28,406	1,438					56,207	3,253
2051					28,575	1,041	29,016	828					57,591	1,869
2052					22,331	261	23,221	215					45,552	476
<b>TOTAL</b>	<b>\$ 581,137</b>	<b>\$ 45,972</b>	<b>\$ 495,410</b>	<b>\$ 421,952</b>	<b>\$ 673,712</b>	<b>\$ 385,440</b>	<b>\$ 747,472</b>	<b>\$ 320,504</b>	<b>\$ 1,595,000</b>	<b>\$ 111,763</b>	<b>\$ 1,220,000</b>	<b>\$ 328,833</b>	<b>\$ 5,312,731</b>	<b>\$ 1,614,464</b>

See independent auditor's report.

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
ROCKWOOD, TENNESSEE  
COMPARATIVE STATEMENTS OF NET POSITION  
WATER AND WASTEWATER DEPARTMENT  
JUNE 30, 2016 AND 2015**

**ASSETS**

	<u>JUNE 30, 2016</u>	<u>JUNE 30, 2015</u>
<b>CAPITAL ASSETS</b>		
Cost of Plant in Service	\$ 26,716,690	\$ 26,530,873
Land	25,455	25,455
Machinery & Equipment	723,623	685,740
Software	95,225	0
Vehicles	245,909	224,436
Construction in Progress	244,358	54,557
Less: Accumulated Depreciation	<u>(14,373,204)</u>	<u>(13,745,145)</u>
<b>Net Capital Assets</b>	<b>\$ <u>13,678,056</u></b>	<b>\$ <u>13,775,916</u></b>
<b>CURRENT ASSETS</b>		
Cash	\$ 476,932	\$ 477,740
Accounts Receivable		
Less: Allowance for Doubtful Accounts	229,446	269,005
Materials and Supplies Inventory	96,524	122,282
Prepaid Expense	<u>8,461</u>	<u>9,117</u>
<b>Total Current Assets</b>	<b>\$ <u>811,363</u></b>	<b>\$ <u>878,144</u></b>
<b>RESTRICTED ASSETS</b>		
Debt Service Fund	\$ 872,714	\$ 1,023,396
Water & Wastewater Construction Fund	720,859	848,064
Cash held for Customer Deposits	102,650	92,113
Roane County Wastewater	83	83
Net Pension Asset	<u>69,838</u>	<u>89,450</u>
<b>Total Restricted Assets</b>	<b>\$ <u>1,766,144</u></b>	<b>\$ <u>2,053,106</u></b>
<b>TOTAL ASSETS</b>	<b>\$ <u>16,255,563</u></b>	<b>\$ <u>16,707,166</u></b>
<b>DEFERRED OUTFLOWS OF RESOURCES RELATED TO PENSIONS</b>		
	<u>\$ 96,172</u>	<u>\$ 44,960</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ <u>16,351,735</u></b>	<b>\$ <u>16,752,126</u></b>

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
ROCKWOOD, TENNESSEE  
COMPARATIVE STATEMENTS OF NET POSITION  
WATER AND WASTEWATER DEPARTMENT  
JUNE 30, 2016 AND 2015**

**LIABILITIES & NET POSITION**

	<u>JUNE 30, 2016</u>	<u>JUNE 30, 2015</u>
<b>LONG TERM DEBT</b>		
Bonds and Notes Payable	\$ 5,336,140	\$ 6,009,493
Less: Current Maturities	<u>(408,497)</u>	<u>(254,072)</u>
<b>Total Long-Term Liabilities</b>	<u>\$ 4,927,643</u>	<u>\$ 5,755,421</u>
<b>CURRENT LIABILITIES (PAYABLE FROM CURRENT ASSETS)</b>		
Accounts Payable	\$ 102,250	\$ 29,595
Sales Tax Payable	13,860	13,686
Accrued Salaries	72,758	64,284
Accrued Expenses	8,079	8,044
Due To Other Funds	<u>105,483</u>	<u>110,349</u>
<b>Total Current Liabilities (Payable from Current Assets)</b>	<u>\$ 302,430</u>	<u>\$ 225,958</u>
<b>CURRENT LIABILITIES (PAYABLE FROM RESTRICTED ASSETS)</b>		
Bonds and Notes Payable - Current	\$ 408,497	\$ 254,072
Accrued Interest Payable	5,521	5,658
Customer Deposits	<u>102,674</u>	<u>94,740</u>
<b>Total Current Liabilities (Payable from Restricted Assets)</b>	<u>\$ 516,692</u>	<u>\$ 354,470</u>
<b>TOTAL LIABILITIES</b>	<u>\$ 5,746,765</u>	<u>\$ 6,335,849</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred Inflows Related to Pensions	\$ 54,140	\$ 72,280
<b>Total Deferred Inflows of Resources</b>	<u>54,140</u>	<u>72,280</u>
<b>NET POSITION:</b>		
Net Investment in Capital Assets	\$ 8,336,395	\$ 7,760,765
Restricted	1,663,470	1,958,366
Unrestricted	<u>550,965</u>	<u>624,866</u>
<b>Total Net Position</b>	<u>\$ 10,550,830</u>	<u>\$ 10,343,997</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<u>\$ 16,351,735</u>	<u>\$ 16,752,126</u>

**ROCKWOOD WATER, WASTERWATER AND NATURAL GAS  
ROCKWOOD, TENNESSEE  
COMPARATIVE STATEMENTS OF NET POSITION  
NATURAL GAS DEPARTMENT  
JUNE 30, 2016 AND 2015**

**ASSETS**

	<u>JUNE 30, 2016</u>	<u>JUNE 30, 2015</u>
<b>CAPITAL ASSETS</b>		
Cost of Plant in Service	\$ 4,518,912	\$ 4,454,246
Machinery & Equipment	851,991	838,905
Software	47,613	0
Vehicles	215,633	212,297
Construction in Progress	94,881	29,376
Less: Accumulated Depreciation	<u>(2,541,032)</u>	<u>(2,395,972)</u>
<b>Net Capital Assets</b>	<b>\$ <u>3,187,998</u></b>	<b>\$ <u>3,138,852</u></b>
<b>CURRENT ASSETS</b>		
Cash	\$ 4,343,560	\$ 3,950,529
Accounts Receivable		
Less: Allowance for Doubtful Accounts	82,366	118,194
Materials and Supplies Inventory	51,974	53,369
Natural Gas Inventory	400,612	437,336
Prepaid Expense	4,221	4,570
Due From Other Funds	<u>105,483</u>	<u>110,349</u>
<b>Total Current Assets</b>	<b>\$ <u>4,988,216</u></b>	<b>\$ <u>4,674,347</u></b>
<b>RESTRICTED ASSETS</b>		
Cash held for Customer Deposits	\$ 31,540	\$ 30,682
Net Pension Asset	<u>35,130</u>	<u>44,725</u>
<b>Total Restricted Assets</b>	<b>\$ <u>66,670</u></b>	<b>\$ <u>75,407</u></b>
<b>OTHER ASSETS</b>		
Due from Mid-Tennessee NG	<u>247,482</u>	<u>247,482</u>
<b>Total Other Assets</b>	<b>\$ <u>247,482</u></b>	<b>\$ <u>247,482</u></b>
<b>TOTAL ASSETS</b>	<b>\$ <u><u>8,490,366</u></u></b>	<b>\$ <u><u>8,136,088</u></u></b>
<b>DEFERRED OUTFLOWS OF RESOURCES RELATED TO PENSIONS</b>		
	<u>30,186</u>	<u>11,928</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b><u><u>8,520,552</u></u></b>	<b><u><u>8,148,016</u></u></b>

**ROCKWOOD WATER, WASTERWATER AND NATURAL GAS  
ROCKWOOD, TENNESSEE  
COMPARITIVE STATEMENTS OF NET POSITION  
NATURAL GAS DEPARTMENT  
JUNE 30, 2016 AND 2015**

**LIABILITIES & NET POSITION**

	<u>JUNE 30, 2016</u>	<u>JUNE 30, 2015</u>
<b>CURRENT LIABILITIES</b>		
<b>(PAYABLE FROM CURRENT ASSETS)</b>		
Accounts Payable	\$ 118,574	\$ 79,174
Over Recovered ACA Current Portion	296,002	294,572
Sales Tax Payable	983	(1,777)
Accrued Salaries	24,369	22,007
Accrued Expenses	69,260	62,251
<b>Total Current Liabilities</b>		
<b>(Payable from Current Assets)</b>	<u>\$ 509,188</u>	<u>\$ 456,227</u>
<b>CURRENT LIABILITIES</b>		
<b>(PAYABLE FROM RESTRICTED ASSETS)</b>		
Customer Deposits	\$ 30,050	\$ 25,900
<b>Total Current Liabilities</b>		
<b>(Payable from Restricted Assets)</b>	<u>\$ 30,050</u>	<u>\$ 25,900</u>
<b>TOTAL LIABILITIES</b>	<u>\$ 539,238</u>	<u>\$ 482,127</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred Revenue	\$ 55,846	\$ 55,846
Gas Rebates	25,940	26,565
Over Recovered ACA - Future Portion	74,001	294,572
Deferred Inflows Related to Pensions	30,094	36,140
<b>Total Deferred Inflows of Resources</b>	<u>\$ 185,881</u>	<u>\$ 413,123</u>
<b>NET POSITION:</b>		
Net Investment in Capital Assets	\$ 3,187,998	\$ 3,138,852
Restricted	36,620	49,507
Unrestricted	4,570,815	4,064,407
<b>Total Net Positions</b>	<u>\$ 7,795,433</u>	<u>\$ 7,252,766</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<u>\$ 8,520,552</u>	<u>\$ 8,148,016</u>

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
ROCKWOOD, TENNESSEE  
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
WATER AND WASTEWATER DEPARTMENT  
YEARS ENDED JUNE 30, 2016 AND 2015**

	<u>JUNE 30, 2016</u>	<u>JUNE 30, 2015</u>
<b>OPERATING REVENUES</b>		
Metered Water Sales (Less Bad Debt \$0 and \$14,008)	\$ 2,347,600	\$ 2,354,942
Wastewater Service (Less Bad Debt \$0 and \$14,008)	1,207,913	1,219,576
Tap Fees	90,213	78,325
Forfeited Discounts and Penalties	56,569	76,836
Other Operating Revenue	5,572	589
	<hr/>	<hr/>
<b>Total Operating Revenues</b>	<b>\$ 3,707,867</b>	<b>\$ 3,730,268</b>
<b>OPERATING EXPENSES</b>		
Salaries	\$ 1,102,054	\$ 1,049,383
Payroll Taxes	79,638	75,831
Unemployment Insurance	3,060	6,783
Health Insurance	233,846	220,872
Training	12,993	7,047
Other Employee Benefits	7,340	3,958
Postage and Box Rent	13,170	13,786
Publicity and Subscriptions	757	591
Publication of Legal Notices	1,008	925
Membership and Registration Fees	5,118	8,000
Utility Services	403,227	403,170
Telephone	23,557	22,878
Professional Services	129,722	156,581
Motor Repair and Maintenance	24,358	24,091
Equipment Repair and Maintenance	41,964	36,687
Building Repair and Maintenance	1,127	4,787
Bond Costs	0	706
Travel	2,784	1,364
Plant Landfill Expense	74,919	59,510
Office Supplies	10,800	16,756
Small Equipment	1,234	7,258
Operating Supplies	148,667	138,443
Chemical and Laboratory	163,208	175,736
Clothing and Uniforms	6,065	9,792
Gas and Oil	18,760	26,242
Safety Supplies	2,607	15,573
Meters	3,911	3,556
Liability Insurance	26,559	25,717
Building Insurance	37,787	35,386
Workers' Compensation Insurance	40,333	32,869
City Services Rendered	134,000	133,999
Rent Expense	0	3,557
Miscellaneous Expense Accounts	14,329	38,413
	<hr/>	<hr/>
<b>Total Operating Expenses</b>	<b>\$ 2,768,902</b>	<b>\$ 2,760,247</b>
<b>NET OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION</b>		
	<hr/>	<hr/>
	<b>\$ 938,965</b>	<b>\$ 970,021</b>

Continued on Next Page

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
ROCKWOOD, TENNESSEE  
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
WATER AND WASTEWATER DEPARTMENT  
YEARS ENDED JUNE 30, 2016 AND 2015**

(Continued)

	<u>JUNE 30, 2016</u>	<u>JUNE 30, 2015</u>
<b>NET OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (FROM PREVIOUS PAGE)</b>	\$ 938,965	\$ 970,021
Depreciation Expense	<u>(639,554)</u>	<u>(571,127)</u>
<b>NET OPERATING INCOME</b>	<u>\$ 299,411</u>	<u>\$ 398,894</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Interest Income	\$ 3,138	\$ 553
Interest Expense	(136,749)	(147,507)
Gain/(Loss) on Sale of Equipment	2,400	12,362
Rent Income	30,000	30,000
Settlements and Judgments	0	(258)
Pension Income	<u>890</u>	<u>5,548</u>
<i>Total Non-Operating Revenues (Expenses)</i>	<u>\$ (100,321)</u>	<u>\$ (99,302)</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS</b>	\$ 199,090	\$ 299,592
<b>CAPITAL CONTRIBUTIONS AND GRANTS</b>		
Capital Contributions and Grants	<u>\$ 7,743</u>	<u>\$ 98,143</u>
<b>CHANGE IN NET POSITION</b>	<u>\$ 206,833</u>	<u>\$ 397,735</u>
<b>NET POSITION - BEGINNING OF YEAR</b>	<u>\$ 10,343,997</u>	<u>\$ 9,946,262</u>
<b>TOTAL NET POSITION - END OF YEAR</b>	<u><u>\$ 10,550,830</u></u>	<u><u>\$ 10,343,997</u></u>

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
ROCKWOOD, TENNESSEE  
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
NATURAL GAS DEPARTMENT  
YEARS ENDED JUNE 30, 2016 AND 2015**

	<u>JUNE 30, 2016</u>	<u>JUNE 30, 2015</u>
<b>OPERATING REVENUES</b>		
Metered Gas Sales (Less Bad Debt \$0 and \$6,753)	\$ 2,213,201	\$ 3,204,511
Tap Fees / Installation	65,948	49,284
Forfeited Discounts and Penalties	28,552	40,871
Local Transportation	263,300	438,450
Other Operating Revenue	3,291	38
	<hr/>	<hr/>
<b>Total Operating Revenues</b>	<b>\$ 2,574,292</b>	<b>\$ 3,733,154</b>
<b>OPERATING EXPENSES</b>		
Natural Gas Purchases	\$ 1,044,815	\$ 2,153,299
Salaries	328,887	282,334
Payroll Taxes	24,262	21,004
Unemployment Insurance	1,851	367
Health Insurance	89,989	80,965
Training	6,287	3,588
Other Employee Benefits	2,283	1,479
Postage and Box Rent	9,511	9,638
Publicity and Subscriptions	589	1,391
Publication of Legal Notices	3,372	5,792
Membership and Registration Fees	16,823	13,593
Utility Services	3,322	3,362
Telephone	9,691	10,862
Professional Services	62,903	74,692
Motor Repair and Maintenance	11,803	10,453
Equipment Repair and Maintenance	10,722	7,595
Building Repair and Maintenance	404	(3,899)
Travel	2,364	2,385
Plant Landfill Expense	169	0
Office Supplies	5,457	7,191
Small Equipment	163	286
Operating Supplies	58,380	53,268
Clothing and Uniforms	3,116	3,854
Gas and Oil	15,251	16,251
Safety Supplies	1,358	1,728
Meters	7,988	5,090
Liability Insurance	12,640	12,858
Building Insurance	18,893	18,292
Workers' Compensation Insurance	20,167	17,976
City Services Rendered	66,000	66,000
Rent Expense	30,000	31,178
Miscellaneous Expense Accounts	9,093	11,390
	<hr/>	<hr/>
<b>Total Operating Expenses</b>	<b>\$ 1,878,553</b>	<b>\$ 2,924,262</b>
<b>NET OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION</b>	<b>\$ 695,739</b>	<b>\$ 808,892</b>

Continued on Next Page

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
 ROCKWOOD, TENNESSEE  
 COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
 NATURAL GAS DEPARTMENT  
 YEARS ENDED JUNE 30, 2016 AND 2015**

(Continued)

	<u>JUNE 30, 2016</u>	<u>JUNE 30, 2015</u>
<b>NET OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (FROM PREVIOUS PAGE)</b>	\$ 695,739	\$ 808,892
Depreciation Expense	<u>(156,454)</u>	<u>(144,665)</u>
<b>NET OPERATING INCOME</b>	<u>\$ 539,285</u>	<u>\$ 664,227</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Interest Income	\$ 15	\$ 21
Gain/(Loss) on Sale of Equipment	2,300	12,362
Pension Income	<u>296</u>	<u>2,774</u>
<i>Total Non-Operating Revenues (Expenses)</i>	<u>\$ 2,611</u>	<u>\$ 15,157</u>
<b>CHANGE IN NET POSITION</b>	<u>\$ 542,667</u>	<u>\$ 679,384</u>
<b>NET POSITION - BEGINNING OF YEAR</b>	<u>\$ 7,252,766</u>	<u>\$ 6,573,382</u>
<b>TOTAL NET POSITION - END OF YEAR</b>	<u><u>\$ 7,795,433</u></u>	<u><u>\$ 7,252,766</u></u>

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
ROCKWOOD, TENNESSEE  
LIST OF PRINCIPAL OFFICIALS  
JUNE 30, 2016**

Darryl Meadows ..... Chairman  
Loren Bone..... Vice Chairman  
Tim Couch..... Commissioner  
Dudley Evans ..... Commissioner  
Joe Moore ..... Commissioner  
Kim Ramsey..... General Manager  
Joan Kerley ..... Secretary/Treasurer

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS SYSTEMS  
ROCKWOOD, TENNESSEE  
INTERNAL CONTROL AND  
COMPLIANCE AND OTHER MATTERS  
SECTION**

**JUNE 30, 2016**

**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 Commissioners  
Rockwood Water, Wastewater and Natural Gas  
Rockwood, 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 Rockwood Water, Wastewater and Natural Gas, Rockwood, Tennessee (Utility), as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the Utility's basic financial statements, and have issued our report thereon dated January 4, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Utility's internal control over financial reporting (internal control) to determine the 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 Utility's internal control. Accordingly, we do not express an opinion on the effectiveness of the Utility'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 have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Utility'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 determination of financial statement amounts. 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.

Parsons & Wright, CPAs

Parsons & Wright  
Certified Public Accountants  
Kingston, Tennessee

January 4, 2017

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
ROCKWOOD, TENNESSEE  
SCHEDULE OF DISPOSITION OF PRIOR YEAR FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2016**

There were no prior findings reported.