

*Financial Statements*

ROCKWOOD WATER, WASTEWATER  
& NATURAL GAS SYSTEMS

Year Ended June 30, 2020

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INDEPENDENT ACCOUNTANTS' AUDIT REPORT

Board of Commissioners  
Rockwood Water, Wastewater & Natural Gas Systems  
Rockwood, Tennessee

**Report on the Financial Statements**

We have audited the accompanying financial statements of Rockwood Water, Wastewater & Natural Gas Systems, which comprise the statement of net position as of June 30, 2020, the related statement of revenue, expenses and change in net position and statement of cash flows for the year then ended, and the related notes to the financial statements.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; 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.

***Auditors' Responsibility***

Our responsibility is to express an opinion 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 of America. Those standards require that we plan and perform the audit 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 auditors' 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 auditors consider internal control relevant to the 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 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 in the first paragraph present fairly, in all material respects, the financial position of Rockwood Water, Wastewater & Natural Gas Systems as of June 30, 2020 and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information/Management's Discussion and Analysis***

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 to 16, the schedule of changes in net pension liability(asset) and the schedule of pension contributions on page 41 to 45 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 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 financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Rockwood Water, Wastewater & Natural Gas Systems' financial statements. The accompanying information listed in the table of contents as other supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedules of long-term debt requirements and changes in long-term debt by individual issue are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

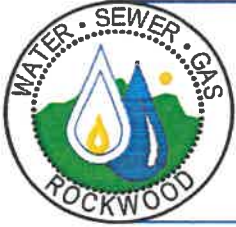
The schedules of utility rates and metered customers, water utility reporting worksheet, water utility performance indicators, and principal officials have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 25, 2021 on our consideration of Rockwood Water, Wastewater & Natural Gas Systems' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to solely describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the operating effectiveness of Rockwood Water, Wastewater & Natural Gas Systems' 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 & Natural Gas Systems' internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Mitchell Emert + Hill".

May 25, 2021



## *Rockwood Water, Wastewater & Natural Gas*

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Commissioner: Joe Moore Commissioner: Jeff Penley General Manager: Kim Ramsey

### **MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2020**

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, 2020. Fund and account balances shown in the MD&A are taken directly from the accompanying financial statements for the year ending June 30, 2020. 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 \$198,713 to \$16,962,669.
- Total liabilities compared to the prior year, decreased \$462,815 to \$5,577,471.
- Operating revenue compared to the prior year, decreased \$12,304 to \$3,987,508.
- Operating expenses compared to the prior year, increased \$169,624 to \$3,112,447.

##### Gas Department

- Total assets compared to the prior year, increased \$520,385 to \$9,950,022.
- Total liabilities compared to the prior year, increased \$24,360 to \$290,068.
- Operating revenue compared to the prior year, decreased \$544,547 to \$2,909,203.
- Operating expenses compared to the prior year, decreased \$294,234 to \$2,363,840.

#### **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, 2020**

**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.

<b>Table A-1 W&amp;WW</b>				
<b>Water &amp; Wastewater Condensed Statements of Net Position</b>				
	<b>FYE 2020</b>	<b>FYE 2019</b>	<b>Dollar Change</b>	<b>Total Percent Change</b>
Current and Other Assets	\$ 2,262,800	\$ 2,188,879	\$ 73,921	3.4%
Capital Assets	14,699,869	14,972,503	(272,634)	-1.8%
<b>Total Assets</b>	<b>\$ 16,962,669</b>	<b>\$ 17,161,382</b>	<b>\$ (198,713)</b>	<b>-1.2%</b>
Deferred Outflow of Resources	\$ 148,703	\$ 181,967	\$ (33,264)	-18.3%
Long-Term Debt Outstanding	\$ 4,449,716	\$ 4,954,665	\$ (504,949)	-10.2%
Other Liabilities	1,127,755	1,085,621	42,134	3.9%
<b>Total Liabilities</b>	<b>\$ 5,577,471</b>	<b>\$ 6,040,286</b>	<b>\$ (462,815)</b>	<b>-7.7%</b>
Deferred Inflow of Resources	\$ 71,613	\$ 31,757	\$ 39,856	125.5%
Net Investment in Capital Assets	\$ 9,750,191	\$ 9,530,851	\$ 219,340	2.3%
Restricted	964,209	454,599	509,610	112.1%
Unrestricted	694,756	1,285,856	(591,100)	-46.0%
<b>Total Net Position</b>	<b>\$ 11,409,156</b>	<b>\$ 11,271,306</b>	<b>\$ 137,850</b>	<b>1.2%</b>

As can be seen from the table above, the net position of the Water and Wastewater department increased \$137,850 to \$11,409,156 in 2020 from \$11,271,306 in 2019. The increase in net position reflects the use of cash for capital improvements and the use of cash to reduce the outstanding long-term debt. Deferred outflows of resources decreased \$33,264 to \$148,703 in 2020. Deferred inflows of resources increased \$39,856 to \$71,613 in 2020.



**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
ROCKWOOD, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2020**

**NET POSITION – Continued**

<b>Table A-1 Gas</b>				
<b>Gas Condensed Statements of Net Position</b>				
	<u>FYE 2020</u>	<u>FYE 2019</u>	<u>Dollar Change</u>	<u>Total Percent Change</u>
Current and Other Assets	\$ 6,297,947	\$ 5,759,495	\$ 538,452	9.3%
Capital Assets	3,652,075	3,670,142	(18,067)	-0.5%
<b>Total Assets</b>	<u>\$ 9,950,022</u>	<u>\$ 9,429,637</u>	<u>\$ 520,385</u>	<u>5.5%</u>
Deferred Outflow of Resources	\$ 81,233	\$ 91,443	\$ (10,210)	-11.2%
Other Liabilities	\$ 290,068	\$ 265,708	\$ 24,360	9.2%
<b>Total Liabilities</b>	<u>\$ 290,068</u>	<u>\$ 265,708</u>	<u>\$ 24,360</u>	<u>9.2%</u>
Deferred Inflow of Resources	\$ 61,371	\$ 41,569	\$ 19,802	47.6%
Net Investment in Capital Assets	\$ 3,652,076	\$ 3,670,142	\$ (18,066)	-0.5%
Restricted	20,002	586	19,416	3313.3%
Unrestricted	6,007,736	5,543,075	464,661	8.4%
<b>Total Net Position</b>	<u>\$ 9,679,814</u>	<u>\$ 9,213,803</u>	<u>\$ 466,011</u>	<u>5.1%</u>

As can be seen from the table above, the net position of the Gas department increased \$466,011 to \$9,679,814 in 2020 from \$9,213,803 in 2019. The increase in net position reflects an improved cash position, capital improvements reduced by an increase in other liabilities. Deferred outflows of resources decreased \$10,210 to \$81,233 in 2020. Deferred inflows of resources increased \$19,802 to \$61,371 in 2020.



**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
ROCKWOOD, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2020**

**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.

	<u>FYE 2020</u>	<u>FYE 2019</u>	<u>Dollar Change</u>	<u>Total Percent Change</u>
Operating revenues	\$ 3,987,508	\$ 3,999,812	\$ (12,304)	-0.3%
Nonoperating revenues	63,077	39,921	23,156	58.0%
<b>Total Revenues</b>	<b>\$ 4,050,585</b>	<b>\$ 4,039,733</b>	<b>\$ 10,852</b>	<b>0.3%</b>
<b>Depreciation &amp; Amortization Expense</b>	<b>\$ 712,981</b>	<b>\$ 756,140</b>	<b>\$ (43,159)</b>	<b>-5.7%</b>
Other operating expense	3,112,447	2,942,823	169,624	5.8%
Nonoperating expense	139,464	148,696	(9,232)	-6.2%
<b>Total Expenses</b>	<b>\$ 3,964,892</b>	<b>\$ 3,847,659</b>	<b>\$ 117,233</b>	<b>3.0%</b>
<b>Income (Loss) Before Capital Contributions</b>	<b>\$ 85,693</b>	<b>\$ 192,074</b>	<b>\$ (106,381)</b>	<b>-55.4%</b>
Capital contributions and grants	52,157	0	52,157	n/a
<b>Changes in Net Position</b>	<b>\$ 137,850</b>	<b>\$ 192,074</b>	<b>\$ (54,224)</b>	<b>-28.2%</b>
Beginning Net Position	11,271,306	11,079,232	192,074	1.7%
<b>Total Net Position</b>	<b>\$ 11,409,156</b>	<b>\$ 11,271,306</b>	<b>\$ 137,850</b>	<b>1.2%</b>

As can be seen in Table A-2 W&WW above, the income before capital contributions is \$85,693 in 2020.

The Utility's operating revenues decreased by \$12,304 to \$3.987 million in 2020 from \$3.999 million in 2019 due to decreased sales to residential, commercial and industrial customers. Non-operating revenues increased by \$23,156 to \$63,077 in 2020, from \$39,921 in 2019. This increase is due to more interest income received. Non-operating expenses decreased by \$9,232 to \$139,464 in 2020, from \$148,696 in 2019. This decrease is due to a decrease in interest expense.

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2020**

**NET POSITION – Continued**

	<u>FYE 2020</u>	<u>FYE 2019</u>	<u>Dollar Change</u>	<u>Total Percent Change</u>
Operating revenues	\$ 2,909,203	\$ 3,453,750	\$ (544,547)	-15.8%
Nonoperating revenues	81,545	15,177	66,368	437.3%
<b>Total Revenues</b>	<b>\$ 2,990,748</b>	<b>\$ 3,468,927</b>	<b>\$ (478,179)</b>	<b>-13.8%</b>
Depreciation & Amortization Expense	\$ 160,897	\$ 172,816	\$ (11,919)	-6.9%
Other operating expense	2,363,840	2,658,074	(294,234)	-11.1%
Nonoperating expense	0	0	0	n/a
<b>Total Expenses</b>	<b>\$ 2,524,737</b>	<b>\$ 2,830,890</b>	<b>\$ (306,153)</b>	<b>-10.8%</b>
Income (Loss) Before Capital Contributions	\$ 466,011	\$ 638,037	\$ (172,026)	-27.0%
Capital contributions and grants	0	0	0	n/a
<b>Changes in Net Position</b>	<b>\$ 466,011</b>	<b>\$ 638,037</b>	<b>\$ (172,026)</b>	<b>-27.0%</b>
Beginning Net Position	9,213,803	8,575,766	638,037	7.4%
<b>Total Net Position</b>	<b>\$ 9,679,814</b>	<b>\$ 9,213,803</b>	<b>\$ 466,011</b>	<b>5.1%</b>

As can be seen in Table A-2 Gas above, the increase in Net Position is \$466,011 in 2020.

The Utility's operating revenues decreased by \$544,547 to \$2.91 million in 2020 from \$3.45 million in 2019 due to decreased sales to residential, industrial and transportation customers. Non-operating revenues increased by \$66,368 to \$81,545 in 2020, from \$15,177 in 2019. This increase is due to more interest income received during the year. Non-operating expenses are \$0 in 2020, unchanged from 2019.

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
ROCKWOOD, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2020**

**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 2020 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 2020 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>	<u>Variance as a Percent of Budget</u>
<b>Revenues</b>				
Operating	\$ 3,960,300	\$ 3,986,508	\$ 26,208	0.7%
Non-operating	37,000	63,077	26,077	70.5%
<b>Total Revenues</b>	<u>\$ 3,997,300</u>	<u>\$ 4,049,585</u>	<u>\$ 52,285</u>	<u>1.3%</u>
<b>Operating Expenses</b>				
Employee Costs	\$ 1,699,376	\$ 1,663,906	\$ 35,470	2.1%
Utilities	435,000	444,290	(9,290)	-2.1%
Purification Supplies	215,000	211,578	3,422	1.6%
Maintenance	152,000	165,765	(13,765)	-9.1%
Contracted Services	165,000	176,893	(11,893)	-7.2%
Insurance	95,000	79,964	15,036	15.8%
Supplies, Postage and Advertising	208,100	223,124	(15,024)	-7.2%
Depreciation & Amortization	715,000	712,981	2,019	0.3%
Payments to City of Rockwood	134,000	134,000	0	0.0%
Other	19,000	12,930	6,070	31.9%
Non-operating	145,100	139,464	5,636	3.9%
<b>Total Expenses</b>	<u>\$ 3,982,576</u>	<u>\$ 3,964,895</u>	<u>\$ 17,681</u>	<u>0.4%</u>
<b>Income (Loss) Before Capital Contributions</b>	<u>\$ 14,724</u>	<u>\$ 84,690</u>	<u>\$ 69,966</u>	<u>475.2%</u>

Operating revenues were 0.7% more than budgeted revenues as a result of the following categories reporting more than budgeted amounts: \$71,589 more than budget metered water sales, \$15,285 more than budgeted tap fees, \$20,547 more than budget in other revenues combined with the following categories reporting less than budgeted amounts: \$76,388 less than budgeted wastewater revenues and \$4,232 less than budgeted forfeited discounts and penalties. Non-operating revenues were more than the budget due to more than expected interest income. Some categories of operating expenses were more than budgeted and some were less than budgeted with the net operating expenses being less than budgeted. Non-operating expenses were less than the budget due to less than expected interest expense.

**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 2020</b>				
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable / (Unfavorable)</u>	<u>Variance as a Percent of Budget</u>
<b>Revenues</b>				
Operating	\$ 3,229,000	\$ 2,909,203	\$ (319,797)	-9.9%
Non-operating	-	81,545	81,545	n/a
<b>Total Revenues</b>	<u>\$ 3,229,000</u>	<u>\$ 2,990,748</u>	<u>\$ (238,252)</u>	<u>-7.4%</u>
<b>Operating Expenses</b>				
Natural Gas Purchases	\$ 1,486,800	\$ 1,453,557	\$ 33,243	2.2%
Employee Costs	567,666	534,429	33,237	5.9%
Utilities	16,000	19,608	(3,608)	-22.6%
Maintenance	53,000	24,482	28,518	53.8%
Contracted Services	130,000	96,997	33,003	25.4%
Insurance	47,000	39,982	7,018	14.9%
Supplies, Postage and Advertising	102,000	89,029	12,971	12.7%
Depreciation & Amortization	170,000	162,017	7,983	4.7%
Payments to City of Rockwood	66,000	66,000	-	0.0%
Other	219,000	38,636	180,364	82.4%
Non-operating	30,000	0	30,000	100.0%
<b>Total Expenses</b>	<u>\$ 2,887,466</u>	<u>\$ 2,524,737</u>	<u>\$ 362,729</u>	<u>12.6%</u>
<b>Income (Loss) Before Capital Contributions</b>	<u>\$ 341,534</u>	<u>\$ 466,011</u>	<u>\$ 124,477</u>	<u>36.4%</u>

Operating revenues were 9.9% less than budgeted revenues by \$319,797 made up of \$157,550 less than expected gas sales across sectors, \$5,663 more than expected tap fees, \$22,554 less than expected forfeited discounts and penalties, \$153,814 less than expected transport sales, and \$8,866 more than expected other operating revenue. Non-operating revenues were more than the budget due to more interest income. Non-operating expenses were less than the budget due to no interest expense being incurred in the year. Some categories of operating expenses were more than budgeted and some were less than budgeted with the net operating expenses being less than budgeted.

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
ROCKWOOD, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2020**

**CAPITAL ASSETS**

At June 30, 2020, the Utility has invested \$31,883,724 in capital assets as shown in Table A-4 W&WW. The \$440,347 increase in capital assets is made up of several items. The capital assets saw increases for water and sewer pump replacements, meters, tank recoating, forklift, security cameras, significant sewer improvements, and ongoing water and sewer projects that remain in construction in progress.

	<u>FYE 2020</u>	<u>FYE 2019</u>	<u>Dollar Change</u>	<u>Total Percent Change</u>
Cost of Plant in Service	\$ 29,704,290	\$ 29,518,169	\$ 186,121	0.6%
Land	25,455	25,455	0	0.0%
Machinery & Equipment	980,829	892,374	88,455	9.9%
Software	126,331	124,067	2,264	n/a
Vehicles	387,891	387,891	0	0.0%
Construction in Progress	658,928	495,421	163,507	33.0%
<b>Total Capital Assets</b>	<b>\$ 31,883,724</b>	<b>\$ 31,443,377</b>	<b>\$ 440,347</b>	<b>1.4%</b>
Less: Accumulated Depreciation	(17,183,855)	(16,470,874)	(712,981)	4.3%
<b>Net Capital Assets</b>	<b>\$ 14,699,869</b>	<b>\$ 14,972,503</b>	<b>\$ (272,634)</b>	<b>-1.8%</b>

At June 30, 2020, the Gas fund has invested \$6,831,622 in capital assets as shown in Table A-4 Gas. The \$142,830 increase in capital assets is made up of several items including meter replacements, a forklift, and related improvements that remains in construction in progress.

	<u>FYE 2020</u>	<u>FYE 2019</u>	<u>Dollar Change</u>	<u>Total Percent Change</u>
Cost of Plant in Service	\$ 4,820,781	\$ 4,819,507	\$ 1,274	0.0%
Machinery & Equipment	922,788	904,772	18,016	2.0%
Software	62,034	62,034	0	n/a
Vehicles	215,214	215,214	0	0.0%
Construction in Progress	810,805	687,265	123,540	18.0%
<b>Total Capital Assets</b>	<b>\$ 6,831,622</b>	<b>\$ 6,688,792</b>	<b>\$ 142,830</b>	<b>2.1%</b>
Less: Accumulated Depreciation	(3,179,547)	(3,018,650)	(160,897)	5.3%
<b>Net Capital Assets</b>	<b>\$ 3,652,075</b>	<b>\$ 3,670,142</b>	<b>\$ (18,067)</b>	<b>-0.5%</b>



**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
ROCKWOOD, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2020**

**CAPITAL ASSETS – Continued**

The Utility's five-year Capital Improvement Plan includes capital improvements related to infrastructure repairs and upgrades in all areas. The aging infrastructure is an on-going challenge that the Utility is addressing as quickly as possible within the budget constraints.

The Utility has completed the first three years of our SSES (Sewer System Evaluation Survey) and has covered approximately sixty percent of the collection system. This evaluation work included mapping corrections, CCTV, line cleaning, smoke testing and manhole inspections. The work produced a large volume of rehab/replacement work to be scheduled and completed. The work will be completed in-house and by contract depending on the difficulty of the project. We anticipate this will result in a significant reduction in flow to our plant due to I & I. The Utility received a CDBG grant award for I & I work, primarily in two of the older basins and the work is occurring in 2020-2021 fiscal year.

The installation of SCADA equipment in all our water and sewer pump stations was completed in 2018. Our technicians monitor these locations for problems and upgrades or replacements occur as needed. The Utility is currently evaluating options to save energy costs at several locations. This results in real-time notification of problems and reduces our labor needed to inspect multiple times a week. This has improved the response time to problems due to prompt notification. Currently, we have trained our existing personnel to manage 75% of the issues that occur and that substantially reduces the monies spent on outside contractors. We do contract for periodic maintenance work at each pump location to reduce malfunctions and extend the life of the equipment.

We have replaced and extended lines in some areas as requested and continue to evaluate new service potential with our water and gas services.

The WWTP and WTP have had numerous repairs and replacements due to age of infrastructure. There are equipment repairs and replacements that occur on a consistent basis. The Utility continues to implement the preventative maintenance system that tracks all equipment maintenance activities.

FY20 has numerous projects in various stages of design. The Utility is looking in to the future needs and evaluating the potential funding sources that may be available. The project list includes additional fleet vehicles, water plant upgrades, safety and security upgrades, meter replacements and future expansions. Many of these projects have been delayed due to COVID and concerns about reduced revenues in the pandemic atmosphere.

FY20 also includes the acquisition (some completed in FY2019) and design of two new facilities. The construction has been delayed until FY22 due to permit requirements and additional design work that has been required. The Utility currently rents office space from the City for their billing and customer service office. The accounting and management staff are housed at the maintenance garage. The maintenance garage was built in the 1950's and is in poor condition. The new office facility will house the billing/office, finance, management and mapping personnel. A new operations center will provide a secure inventory storage, more indoor storage for vehicles and equipment, office space for supervisors and training room for the employees. The Gas department will build the new facilities and the Water department will rent from the Gas department.

FY20 included a closure of our payment offices beginning in March 2020 and reopening in June 2020. The staff was alternated from March 2020 forward depending on location and ability to cover the necessary work. Some employees worked from home, others dispatched from home and customer service representatives alternated to avoid quarantine situations. The Utility plants have been closed to

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
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outside visitors since March 2020 and we expect to lessen restrictions in April 2021 as more employees are vaccinated. The Board instituted a policy to refund customers for the online payment charges during

**CAPITAL ASSETS – Continued**

the pandemic time period. The Board has indicated that this will end in April 2021 and fees will be charged. Services were provided throughout the pandemic time period without customer issues and the staff avoided large quarantines by following the COVID policies that were in place and reviewed at least monthly.

**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, 2020 amounted to \$4,949,818. The Utility made principal payments during the fiscal year ending June 30, 2020 totaling \$486,085 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 2020</u>	<u>FYE 2019</u>	<u>Dollar Change</u>
<b>Bond Payable</b>			
Waterworks Revenue Bond, 2012	\$ 1,505,000	\$ 1,845,000	\$ (340,000)
Waterworks Revenue Bond, 2007	462,444	471,249	(8,805)
USDA Revenue and Tax Bond 2013A	626,884	638,078	(11,194)
USDA Revenue and Tax Bond 2013B	689,244	704,269	(15,025)
Capital Outlay Notes, Series 2017	1,425,000	1,450,000	(25,000)
<b>Notes Payable</b>			
Wastewater Department			
State Revolving Loan (SRF2000-139)	241,246	327,307	(86,061)
<b>Total Long-Term Debt</b>	<b>\$ 4,949,818</b>	<b>\$ 5,435,903</b>	<b>\$ (486,085)</b>
<b>Current Portion of Long Term Debt</b>	<b>(499,962)</b>	<b>(486,987)</b>	<b>(12,975)</b>
<b>Total Long-Term Debt, Excluding Current Maturities</b>	<b>\$ 4,449,856</b>	<b>\$ 4,948,916</b>	<b>\$ (499,060)</b>
<b>2012 Bond Premium and Discount, Net of Amortization</b>	<b>(140)</b>	<b>5,749</b>	<b>(5,889)</b>
<b>Net Long-Term Debt</b>	<b>\$ 4,449,716</b>	<b>\$ 4,954,665</b>	<b>\$ (504,949)</b>

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



**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2020**

**ECONOMIC FACTORS AND CONDITIONS OF FUTURE SIGNIFICANCE**

Residential and commercial development has continued to be slow in the year ended June 30, 2020. We are experiencing a slight upward trend in our tap fees.

The Utility has been under multiple Director's Orders during the past 20 years, the most recent being issued in 2011. This Order resulted in a wastewater treatment plant upgrade, which was completed in 2014. The Utility has proven its commitment to reduce I/I in its wastewater system by increasing the maintenance activities, replacing pipe and monitoring/modeling the flow in our system. Due to the satisfaction of the requirements of the Order and continued communication of our on-going efforts, the Director's Order was released on February 16, 2017.

The Utility received another Director's Order dated October 25, 2019 based on the inclusion of the Utility on the EPA Quarterly Non-Compliance Report (QNCR) for two separate quarters. RWSG staff with the Utility Attorney has met with the enforcement personnel of TDEC to discuss the response to the Order. The appeal was filed in November 2019 and the Order is on hold while the TDEC attorneys draft a Consent Order for our review. The Utility will likely have minimal fines (less than \$5,000) and will be required to spend approximately \$25,000 on an approved SEP that will benefit the service area. As of March 17, 2021, the Utility has not received the TDEC attorney's updated Consent Order.

Plateau Park development along I-40 to the west is a large industrial park in the early stages of development. This site is being marketed by the State and Local economic development boards to many industrial prospects. The Plateau Park Partnership has applied for assistance in the construction of the gas facilities to the area. The Utility had committed to provide a conceptual plan for service and to assist in the construction (no commitment of dollars until tenants and gas requirements are determined) with the Plateau Park Partnership and the industrial tenants. Installing natural gas to this location would also add a potential of 500-600 residential customers in the Westel area to the Utility's system. The Utility estimates a total cost of 4-5M for the installation of the gas mains. No time period is set at this point. The partnership received a grant to complete the gas system expansion design. This work has been completed and a TDOT permit has been obtained. The Partnership has also expressed an interest and need to consider providing water from the Rockwood plant to the development. The Utility has authorized a conceptual design of the water extension to this area. The existing water plant has adequate capacity to provide this area although additional storage would be required. This development would not only benefit the Utility but would provide job options and new customers to our service area. The Utility cannot project when this development will occur so the goal is to be ready to proceed to construction plans and construction once funding and occupancy is scheduled.

The Utility completed an interconnect with City of Kingston in 2012. No water sales have been realized at this time but the connection is a critical segment of emergency management for both communities. The Rockwood plant can provide water to the City of Kingston without capacity issues if at any time they have a need.

The Utility sells water (wholesale) to Roane Central Utility and North Rhea Utility District. The water sold is anticipated to continue to increase to Roane Central due to increased development. North Rhea Utility District has had one industry reopen that may eventually increase the water need. At this time, NRUD is also utilizing well water to serve their customers and therefore, RWSG has not experienced an increased consumption from NRUD.

The Utility has provided a preliminary plan of service for wastewater in the area of Tom Fuller Park to the City to assist in the possible development of the waterside area. This plan has several stages in order to fully consider the future build out of the area. Funding for this service would be provided by grants (in coordination with the City of Rockwood), developers, the City, and the Utility. The Utility applied for and

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
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**ECONOMIC FACTORS AND CONDITIONS OF FUTURE SIGNIFICANCE – Continued**

received an ARC grant for the system expansion. The City or developers would need to provide matching funds to allow this project to proceed. The goal is to provide economic stimulus to the area. The Utility has requested and received extensions for the grant funds while the City determines the cost share and funding issues with the developer. The City is also waiting on approval by TVA for this project.

The natural gas division has completed surveys in several areas to consider the cost/benefit of extending our natural gas system. There are many requests by residents for the service. These surveys will be used to determine if and when extensions will occur.

The sanitary survey for 2019 (water system and plant) received a score of 98. The wastewater system and plant had a satisfactory inspection for 2019. The natural gas system had no violations from the annual TPUC inspection.

**UTILITY RATES**

**Water & Wastewater Rates:** The last increase was 2.5% for both minimum bill and over 200 CF. This increase was approved by City Council in March 2017. The wastewater rate remained at 160% of the water bill. The rates are analyzed and recommended 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 \$5.23 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 2017 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 \$7.73/Dth. The June 2020 rate for a customer inside the City Limits of Rockwood for FY-20 was \$9.44/Dth. The cost to the Utility's customer for a consumption of 72 Dth's per year would have been \$679.68. 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, 2020 there are three 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  
SCHEDULE OF DISPOSITION OF PRIOR YEAR FINDINGS  
JUNE 30, 2019**

**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 any of the officials listed on page 1.



	Water and Wastewater System	Natural Gas System	Totals
<b>CURRENT LIABILITIES PAYABLE</b>			
<b>FROM CURRENT ASSETS</b>			
Accounts payable	\$ 78,456	\$ 206,134	\$ 284,590
Accrued salaries	58,640	20,534	79,174
Sales tax payable	14,324	975	15,299
Due to other funds	308,767	0	308,767
	<u>460,186</u>	<u>227,643</u>	<u>687,830</u>
<b>CURRENT LIABILITIES PAYABLE</b>			
<b>FROM RESTRICTED ASSETS</b>			
Current portion of long-term debt	499,962	0	499,962
Accrued interest payable	6,402	0	6,402
Customer deposits	161,205	62,425	223,630
	<u>667,569</u>	<u>62,425</u>	<u>729,994</u>
<b>LONG-TERM DEBT,</b>			
net of current portion	4,449,716	0	4,449,716
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows related to pension	71,613	35,806	107,419
Gas rebates	0	25,565	25,565
	<u>71,613</u>	<u>61,371</u>	<u>132,984</u>
<b>NET POSITION</b>			
Net investment in capital assets	9,750,191	3,652,076	13,402,267
Restricted	964,209	20,002	984,211
Unrestricted	694,756	6,007,736	6,702,492
	<u>11,409,156</u>	<u>9,679,814</u>	<u>21,088,970</u>
	<u>\$ 17,058,240</u>	<u>\$ 10,031,253</u>	<u>\$ 27,089,493</u>

ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

**STATEMENT OF REVENUE, EXPENSES AND CHANGE IN NET POSITION**

Year Ended June 30, 2020

	Water and Wastewater System	Natural Gas System	Totals
<b>OPERATING REVENUE</b>			
Metered sales	\$ 2,566,589	\$ 2,674,450	\$ 5,241,039
Wastewater service sales	1,270,912	0	1,270,912
Tap fees	90,285	45,663	135,948
Forfeited discounts and penalties	38,768	20,446	59,214
Local transportation	0	160,186	160,186
Other operating income	20,954	8,460	29,414
<b>TOTAL OPERATING REVENUE</b>	<b>3,987,508</b>	<b>2,909,203</b>	<b>6,896,713</b>
<b>OPERATING EXPENSES</b>			
Natural gas purchases	0	1,453,557	1,453,557
Salaries	1,191,703	366,963	1,558,666
Payroll taxes	89,411	30,451	119,862
Health insurance	268,208	78,357	346,565
Training	12,210	10,242	22,452
Other employee benefits	99,397	48,361	147,758
Postage	21,574	11,309	32,883
Membership and registration fees	25,332	17,556	42,888
Utilities	410,731	4,422	415,153
Telephone, internet and cable	33,559	15,186	48,745
Professional and contract services	176,893	104,302	281,195
Motor repairs and maintenance	20,653	8,615	29,268
Equipment repairs and maintenance	74,068	5,576	79,644
Building repairs and maintenance	7,026	30	7,056
Plant landfill expense	55,798	0	55,798
Office supplies	9,302	3,982	13,284
Bank charges	5,924	7,200	13,124
Small equipment	5,426	1,100	6,526
Operating supplies	135,273	31,460	166,733
Chemical and laboratory	211,578	0	211,578
Uniforms	3,456	1,500	4,956
Gas and oil	22,269	15,452	37,721

See the accompanying independent accountants' audit report.

ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

**STATEMENT OF REVENUE, EXPENSES AND CHANGE IN NET POSITION**

(continued)

Year Ended June 30, 2020

	<u>Water and Wastewater System</u>	<u>Natural Gas System</u>	<u>Totals</u>
Safety supplies	7,816	1,229	9,045
Meters	0	8,117	8,117
General insurance	26,155	14,404	40,559
Building insurance	28,549	16,010	44,559
Workers compensation insurance	25,260	9,568	34,828
City services rendered	134,000	66,000	200,000
Rent	0	30,000	30,000
Miscellaneous	10,878	2,885	13,763
Depreciation	712,981	160,897	873,878
<b>TOTAL OPERATING EXPENSES</b>	<u>3,825,431</u>	<u>2,524,735</u>	<u>6,350,161</u>
<b>INCOME FROM OPERATIONS</b>	162,077	384,469	546,546
<b>NONOPERATING REVENUE(EXPENSE)</b>			
Interest income	33,077	81,545	114,622
Rental income	30,000	0	30,000
Interest expense	(139,464)	0	(139,464)
	<u>(76,386)</u>	<u>81,545</u>	<u>5,158</u>
<b>INCOME BEFORE CAPITAL CONTRIBUTIONS</b>	85,690	466,014	551,704
Capital contributions	52,157	0	52,157
<b>CHANGE IN NET POSITION</b>	137,847	466,014	603,861
<b>NET POSITION AT THE BEGINNING OF THE YEAR</b>	<u>11,271,306</u>	<u>9,213,803</u>	<u>20,485,109</u>
<b>NET POSITION AT THE END OF THE YEAR</b>	<u>\$ 11,409,156</u>	<u>\$ 9,679,814</u>	<u>\$ 21,088,970</u>



ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

**STATEMENT OF CASH FLOWS**

Year Ended June 30, 2020

	<u>Water and Wastewater System</u>	<u>Natural Gas System</u>	<u>Totals</u>
<b>CASH PROVIDED(USED) BY OPERATING ACTIVITIES</b>			
Cash received from customers	\$ 4,029,799	\$ 2,943,705	\$ 6,973,504
Cash paid to employees	(1,224,745)	(379,676)	(1,604,421)
Cash paid to suppliers	<u>(1,849,098)</u>	<u>(1,886,719)</u>	<u>(3,735,817)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	955,956	677,310	1,633,266
<b>CASH PROVIDED(USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition of property and equipment	(440,347)	(142,830)	(583,177)
Principal payments on long-term debt	(486,088)	0	(486,088)
Capital contributions	52,157	0	52,157
Interest paid	<u>(146,041)</u>	<u>0</u>	<u>(146,041)</u>
<b>NET CASH(USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	(1,020,319)	(142,830)	(1,163,149)
<b>CASH PROVIDED(USED) BY INVESTING ACTIVITIES</b>			
Rental income	30,000	0	30,000
Decrease in investments	20,731	0	20,731
Interest received	<u>33,077</u>	<u>81,546</u>	<u>114,623</u>
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<u>83,808</u>	<u>81,546</u>	<u>165,354</u>

See the accompanying notes to the financial statements.

ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

**STATEMENT OF CASH FLOWS**

(continued)

Year Ended June 30, 2020

	<u>Water and Wastewater System</u>	<u>Natural Gas System</u>	<u>Totals</u>
<b>NET INCREASE IN CASH</b>	19,445	616,026	635,471
<b>CASH AT THE BEGINNING OF THE YEAR</b>	<u>1,150,991</u>	<u>4,830,980</u>	<u>5,981,971</u>
<b>CASH AT THE END OF THE YEAR</b>	<u>\$ 1,170,437</u>	<u>\$ 5,447,006</u>	<u>\$ 6,617,443</u>
<b>RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED(USED) BY OPERATING ACTIVITIES</b>			
Income from operations	\$ 162,077	\$ 384,469	\$ 546,546
Adjustments to reconcile income from operations to net cash provided by operating activities:			
Depreciation	712,981	160,897	873,878
Deferred retirement contributions	(52,334)	(33,049)	(85,383)
Pension expense	86,621	43,771	130,392
(Increase)decrease in:			
Accounts receivable	42,291	34,502	76,793
Due from other funds	338,982	(47,292)	291,690
Materials and supplies inventory	(27,464)	(2,001)	(29,465)
Natural gas inventory	0	71,842	71,842
Prepaid expenses	1,932	1,468	3,400
Deferred gas costs	0	38,472	38,472

ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

**STATEMENT OF CASH FLOWS**

(continued)

Year Ended June 30, 2020

	<u>Water and Wastewater System</u>	<u>Natural Gas System</u>	<u>Totals</u>
Increase(decrease) in:			
Accounts payable	30	21,609	21,639
Accrued expenses	(34,584)	(11,498)	(46,082)
Customer deposits	17,115	14,245	31,360
Gas rebates	0	(125)	(125)
Due to other funds	(291,691)	0	(291,691)
	<u>793,879</u>	<u>292,841</u>	<u>1,086,720</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b><u>\$ 955,956</u></b>	<b><u>\$ 677,310</u></b>	<b><u>\$ 1,633,266</u></b>

# ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

## NOTES TO THE FINANCIAL STATEMENTS

June 30, 2020

### **NOTE A - DESCRIPTION OF ORGANIZATION**

Rockwood Water, Wastewater & Natural Gas Systems (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 the City 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 Waterworks, Sewage and Natural Gas as a result of an August 31, 1991 City 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 SIGNIFICANT ACCOUNTING POLICIES**

#### Financial Reporting

The Utility uses the economic resources measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources (whether current or noncurrent) are included in the statement of net position. The statement of revenue, expenses and change in net position present increases (revenue) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenue is recognized in the period in which it is billed, based on a monthly meter reading cycle, while expenses are recognized in the period in which the liability is incurred.

The Utility distinguishes operating revenue and expenses from nonoperating items. Operating revenue is revenue that is generated from the primary operations of the Utility. The principal operating revenue of the Utility is charges to customers for water sales and sewer services. The Utility also recognizes as operating revenue the portion of connection fees intended to recover the cost of connecting new customers to the Utility. All other revenue is reported as nonoperating revenue. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All other expenses are reported as nonoperating expenses.

The Utility prepares its financial statements in accordance with the GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting reporting purposes into the following three net position groups:

ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2020

Net Investment in Capital Assets

This category includes capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. Net investment in capital assets has been calculated as follows:

	<u>Water and Wastewater</u>	<u>Natural Gas</u>
Capital assets	\$ 31,883,726	\$ 6,831,622
Accumulated depreciation	(17,183,855)	(3,179,547)
Principal balance on long-term debt	<u>(4,949,818)</u>	<u>0</u>
	<u>\$ 9,750,051</u>	<u>\$ 3,652,076</u>

Restricted

This category includes net position whose use is subject to externally imposed stipulations that can either be fulfilled by actions of the Utility pursuant to those stipulations or that expire by the passage of time. When both restricted and unrestricted resources are available for use, it is the Utility's policy to use restricted resources first, then unrestricted resources as they are needed. At June 30, 2020 the restricted net position consisted of the following:

Restricted cash – debt service	\$ 599,439
Restricted cash – construction fund	324,765
Restricted for net pension asset	<u>60,007</u>
	<u>\$ 984,211</u>

Unrestricted

This category includes net position that is not subject to externally imposed stipulations and that does not meet the definition of "Restricted" or "Net Investment in Capital Assets". Unrestricted net position may be designated for specific purposes by action of management or the Board of Commissioners or may otherwise be limited by contractual agreements with outside parties.

ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2020

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 amounts reported in the financial statements and accompanying notes. Although these estimates are based on management's knowledge of current events and actions they may undertake in the future, actual results could differ from these estimates. Estimates are used when accounting for allowances for uncollectible accounts receivable, depreciation, revenue and contingencies.

Accounts Receivable

It is the policy of the Utility to write off and expense uncollectible accounts receivable during the period in which they are deemed uncollectible. The allowance for uncollectible accounts was \$30,000 for the Water and Wastewater System and \$15,000 for the Natural Gas System as of June 30, 2020.

Compensated Absences

Utility employees are granted vacation in varying amounts. The Utility's policy is to pay employees for unused accumulated vacation leave upon termination if the employee gives a minimum of two weeks' notice.

Cash Equivalents

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

ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2020

Inventories

Inventories are recorded at lower of cost (first-in, first-out method) or net realizable value.

Prepaid Expenses

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

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 and 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 of \$1,000 and greater are capitalized while expenditures for maintenance and repairs that do not add value to the asset or materially extend lives are charged to operations as incurred.

Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Utility's participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System (TCRS), and additions to/deductions from the Utility'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.



# ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

## NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2020

State of Tennessee law authorizes the Utility to invest in obligations of the United States of America or its agencies, nonconvertible debt securities of certain federal agencies, other obligations guaranteed as to principal and interest by the United States of America or any of its agencies, secured certificates of deposit and other evidences of deposit in state and federal banks and savings and loan associations, and the Tennessee Department of Treasury Local Government Investment Pool (the LGIP). The LGIP contains investments in certificates of deposits, 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.

All deposits with financial institutions in excess of Federal Deposit Insurance Corporation (FDIC) limits are required to be secured by one of two methods. Excess funds can be deposited with a financial institution that participates in the State of Tennessee Bank Collateral Pool. For deposits with financial institutions that do not participate in the State of Tennessee Bank Collateral Pool, state statutes require that all deposits be collateralized with collateral whose market value is equal to 105 percent of the uninsured amount of the deposits.

All cash and cash equivalent balances at June 30, 2020 were entirely insured by the Federal Deposit Insurance Corporation or the State of Tennessee Bank Collateral Pool.

The Utility has an investment in a US Treasury Bill in the amount of \$569,652 (considered Level 1 measurement) with a maturity date of November 3, 2020. This amount has been included in the debt service restricted net asset category in the accompanying Statement of Net Position.

### **NOTE D - CONTINGENCIES**

Beginning in March 2020, a public health crisis related to a novel strain of coronavirus (COVID-19) significantly impacted the national, state and local economies. The impact of the coronavirus is ongoing and the Utility's management is continuing to evaluate the impact on the financial position, liquidity and results of operations of the Utility.

ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2020

**NOTE E – CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2020 was as follows:

	<u>Balance</u> <u>7/1/19</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>6/30/20</u>
<b>Water and Wastewater System:</b>				
<u>Capital assets not being depreciated</u>				
Land and easements	\$ 25,455	\$ 0	\$ 0	\$ 25,455
Construction in progress	<u>495,422</u>	<u>244,730</u>	<u>(81,222)</u>	<u>658,930</u>
	520,877	244,730	(81,222)	684,385
<u>Capital assets being depreciated</u>				
Distribution and collection	12,735,773	79,433	0	12,815,206
Utility Plant	16,782,396	106,688	0	16,889,084
Transportation equipment	387,891	0	0	387,891
Machinery and equipment	775,522	79,483	0	855,005
Software	124,067	2,264	0	126,331
Furniture and fixtures	<u>116,852</u>	<u>8,972</u>	<u>0</u>	<u>125,824</u>
	30,922,501	276,840	0	31,199,341
<u>Accumulated depreciation</u>				
Distribution and collection	(6,276,385)	(220,685)	0	(6,497,070)
Utility plant	(9,300,774)	(376,269)	0	(9,677,043)
Transportation equipment	(197,623)	(36,036)	0	(233,659)
Machinery and equipment	(510,779)	(53,421)	0	(564,200)
Software	(74,065)	(25,053)	0	(99,118)
Furniture and fixtures	<u>(111,248)</u>	<u>(1,518)</u>	<u>0</u>	<u>(112,766)</u>
	<u>(16,470,874)</u>	<u>(712,981)</u>	<u>0</u>	<u>(17,183,855)</u>
	<u>\$ 14,972,503</u>	<u>\$ (191,411)</u>	<u>\$ (81,222)</u>	<u>\$ 14,699,869</u>

ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2020

	<u>Balance</u> <u>7/1/19</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>6/30/20</u>
<b>Natural Gas System:</b>				
<u>Capital assets not being depreciated</u>				
Construction in progress	\$ 687,266	\$ 123,540	\$ 0	\$ 810,805
<u>Capital assets being depreciated</u>				
Distributions and collection	4,173,774	0	0	4,173,774
Utility plant	645,733	1,275	0	647,007
Transportation equipment	215,214	0	0	215,214
Machinery and equipment	816,495	18,016	0	834,511
Software	62,034	0	0	62,034
Furniture and fixtures	<u>88,277</u>	<u>0</u>	<u>0</u>	<u>88,277</u>
	6,001,526	19,291	0	6,020,817
<u>Accumulated depreciation</u>				
Distributions and collection	(1,717,072)	(89,345)	0	(1,806,417)
Utility plant	(344,549)	(23,167)	0	(367,716)
Transportation equipment	(175,154)	(8,418)	0	(183,574)
Machinery and equipment	(657,042)	(27,560)	0	(684,602)
Software	(37,033)	(12,407)	0	(49,440)
Furniture and fixtures	<u>(87,799)</u>	<u>0</u>	<u>0</u>	<u>(87,799)</u>
	<u>(3,018,650)</u>	<u>(160,897)</u>	<u>0</u>	<u>(3,179,547)</u>
	<u>\$ 3,670,142</u>	<u>\$ (18,066)</u>	<u>\$ 0</u>	<u>\$ 3,652,076</u>

ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2020

**NOTE F - LONG-TERM DEBT**

Long-term debt at June 30, 2020 consisted of the following:

Bonds Payable

General Obligation Bonds, Series 2012, interest rates ranging from 1.00% to 3.00%; payable in annual installments ranging from \$110,000 to \$350,000 through 2031, including unamortized issue premium of \$140.	\$ 1,504,860
Water and Sewer Revenue and Tax Refunding Bonds, Series 2007, interest rates 4.50%; payable in monthly installments of \$2,481 through 2047.	462,444
Water and Sewer Revenue and Tax Bond, Series 2013A, interest rate 2.75%; payable in monthly installments of \$2,468 through 2052.	626,884
Water and Sewer Revenue and Tax Bond, Series 2013B, interest rate 2.125%; payable in monthly installments of \$2,487 through 2052.	689,244
General Obligation Capital Outlay Notes Series 2017; interest rate 2.70%; payable in annual installments ranging from \$25,000 to \$175,000 through 2029.	<u>1,425,000</u>
Total Bonds Payable	4,708,432

Notes Payable

Water and Sewer Revenue Loan 2000-139, State of Tennessee Revolving Loan, interest 2.70%, payable in monthly installments of \$7,724 through 2023.	<u>241,246</u>
Total Long-Term Debt	4,949,678

Less current maturities	<u>(499,962)</u>
	<u>\$ 4,449,716</u>

ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2020

Future maturities of bonds payable are as follows:

<u>Year Ending</u> <u>June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2021	\$ 499,962	\$ 133,783	\$ 633,745
2022	413,013	121,306	534,319
2023	387,556	111,193	498,749
2024	325,386	101,953	427,339
2025	326,595	93,489	420,084
2026	332,843	84,986	417,829
2027	334,134	76,095	410,229
2028	340,468	67,161	407,629
2029	341,845	57,758	399,603
2030	168,270	48,309	216,579
2031	174,742	43,237	217,979
2032	51,264	37,965	89,229
2033	52,837	36,391	89,228
2034	54,466	34,763	89,229
2035	56,148	33,081	89,229
2036	57,888	31,341	89,229
2037	59,689	29,540	89,229
2038	61,551	27,678	89,229
2039	63,478	25,750	89,228
2040	65,471	23,758	89,229
2041	67,534	21,695	89,229
2042	69,671	19,558	89,229
2043	71,881	17,348	89,229
2044	74,169	15,060	89,229
2045	76,537	12,692	89,229
2046	78,988	10,240	89,228
2047	75,681	7,704	83,384
2048	53,539	5,921	59,460
2049	54,856	4,604	59,460
2050	56,207	3,253	59,460
2051	57,591	1,869	59,460

ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2020

<u>Year Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2052	45,560	476	46,036
	<u>\$ 4,949,818</u>	<u>\$ 1,339,957</u>	<u>\$ 6,289,775</u>

Changes in long-term debt for the year ended June 30, 2020 were as follows:

	<u>Balance 7/1/19</u>	<u>Proceeds</u>	<u>Payments</u>	<u>Balance 6/30/20</u>	<u>Amounts Due Within One Year</u>
<b>Bonds Payable:</b>					
Capital Outlay 2012	\$ 1,450,000	\$ 0	\$ 25,000	\$ 1,425,000	\$ 25,000
Series 2013A	638,079	0	11,195	626,884	12,534
Series 2013B	704,268	0	15,024	689,244	15,347
Series 2007	471,249	0	8,805	462,444	9,106
Series 2012	<u>1,845,000</u>	<u>0</u>	<u>340,000</u>	<u>1,505,000</u>	<u>350,000</u>
	5,108,596	0	400,024	4,708,572	411,987
<b>Notes Payable:</b>					
Sewer 2000-139	<u>327,310</u>	<u>0</u>	<u>86,064</u>	<u>241,246</u>	<u>87,975</u>
	<u>\$ 5,435,906</u>	<u>\$ 0</u>	<u>\$ 486,088</u>	<u>\$ 4,949,818</u>	<u>\$ 499,962</u>

All debt issues are collateralized by a pledge of net revenue derived from the operations of the Utility and the ad valorem property taxes of the City of Rockwood, Tennessee. Covenants of the state revolving loan fund debt provide that the lender may collect the unobligated City of Rockwood, Tennessee share of state-shared tax revenue once the payment on the debt is delinquent more than 60 days.

The Water and Sewer Revenue and Tax Refunding Bonds, Water and Sewer Revenue and Tax, General Obligation Bonds and General Obligation Capital Outlay Notes loan agreement do not include terms related to significant events of default with finance-related consequences, termination events with finance-related consequences or subjective acceleration clauses.

ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2020

Subsequent to June 30, 2020, a line of credit in the amount of \$1 million dollars was issued from the Natural Gas System to the Water and Wastewater System.

**NOTE G - PENSION PLAN**

Plan Description

Employees of the Utility 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/Retirement/Boards-and-Governance/Reporting-and-Investment-Policies](http://www.treasury.tn.gov/Retirement/Boards-and-Governance/Reporting-and-Investment-Policies).

Benefits Provided

Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Members are eligible to retire with an unreduced benefit at age 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% and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Employees Covered by Benefit Terms

At the measurement date of June 30, 2019, the following employees (including all of employees of the City of Rockwood, Tennessee) were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	64
Inactive employees entitled to but not yet receiving benefits	66
Active employee	78
	<u>208</u>

ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2020

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% of salary. The Utility makes employer contributions at the rate set by the TCRS Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2020, employer contributions for the Utility were \$85,383 based on a rate of 5.1%. By law, employer contributions are required to be paid. The TCRS may intercept the Utility's state shared taxes if required contributions are not remitted. The employer's actuarially determined contribution (ADC) and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Liability(Asset)

The Utility's net pension liability(asset) was measured as of June 30, 2019, and the total pension liability used to calculate net pension liability(asset) was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The total pension liability as of June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4.00%
Investment rate of return	7.25%, net of pension plan investment expenses, including inflation

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

The actuarial assumptions used in the June 30, 2019 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012 through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.



ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2020

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, 2016 actuarial experience study. A blend of future capital market projections and historical market returns was used in a building-block method in which best-estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best-estimates are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.5 percent. The best-estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real estate	4.32%	10%
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 7.25% based on a blending of the factors described above.

Discount Rate

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the Utility 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.

ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2020

Changes in the Net Pension Liability(Asset)

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability(Asset) (a) - (b)
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Changes for the year ended June 30, 2018:			
Increase(decrease):			
Service cost	\$ 129,798	\$ 0	\$ 129,798
Interest	347,857	0	347,857
Differences between expected and actual experience	(40,685)	0	(40,685)
Changes in assumptions	0	0	0
Contributions-employer	0	72,037	(72,037)
Contributions - employees	0	73,209	(73,209)
Net investment income	0	353,020	(353,020)
Benefit payments, including refunds of employee contributions	(233,180)	(233,180)	0
Administrative expense	<u>0</u>	<u>(3,046)</u>	<u>3,046</u>
Net changes for the year ended June 30, 2019	203,790	262,038	(58,249)
Balances at June 30, 2018	<u>4,784,820</u>	<u>4,786,578</u>	<u>(1,759)</u>
Balances at June 30, 2019	<u>\$ 4,988,610</u>	<u>\$ 5,048,617</u>	<u>\$ (60,007)</u>

ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2020

Sensitivity of the Net Pension Liability(Asset) to Changes in the Discount Rate

The following presents the net pension liability(asset) of the Utility calculated using the discount rate of 7.25%, as well as what the net pension liability(asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

	<u>1% Decrease 6.25%</u>	<u>Current Discount Rate 7.25%</u>	<u>1% Increase 8.25%</u>
Net pension liability(asset)	\$ 574,216	\$ (60,007)	\$ (588,011)

Pension Expense

For the year ended June 30, 2020, the Utility recognized pension expense in the amount of \$128,063.

Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2019, the Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 83,495	\$ 48,707
Net difference between projected and actual earnings on pension plan investments	0	58,712
Changes in assumptions	61,058	0
Contributions subsequent to the measurement date of June 30, 2019	<u>85,383</u>	<u>not applicable</u>
Totals	<u>\$ 229,936</u>	<u>\$ 107,419</u>

The amount shown above for “Contributions subsequent to the measurement date of June 30, 2019,” will be recognized as a reduction(expense) to net pension liability(asset) in the following measurement period.

ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2020

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

Year Ending  
June 30:

2021	\$ 29,488
2022	(8,042)
2023	25,681
2024	(9,995)
2025	0
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, 2020 the Utility reported a payable of \$12,750 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2020.

**NOTE H – INTERFUND RENT**

The Natural Gas System pays the Water and Wastewater System \$2,500 per month for the usage of the Church Street facility. During the year ended June 30, 2020 the total rent paid by the Natural Gas System was \$30,000.

**NOTE I – SUBSEQUENT EVENTS**

The Utility's management evaluated subsequent events through May 25, 2021, the date the financial statements were available to be issued, for items requiring disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION



	Measurement Date at June 30,			
<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	
\$ (38,395)	\$ (96,258)	\$ (104,968)	\$ (134,175)	
43.09%	105.60%	24.00%	15.18%	
100.86%	100.97%	104.88%	110.68%	
\$ 1,442,227	\$ 1,351,806	\$ 1,230,841	\$ 1,126,738	
2.66%	7.12%	8.53%	11.91%	





<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
\$ 62,160	\$ 63,263	\$ 56,688	\$ 79,322
<u>(62,160)</u>	<u>(63,263)</u>	<u>(56,688)</u>	<u>(79,322)</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 1,442,227	\$ 1,351,806	\$ 1,230,841	\$ 1,126,738
4.31%	4.68%	4.61%	7.04%

# ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

## PENSION CONTRIBUTIONS

(continued)

June 30, 2020

### Notes to Pension Contributions

Valuation date: Actuarially determined contribution rates for the year ended June 30, 2020 were calculated based on the June 30, 2018 actuarial valuation.

Methods and assumptions used to determined contribution rates:

Actuarial cost method	Entry Age Normal
Amortization method	Level dollar, closed (not to exceed 20 years)
Remaining amortization period	Varies by year
Asset valuation	10-year smoothed within a 20% corridor to market value
Inflation	2.50%
Salary increases	Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4.00%
Investment Rate of Return	7.25%, net of investment expense, including inflation
Retirement age	Pattern of retirement determined by experience study
Mortality	Customized table based on actual experience including an adjustment for some anticipated improvement
Cost of Living Adjustments	2.25%

### Change of Assumptions

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

OTHER SUPPLEMENTARY INFORMATION

ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

**LONG-TERM DEBT REQUIREMENTS**

June 30, 2020

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
Water and Sewer Revenue Loan 2000-139			
Year Ending <u>June 30:</u>			
2021	\$ 87,975	\$ 4,716	\$ 92,691
2022	89,930	2,760	92,690
2023	<u>63,341</u>	<u>924</u>	<u>64,265</u>
	<u>\$ 241,246</u>	<u>\$ 8,400</u>	<u>\$ 249,646</u>

General Obligation Bonds, Series 2012

Year Ending <u>June 30:</u>			
2021	\$ 350,000	\$ 38,350	\$ 388,350
2022	110,000	29,600	139,600
2023	110,000	27,180	137,180
2024	110,000	24,760	134,760
2025	110,000	22,230	132,230
2026	115,000	19,700	134,700
2027	115,000	16,825	131,825
2028	120,000	13,950	133,950
2029	120,000	10,650	130,650
2030	120,000	7,350	127,350
2031	<u>125,000</u>	<u>3,750</u>	<u>128,750</u>
	<u>\$ 1,505,000</u>	<u>\$ 214,345</u>	<u>\$ 1,719,345</u>

See the accompanying independent accountants' audit report.

ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

**LONG-TERM DEBT REQUIREMENTS**

(continued)

June 30, 2020

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
Water and Sewer Revenue and Tax Refunding Bonds, Series 2007			
<u>Year Ending June 30:</u>			
2021	\$ 9,106	\$ 20,663	\$ 29,769
2022	9,524	20,245	29,769
2023	9,961	19,808	29,769
2024	10,419	19,350	29,769
2025	10,898	18,871	29,769
2026	11,398	18,371	29,769
2027	11,922	17,847	29,769
2028	12,470	17,299	29,769
2029	13,042	16,726	29,768
2030	13,642	16,127	29,769
2031	14,268	15,501	29,769
2032	14,924	14,845	29,769
2033	15,609	14,159	29,768
2034	16,327	13,442	29,769
2035	17,077	12,692	29,769
2036	17,861	11,908	29,769
2037	18,682	11,087	29,769
2038	19,540	10,229	29,769
2039	20,437	9,331	29,768
2040	21,376	8,393	29,769
2041	22,358	7,411	29,769
2042	23,386	6,383	29,769
2043	24,460	5,309	29,769
2044	25,584	4,185	29,769
2045	26,759	3,010	29,769
2046	27,987	1,781	29,768
2047	23,427	498	23,925
	<u>\$ 462,444</u>	<u>\$ 335,471</u>	<u>\$ 797,915</u>

ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

**LONG-TERM DEBT REQUIREMENTS**

(continued)

June 30, 2020

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
Water and Sewer Revenue and Tax Bond, Series 2013A			
<u>Year Ending June 30:</u>			
2021	\$ 12,534	\$ 17,082	\$ 29,616
2022	12,883	16,733	29,616
2023	13,242	16,374	29,616
2024	13,611	16,005	29,616
2025	13,990	15,626	29,616
2026	14,380	15,236	29,616
2027	14,780	14,836	29,616
2028	15,192	14,424	29,616
2029	15,615	14,001	29,616
2030	16,050	13,566	29,616
2031	16,497	13,119	29,616
2032	16,956	12,660	29,616
2033	17,428	12,188	29,616
2034	17,914	11,702	29,616
2035	18,412	11,204	29,616
2036	18,925	10,691	29,616
2037	19,452	10,164	29,616
2038	19,994	9,622	29,616
2039	20,551	9,065	29,616
2040	21,123	8,493	29,616
2041	21,711	7,905	29,616
2042	22,316	7,300	29,616
2043	22,938	6,678	29,616
2044	23,576	6,040	29,616
2045	24,233	5,383	29,616
2046	24,908	4,708	29,616
2047	25,601	4,015	29,616
2048	26,314	3,302	29,616

ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

**LONG-TERM DEBT REQUIREMENTS**

(continued)

June 30, 2020

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
Water and Sewer Revenue and Tax Bond, Series 2013A (continued)			
Year Ending <u>June 30:</u>			
2049	27,047	2,569	29,616
2050	27,801	1,815	29,616
2051	28,575	1,041	29,616
2052	22,335	261	22,596
	<u>\$ 626,884</u>	<u>\$ 313,808</u>	<u>\$ 940,692</u>

Water and Sewer Revenue and Tax Bond, Series 2013B			
Year Ending <u>June 30:</u>			
2021	\$ 15,347	\$ 14,497	\$ 29,844
2022	15,676	14,168	29,844
2023	16,012	13,832	29,844
2024	16,356	13,488	29,844
2025	16,707	13,137	29,844
2026	17,065	12,779	29,844
2027	17,432	12,412	29,844
2028	17,806	12,038	29,844
2029	18,188	11,656	29,844
2030	18,578	11,266	29,844
2031	18,977	10,867	29,844
2032	19,384	10,460	29,844
2033	19,800	10,044	29,844
2034	20,225	9,619	29,844
2035	20,659	9,185	29,844
2036	21,102	8,742	29,844
2037	21,555	8,289	29,844
2038	22,017	7,827	29,844
2039	22,490	7,354	29,844
2040	22,972	6,872	29,844
2041	23,465	6,379	29,844

ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

**LONG-TERM DEBT REQUIREMENTS**

(continued)

June 30, 2020

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
Water and Sewer Revenue and Tax Bond, Series 2013B (continued)			
<u>Year Ending June 30:</u>			
2042	23,969	5,875	29,844
2043	24,483	5,361	29,844
2044	25,009	4,835	29,844
2045	25,545	4,299	29,844
2046	26,093	3,751	29,844
2047	26,653	3,191	29,844
2048	27,225	2,619	29,844
2049	27,809	2,035	29,844
2050	28,406	1,438	29,844
2051	29,016	828	29,844
2052	23,223	215	23,438
	<u>\$ 689,244</u>	<u>\$ 259,358</u>	<u>\$ 948,602</u>

General Obligation Capital Outlay  
Notes, Series 2017

<u>Year Ending June 30:</u>			
2021	\$ 25,000	\$ 38,475	\$ 63,475
2022	175,000	37,800	212,800
2023	175,000	33,075	208,075
2024	175,000	28,350	203,350
2025	175,000	23,625	198,625
2026	175,000	18,900	193,900
2027	175,000	14,175	189,175
2028	175,000	9,450	184,450
2029	175,000	4,725	179,725
	<u>\$ 1,425,000</u>	<u>\$ 208,575</u>	<u>\$ 1,633,575</u>





<u>Last Maturity Date</u>	<u>Outstanding 7/1/2019</u>	<u>Issued During Period</u>	<u>Paid and/or Matured During Period</u>	<u>Refunded During Period</u>	<u>Outstanding 6/30/2020</u>
6/30/2031	\$ 1,845,000	\$ 0	\$ 340,000	\$ 0	\$ 1,505,000
6/30/2047	471,249	0	8,805	0	462,444
6/30/2052	638,079	0	11,195	0	626,884
6/30/2052	704,268	0	15,024	0	689,244
6/1/2029	1,450,000	0	25,000	0	1,425,000
6/30/2023	<u>327,310</u>	<u>0</u>	<u>86,064</u>	<u>0</u>	<u>241,246</u>
	<u>\$ 5,435,906</u>	<u>\$ 0</u>	<u>\$ 486,088</u>	<u>\$ 0</u>	<u>\$ 4,949,818</u>

ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

UTILITY RATES AND METERED CUSTOMERS

June 30, 2020

**Water Rates:**

	Inside City	Outside City	South Roane County
Usage:			
0-200 Cubic feet (minimum)	\$ 13.07	\$ 22.85	\$ 29.77
201-1001 Cubic feet (per 100 cubic feet)	3.85	6.73	7.18

**Sewer Rates:**

160% of bill for water services

**Gas Rates:**

Residential	\$ 9.44/Dth	\$11.94/Dth
Commercial	9.44/Dth	11.94/Dth
Industrial	9.44/Dth	11.94/Dth
Transportation	Varies on metered consumption	

**Tap Fees:**

3/4"	\$ 1,040.00	\$ 1,250.00
1"	1,200.00	1,410.00
2" and larger	Priced as needed	Priced as needed
Sewer – residential 4"	800.00-1,110.00	1,100.00-1,320.00
Sewer – residential 6"	880.00-1,130.00	1,100.00-1,350.00
Sewer – grinder pump and tap	4,100.00	4,300.00
Per foot charge after first 100' on private property	1.00	1.00
Natural Gas	700.00	700.00

Gas lines assessed at \$1.00 per foot (property line to meter) over 150 feet.

Customers who use more than 24,000 Dth are eligible for the FT-1 rate which provides them with an uninterruptable gas supply.

**Number of Metered Customers:**

Water	3,930
Wastewater	1,835
Gas	2,877

See the accompanying independent accountants' audit report.



# AWWA Free Water Audit Software: Reporting Worksheet

WASv50  
American Water Works Association  
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- Click to access definition
- Click to add a comment

Water Audit Report for: **Rockwood Water Sewer and Gas (0000590)**  
Reporting Year: **2020** / **7/2019 - 6/2020**

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 them 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 meters or exceeds all criteria for that grade and all grades below it.

### WATER SUPPLIED

Volume from own sources:	<input type="text" value="9"/>	954.000	MG/Yr
Water imported:	<input type="text" value="n/a"/>	0.000	MG/Yr
Water exported:	<input type="text" value="8"/>	247.000	MG/Yr

### Master Meter and Supply Error Adjustments

Pcnt:	<input type="text" value="-0.50%"/>	Value:	<input type="text"/>	MG/Yr
	<input type="text" value="-1.00%"/>		<input type="text"/>	MG/Yr

**WATER SUPPLIED:** **709.299** MG/Yr

Enter negative % or value for under-registration  
Enter positive % or value for over-registration

### AUTHORIZED CONSUMPTION

Billed metered:	<input type="text" value="8"/>	252.000	MG/Yr
Billed unmetered:	<input type="text" value="n/a"/>	0.000	MG/Yr
Unbilled metered:	<input type="text" value="9"/>	22.610	MG/Yr
Unbilled unmetered:	<input type="text" value="8"/>	8.868	MG/Yr

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

**AUTHORIZED CONSUMPTION:** **283.476** MG/Yr

Click here: for help using option buttons below

Pcnt:	<input type="text" value="1.25%"/>	Value:	<input type="text"/>	MG/Yr
-------	------------------------------------	--------	----------------------	-------

Use buttons to select percentage of water supplied OR value

### WATER LOSSES (Water Supplied - Authorized Consumption)

**425.823** 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:	<input type="text" value="7"/>	8.493	MG/Yr
Systematic data handling errors:	<input type="text" value="5"/>	1.263	MG/Yr

**Apparent Losses:** **11.529** MG/Yr

Pcnt:	<input type="text" value="0.25%"/>	Value:	<input type="text"/>	MG/Yr
-------	------------------------------------	--------	----------------------	-------

<input type="text" value="3.00%"/>	<input type="text" value="1.263"/>	MG/Yr
------------------------------------	------------------------------------	-------

#### Real Losses (Current Annual Real Losses or CARL)

Real Losses = Water Losses - Apparent Losses:  MG/Yr

**WATER LOSSES:** **425.823** MG/Yr

### NON-REVENUE WATER

**NON-REVENUE WATER:** **457.299** MG/Yr

= Water Losses + Unbilled Metered + Unbilled Unmetered

### SYSTEM DATA

Length of mains:	<input type="text" value="9"/>	177.0	miles
Number of active AND inactive service connections:	<input type="text" value="8"/>	4,454	
Service connection density:	<input type="text" value="25"/>	25	conn./mile main

Are customer meters typically located at the curbstop or property line?

Average length of customer service 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:	<input type="text" value="9"/>	\$2,236,661	\$/Year
Customer retail unit cost (applied to Apparent Losses):	<input type="text" value="9"/>	\$8.59	\$/1000 gallons (US)
Variable production cost (applied to Real Losses):	<input type="text" value="9"/>	\$388.82	\$/Million gallons <input type="checkbox"/> Use Customer Retail Unit Cost to value real losses

### WATER AUDIT DATA VALIDITY SCORE:

\*\*\* YOUR SCORE IS: 81 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: Volume from own sources
- 2: Unauthorized consumption
- 3: Systematic data handling errors

See the accompanying independent accountants' audit report.



**AWWA Free Water Audit Software:  
System Attributes and Performance Indicators**

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

Water Audit Report for: **Rockwood Water Sewer and Gas (0000590)**  
Reporting Year: **2020**    **7/2019 - 6/2020**

**\*\*\* YOUR WATER AUDIT DATA VALIDITY SCORE IS: 81 out of 100 \*\*\***

**System Attributes:**

Apparent Losses:	<b>11.529</b>	MG/Yr
+ Real Losses:	<b>414.293</b>	MG/Yr
= <b>Water Losses:</b>	<b>425.823</b>	MG/Yr

**Unavoidable Annual Real Losses (UARL):** **59.34** MG/Yr

Annual cost of Apparent Losses: **\$99,037**

Annual cost of Real Losses: **\$161,086**    Valued at **Variable Production Cost**  
Return to Reporting Worksheet to change this assumption

**Performance Indicators:**

Financial: { Non-revenue water as percent by volume of Water Supplied: **64.5%**  
Non-revenue water as percent by cost of operating system: **12.2%** Real Losses valued at Variable Production Cost

Operational Efficiency: { Apparent Losses per service connection per day: **7.09** gallons/connection/day  
Real Losses per service connection per day: **N/A** gallons/connection/day  
Real Losses per length of main per day\*: **6,412.71** gallons/mile/day  
Real Losses per service connection per day per psi pressure: **N/A** gallons/connection/day/psi

From Above, Real Losses = Current Annual Real Losses (CARL): **414.29** million gallons/year

**Infrastructure Leakage Index (ILI) [CARL/UARL]:** **6.98**

\* This performance indicator applies for systems with a low service connection density of less than 32 service connections/mile of pipeline

See the accompanying independent accountants' audit report.

ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

**PRINCIPAL OFFICIALS**

June 30, 2020

Darryl Meadows, Chairman  
Loren Bone, Vice Chairman  
Joe Moore, Commissioner  
Robert Anderson, Commissioner  
Jeff Penley, Commissioner  
Kimberly Ramsey Leffew, P.E., Manager  
Joan Kerley, Finance Director

See the accompanying independent accountants' audit report.

INTERNAL CONTROL

AND

COMPLIANCE

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

Board of Commissioners  
Rockwood Water, Wastewater & Natural Gas Systems  
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 of America, the financial statements of Rockwood Water, Wastewater & Natural Gas Systems, as of and for the year ended June 30, 2020, and the related notes to the financial statements, and have issued our report thereon dated May 25, 2021.

**Internal Control Over Financial Reporting**

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of Rockwood Water, Wastewater & Natural Gas Systems' 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 Rockwood Water, Wastewater & Natural Gas Systems' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

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

*Mitchell Emert + Hill*

May 25, 2021

ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

**SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS**

Year Ended June 30, 2020

No prior year findings were reported.