

# *Financial Statements*

## ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

Year Ended June 30, 2022

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INDEPENDENT ACCOUNTANTS' AUDIT REPORT

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

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

***Opinion***

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, 2022 and 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.

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, 2022 and the change in its financial position and its cash flow for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Basis for Opinion***

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

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

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Rockwood Water, Wastewater & Natural Gas Systems's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Auditors' Responsibilities for the Audit of the Financial Statements***

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Rockwood Water, Wastewater & Natural Gas Systems's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Rockwood Water, Wastewater & Natural Gas Systems's ability to continue as a going concern for a reasonable period of time.

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

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

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 5 to 17, the schedules of changes in net pension liability(asset) and pension contributions on pages 42 to 47 be presented to supplement the financial statements. Such information, although not a part of the 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 financial statements, and other information 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.

### ***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's financial statements. The accompanying information listed in the table of contents as supplementary information is presented for purposes of additional analysis and are not a required part of the financial statements.

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

### ***Other Information***

Management is responsible for the other information included in the financial statements. The other information comprise of the schedule of utility rates and metered customers and principal officials but does not include the financial statements and our auditors' report thereon. Our opinion on the financial statements does not cover the other information, and we not express an opinion or any form of assurance thereon.

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

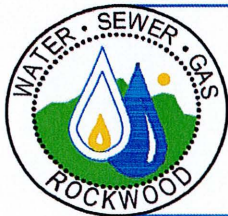
### **Other Reporting Required by *Governmental Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2022 on our consideration of Rockwood Water, Wastewater & Natural Gas Systems's 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Rockwood Water, Wastewater & Natural Gas Systems's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rockwood Water, Wastewater & Natural Gas Systems's internal control over financial reporting and compliance.

*Mitchell Emert + Hill*

December 13, 2022





## ***Rockwood Water, Wastewater & Natural Gas***

110 N. Chamberlain Avenue –Rockwood, TN 37854  
Phone: (865) 354-0163 Fax (865) 354-8884 [www.rwsg.org](http://www.rwsg.org)

Chairman: Loren Bone Commissioner: Mark Clem Commissioner: Larry Davis  
Commissioner: Joe Moore Commissioner: Ronnie Thompson General Manager: Kim Ramsey-Leffew

### **MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2022**

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, 2022. Fund and account balances shown in the MD&A are taken directly from the accompanying financial statements for the year ending June 30, 2022. 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

- o Total assets compared to the prior year, increased \$1,583,676 to \$19,134,336.
- o Total liabilities compared to the prior year, increased \$657,655 to \$6,204,571.
- o Operating revenue compared to the prior year, increased \$205,750 to \$4,237,364.
- o Operating expenses, excluding depreciation, decreased \$63,277 to \$3,018,292.

##### Gas Department

- o Total assets compared to the prior year, increased \$4,349,526 to \$14,644,140.
- o Total liabilities compared to the prior year, increased \$3,497,490 to \$3,801,389.
- o Operating revenue compared to the prior year, increased \$830,902 to \$3,743,407.
- o Operating expenses, excluding depreciation, increased \$433,699 to \$2,847,261.

#### **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, 2022**

**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.

| <p style="text-align: center;"><b>Table A-1 W&amp;WW</b><br/><b>Water &amp; Wastewater Condensed Statements of Net Position</b></p> |                      |                      |                          |                                     |
|---|----------------------|----------------------|--------------------------|-------------------------------------|
|   | <b>FYE 2022</b>      | <b>FYE 2021</b>      | <b>Dollar<br/>Change</b> | <b>Total<br/>Percent<br/>Change</b> |
| Current and Other Assets  | \$ 3,878,072         | \$ 2,110,500         | \$ 1,767,572             | 83.8%                               |
| Capital Assets  | 15,256,264           | 15,440,160           | (183,896)                | -1.2%                               |
| Total Assets  | <u>\$ 19,134,336</u> | <u>\$ 17,550,660</u> | <u>\$ 1,583,676</u>      | <u>9.0%</u>                         |
| Deferred Outflow of Resources   | <u>\$ 333,296</u>    | <u>\$ 143,141</u>    | <u>\$ 190,155</u>        | <u>132.8%</u>                       |
| Long-Term Debt Outstanding  | \$ 4,988,074         | \$ 4,253,477         | \$ 734,597               | 17.3%                               |
| Other Liabilities   | 1,216,497            | 1,293,439            | (76,942)                 | -5.9%                               |
| Total Liabilities   | <u>\$ 6,204,571</u>  | <u>\$ 5,546,916</u>  | <u>\$ 657,655</u>        | <u>11.9%</u>                        |
| Deferred Inflow of Resources  | <u>\$ 569,886</u>    | <u>\$ 33,763</u>     | <u>\$ 536,123</u>        | <u>1587.9%</u>                      |
| Net Investment in Capital Assets  | \$ 10,895,527        | \$ 10,746,676        | \$ 148,851               | 1.4%                                |
| Restricted  | 1,103,814            | 621,356              | 482,458                  | 77.6%                               |
| Unrestricted  | 693,834              | 745,090              | (51,256)                 | -6.9%                               |
| Total Net Position  | <u>\$ 12,693,175</u> | <u>\$ 12,113,122</u> | <u>\$ 580,053</u>        | <u>4.8%</u>                         |

As can be seen from the table above, the net position of the Water and Wastewater department increased \$580,053 to \$12,693,175 in 2022 from \$12,113,122 in 2021. The increase in net position reflects the use of cash for capital improvements and the cash received on the issuance of long-term debt. Deferred outflows of resources increased \$190,155 to \$333,296 in 2022. Deferred inflows of resources increased \$536,123 to \$569,886 in 2022.



**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
ROCKWOOD, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2022**

**NET POSITION – Continued**

| <p style="text-align: center;"><b>Table A-1 Gas<br/>Gas Condensed Statements of Net Position</b></p> |                      |                      |                          |                                     |
|--|----------------------|----------------------|--------------------------|-------------------------------------|
|  | <b>FYE 2022</b>      | <b>FYE 2021</b>      | <b>Dollar<br/>Change</b> | <b>Total<br/>Percent<br/>Change</b> |
| Current and Other Assets   | \$ 11,013,595        | \$ 6,625,847         | \$ 4,387,748             | 66.2%                               |
| Capital Assets   | 3,630,544            | 3,668,766            | (38,222)                 | -1.0%                               |
| Total Assets   | <u>\$ 14,644,140</u> | <u>\$ 10,294,610</u> | <u>\$ 4,349,526</u>      | <u>42.3%</u>                        |
| Deferred Outflow of Resources  | <u>\$ 179,440</u>    | <u>\$ 78,320</u>     | <u>\$ 101,120</u>        | <u>129.1%</u>                       |
| Long Term Outstanding Debt   | \$ 3,083,506         | 0                    | 3,083,506                |                                     |
| Other Liabilities  | \$ 717,883           | \$ 303,899           | \$ 413,984               | 136.2%                              |
| Total Liabilities  | <u>\$ 3,801,389</u>  | <u>\$ 303,899</u>    | <u>\$ 3,497,490</u>      | <u>1150.9%</u>                      |
| Deferred Inflow of Resources   | <u>\$ 374,998</u>    | <u>\$ 42,446</u>     | <u>\$ 332,552</u>        | <u>783.5%</u>                       |
| Net Investment in Capital Assets   | \$ 3,631,539         | \$ 3,668,766         | \$ (37,227)              | -1.0%                               |
| Restricted   | 304,496              | 6,614                | 297,882                  | 4503.8%                             |
| Unrestricted   | 6,711,158            | 6,351,205            | 359,953                  | 5.7%                                |
| Total Net Position   | <u>\$ 10,647,193</u> | <u>\$ 10,026,585</u> | <u>\$ 620,608</u>        | <u>6.2%</u>                         |

As can be seen from the table above, the net position of the Gas department increased \$620,608 to \$10,647,193 in 2022 from \$10,026,585 in 2021. The increase in net position reflects an improved cash position from the issuance of debt, use of cash for capital improvements and an increase in other liabilities. Deferred outflows of resources increased \$101,120 to \$179,440 in 2022. Deferred inflows of resources increased \$332,552 to \$374,998 in 2022.

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
ROCKWOOD, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2022**

**NET POSITION – Continued**

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

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

| <b>Table A-2 W&amp;WW<br/>Water &amp; Wastewater Condensed Statements of Revenues,<br/>Expenses and Changes in Net Position</b> |                      |                      |                          |                                     |
|---|----------------------|----------------------|--------------------------|-------------------------------------|
|   | <b>FYE 2022</b>      | <b>FYE 2021</b>      | <b>Dollar<br/>Change</b> | <b>Total<br/>Percent<br/>Change</b> |
| Operating revenues  | \$ 4,237,364         | \$ 4,031,614         | \$ 205,750               | 5.1%                                |
| Nonoperating revenues   | 31,285               | 30,702               | 583                      | 1.9%                                |
| <b>Total Revenues</b>   | <b>\$ 4,268,649</b>  | <b>\$ 4,062,316</b>  | <b>\$ 206,333</b>        | <b>5.1%</b>                         |
| Depreciation & Amortization<br>Expense  | \$ 635,469           | \$ 651,463           | \$ (15,994)              | -2.5%                               |
| Other operating expense   | 3,018,292            | 3,081,569            | (63,277)                 | -2.1%                               |
| Nonoperating expense  | 204,723              | 127,611              | 77,112                   | 60.4%                               |
| <b>Total Expenses</b>   | <b>\$ 3,858,484</b>  | <b>\$ 3,860,643</b>  | <b>\$ (2,159)</b>        | <b>-0.1%</b>                        |
| Income (Loss) Before Capital<br>Contributions   | \$ 410,165           | \$ 201,673           | \$ 208,492               | 103.4%                              |
| Capital contributions and grants  | 169,888              | 502,293              | (332,405)                | -66.2%                              |
| <b>Changes in Net Position</b>  | <b>\$ 580,053</b>    | <b>\$ 703,966</b>    | <b>\$ (123,913)</b>      | <b>-17.6%</b>                       |
| Beginning Net Position  | 12,113,122           | 11,409,156           | 703,966                  | 6.2%                                |
| <b>Total Net Position</b>   | <b>\$ 12,693,175</b> | <b>\$ 12,113,122</b> | <b>\$ 580,053</b>        | <b>4.8%</b>                         |

As can be seen in Table A-2 W&WW above, the income before capital contributions is \$410,165 in 2022.

The Utility's operating revenues increased by \$205,750 to \$4.237 million in 2022 from \$4.031 million in 2021 due to increased sales to residential, commercial and industrial customers. Non-operating revenues increased by \$583 to \$31,285 in 2022, from \$30,702 in 2021. This increase is due to a slight increase in interest income received. Non-operating expenses increased by \$77,112 to \$204,723 in 2022, from \$127,611 in 2021. This decrease is due to the bond issue costs and a decrease in interest expense.

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
ROCKWOOD, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2022**

**NET POSITION – Continued**

| <p style="text-align: center;"><b>Table A-2 Gas</b><br/><b>Gas Condensed Statements of Revenues,</b><br/><b>Expenses and Changes in Net Position</b></p> |                 |                 |                          |                                     |
|--|-----------------|-----------------|--------------------------|-------------------------------------|
|  | <b>FYE 2022</b> | <b>FYE 2021</b> | <b>Dollar<br/>Change</b> | <b>Total<br/>Percent<br/>Change</b> |
| Operating revenues   | \$ 3,743,407    | \$ 2,912,505    | \$ 830,902               | 28.5%                               |
| Nonoperating revenues  | 0               | 5,328           | (5,328)                  | -100.0%                             |
| Total Revenues   | \$ 3,743,407    | \$ 2,917,833    | \$ 825,574               | 28.3%                               |
| Depreciation & Amortization<br>Expense   | \$ 146,679      | \$ 157,503      | \$ (10,824)              | -6.9%                               |
| Other operating expense  | 2,847,261       | 2,413,562       | 433,699                  | 18.0%                               |
| Nonoperating expense   | 128,859         | 0               | 128,859                  | n/a                                 |
| Total Expenses   | \$ 3,122,799    | \$ 2,571,065    | \$ 551,734               | 21.5%                               |
| Income (Loss) Before Capital<br>Contributions  | \$ 620,608      | \$ 346,768      | \$ 273,840               | 79.0%                               |
| Capital contributions and grants   | 0               | 0               | 0                        | n/a                                 |
| Changes in Net Position  | \$ 620,608      | \$ 346,768      | \$ 273,840               | 79.0%                               |
| Beginning Net Position   | 10,026,585      | 9,679,817       | 346,768                  | 3.6%                                |
| Total Net Position   | \$ 10,647,193   | \$ 10,026,585   | \$ 620,608               | 6.2%                                |

As can be seen in Table A-2 Gas above, the increase in Net Position is \$620,608 in 2022.

The Utility's operating revenues increased by \$830,902 to \$3.743 million in 2022 from \$2.912 million in 2021 due to increased sales to residential and industrial customers as a result of increased gas costs. Non-operating revenues decreased by \$5,328 to \$0 in 2022, from \$5,328 in 2021. This decrease is due to less interest income received during the year. Non-operating expenses are \$128,859 in 2022 as a result of bond issue costs. This is an increase from 2021.



**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
ROCKWOOD, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2022**

**CAPITAL ASSETS**

At June 30, 2022, the Utility has invested \$33,727,051 in capital assets as shown in Table A-4 W&WW. The \$451,573 increase in capital assets is made up of several items. The capital assets saw increases for water and sewer pump replacements, water treatment plant roof replacement, various sewer collections improvements and ongoing water and sewer projects that remain in construction in progress.

| <b>Table A-4 W&amp;WW<br/>Water &amp; Wastewater Capital Assets</b> |                 |                 |                          |                                     |
|---|-----------------|-----------------|--------------------------|-------------------------------------|
|   | <b>FYE 2022</b> | <b>FYE 2021</b> | <b>Dollar<br/>Change</b> | <b>Total<br/>Percent<br/>Change</b> |
| Cost of Plant in Service  | \$ 30,571,443   | \$ 29,839,516   | \$ 731,927               | 2.5%                                |
| Land  | 25,455          | 25,455          | 0                        | 0.0%                                |
| Machinery & Equipment   | 1,205,826       | 1,127,696       | 78,130                   | 6.9%                                |
| Software  | 126,331         | 126,331         | 0                        | n/a                                 |
| Vehicles  | 387,891         | 387,891         | 0                        | 0.0%                                |
| Construction in Progress  | 1,410,105       | 1,768,589       | (358,484)                | -20.3%                              |
| Total Capital Assets  | \$ 33,727,051   | \$ 33,275,478   | \$ 451,573               | 1.4%                                |
| Less: Accumulated Depreciation                                      | (18,470,787)    | (17,835,318)    | (635,469)                | 3.6%                                |
| Net Capital Assets  | \$ 15,256,264   | \$ 15,440,160   | \$ (183,896)             | -1.2%                               |

At June 30, 2022, the Gas fund has invested \$7,114,274 in capital assets as shown in Table A-4 Gas. The \$108,457 increase in capital assets is made up of several items including meter and regulator replacements, new gas machinery and equipment, and related improvements that remains in construction in progress.

| <b>Table A-4 Gas<br/>Gas Capital Assets</b> |                 |                 |                          |                                     |
|---|-----------------|-----------------|--------------------------|-------------------------------------|
|   | <b>FYE 2022</b> | <b>FYE 2021</b> | <b>Dollar<br/>Change</b> | <b>Total<br/>Percent<br/>Change</b> |
| Cost of Plant in Service                    | \$ 4,989,842    | \$ 4,952,109    | \$ 37,733                | 0.8%                                |
| Machinery & Equipment                       | 941,149         | 933,108         | 8,041                    | 0.9%                                |
| Software                                    | 62,034          | 62,034          | 0                        | n/a                                 |
| Vehicles                                    | 215,214         | 215,214         | 0                        | 0.0%                                |
| Construction in Progress                    | 906,035         | 843,352         | 62,683                   | 7.4%                                |
| Total Capital Assets                        | \$ 7,114,274    | \$ 7,005,817    | \$ 108,457               | 1.5%                                |
| Less: Accumulated Depreciation              | (3,483,730)     | (3,337,051)     | (146,679)                | 4.4%                                |
| Net Capital Assets                          | \$ 3,630,544    | \$ 3,668,766    | \$ (38,222)              | -1.0%                               |

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
ROCKWOOD, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2022**

**CAPITAL ASSETS – Continued**

The Utility's Capital Improvement Plan, which projects 8 years, 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 Capital Improvement Plan projects the possibility of grant monies or matching funds in the later years to maximize the impact of the improvements on the Utility.

The Utility has 29 full-time employees and 1 part-time employee. A large percentage of the employees are cross-trained between the three divisions. The Utility has prioritized the certification and licensing of employees and the number of certified employees has increased significantly in the past 5-10 years. The Utility has one licensed Professional Engineer, 5 certified Water Plant Operators, 1 certified Wastewater Plant Operator, 2 Wastewater Plant Operators in training, 6 certified Distribution Operators, 7 certified Collection Operators and several more in the process of certification.

In 2018, the Utility began SSES (Sewer System Evaluation Survey) which was planned to complete the entire collection system in 5 years. The Utility completed the final year in fall of 2022 and covered more than ninety-five percent of the collection system. This evaluation work includes mapping corrections, CCTV, line cleaning, smoke testing and manhole inspections. The remainder of the work involves cleaning to allow CCTV, etc. and other investigations. The work has produced, as anticipated, a large volume of rehab/replacement work to be scheduled and completed. The work is prioritized into work lists for completion in-house or by contract. The Utility received a CDBG grant award for I & I work in two of the older basins and the construction was completed in early 2021. The Utility was awarded a new CDBG grant for \$630,000 for I & I rehabilitation for 2022 and design is underway. This earlier CDBG project has reduced our average daily flow at the plant by approximately 25-30% since the completion of the project and has eliminated overflows substantially. We expect that we will achieve an even further reduction with the newest CDBG project. Our Capital Improvement Program is programmed to continually apply for funding every other year and to fund another series of SSES analysis. This is a commitment to the collection system by our Board and we expect to fund these efforts on going.

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 and for any major repairs.

The existing staff has completed many in-house repairs and maintenance functions within the WWTP with some pump repairs being contracted. The Utility continues to implement the preventative maintenance system that tracks all equipment maintenance activities.



**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
ROCKWOOD, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2022**

**CAPITAL ASSETS – Continued**

The Utility received a Director's Order from TDEC dated October 25, 2019 based on the inclusion of the Utility on the EPA Quarterly Non-Compliance Report (QNCR) for two separate quarters. The violations were related to equipment malfunction and the major flood event in February of 2019. RWSG General Manager with the Utility Attorney met with the enforcement personnel of TDEC to discuss the response to the Order and an appeal was filed. The appeal was filed in November 2019 and the Order is on hold while the TDEC attorneys draft a Consent Order for our review. TDEC did not agree to the appeal. The proposed draft of the Consent Order was not returned to the Utility until September of 2021. The Board approved the Consent Agreement in October 2021 and returned the agreement to TDEC for execution. The Board agreed to pay the initial fine of \$16,170 and complete the requirements of the order. RWSG submitted a CAP/ER per the Order and has submitted the final report in September of 2022. The terms of the Order have been met and reported and we expect the Order to be released by the end of 2023.

On the water distribution and treatment side of the Utility, a major project for Raw Water Pump Replacement was substantially completed in May 2021 with 100% completion in November of 2022. These pumps and the electrical system of the pump building were replaced and upgraded. The replaced pumps had been in service for over 30+ years. The new pumps are more efficient and reliable. This project was funded by Utility funds.

The Utility spent a significant expenditure on water loss in 2020-21 due to higher than normal pumped water at our facility. RWSG utilized a private engineering company to complete surveys and in-house personnel were utilized. The result was effective; however, it highlighted the issues with our older meters in the system.

The Utility is in the process of installing an AMI meter system for both water and gas. The project had been awarded in fall 2021 and was expected to be completed by 2023. This installation will include leak detection, remote shut-off (as needed) and an informative customer portal. RWSG anticipates this project will capture lost revenue on both water and gas due to old meters and reduce operation costs once implemented. Unfortunately, due to supply chain issues affecting meter delivery, we do not expect full implementation now until 2024. As the routes are installed, however, they will be utilized for reading so we do expect incremental improvements in water loss to start to occur in late in 2023.

The sanitary survey for the water system for 2022 has been completed. The Utility received a score of 99. The wastewater system and plant had a satisfactory inspection with no violations noted for 2022.

FY22 has numerous projects in various stages of design. The Utility is looking into 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 and future expansions.

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

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
ROCKWOOD, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2022**

**CAPITAL ASSETS – Continued**

FY22 includes the construction of two new facilities. The design and permitting have been underway for several years. The completion date of construction is June 2023. This will be a new administrative/customer facility and new warehouse/operation building. 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.

The natural gas system continued with all compliance and regulatory functions through 2022. The natural gas system had no violations from the annual TPUC inspection for 2022.

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
ROCKWOOD, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2022**

**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. Water and wastewater indebtedness outstanding at June 30, 2022 amounted to \$5,140,000. The Utility made principal payments during the fiscal year ending June 30, 2022 totaling \$4,699,755 on outstanding debt as a result of the refunding that occurred during the fiscal year ending June 30, 2022. A summary of the changes in Water & Wastewater Long-Term Debt for the fiscal year are shown in Table A-5 W&WW.

| <b>Table A-5 W&amp;WW<br/>Water &amp; Wastewater Long-Term Debt</b>   |                     |                     |                      |
|---|---------------------|---------------------|----------------------|
|   | <b>FYE 2022</b>     | <b>FYE 2021</b>     | <b>Dollar Change</b> |
| <b>Bond Payable</b>   |                     |                     |                      |
| Waterworks Revenue Bond, 2012   | \$ 0                | \$ 1,155,000        | \$ (1,155,000)       |
| Waterworks Revenue Bond, 2007   | 0                   | 453,234             | (453,234)            |
| USDA Revenue and Tax Bond 2013A                                       | 0                   | 614,350             | (614,350)            |
| USDA Revenue and Tax Bond 2013B                                       | 0                   | 673,900             | (673,900)            |
| Capital Outlay Notes, Series 2017                                     | 0                   | 1,400,000           | (1,400,000)          |
| 2021 Series Bond  | 5,140,000           | 0                   | 5,140,000            |
| <b>Notes Payable</b>  |                     |                     |                      |
| Wastewater Department   |                     |                     |                      |
| State Revolving Loan (SRF2000-139)                                    | 0                   | 153,271             | (153,271)            |
| GO Interfund Loan 2020 Series   | 0                   | 250,000             | (250,000)            |
| <b>Water/Wastewater Loan Payable to Gas</b>                           | <b>0</b>            | <b>0</b>            | <b>0</b>             |
| <b>Total Long-Term Debt</b>   | <b>\$ 5,140,000</b> | <b>\$ 4,699,755</b> | <b>\$ 440,245</b>    |
| <b>Current Portion of Long Term Debt</b>                              | <b>(440,000)</b>    | <b>(440,791)</b>    | <b>791</b>           |
| <b>Total Long-Term Debt, Excluding<br/>Current Maturities</b>         | <b>\$ 4,700,000</b> | <b>\$ 4,258,964</b> | <b>\$ 441,036</b>    |
| <b>2021/2012 Bond Premium and<br/>(Discount), Net of Amortization</b> | <b>288,074</b>      | <b>(5,487)</b>      | <b>293,561</b>       |
| <b>Net Long-Term Debt</b>   | <b>\$ 4,988,074</b> | <b>\$ 4,253,477</b> | <b>\$ 734,597</b>    |



**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
ROCKWOOD, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2022**

**DEBT ADMINISTRATION - Continued**

Gas issued debt during the fiscal year ending June 30, 2022. Gas indebtedness outstanding at June 30, 2022 amounted to \$3,110,000. The Utility made principal payments during the fiscal year ending June 30, 2022 totaling \$60,000 on outstanding debt. A summary of the changes in Gas Long-Term Debt for the fiscal year are shown in Table A-5 Gas.

| <b>Table A-5 Gas<br/>Gas Long-Term Debt</b>               |                  |                 |                      |
|---|------------------|-----------------|----------------------|
|   | <b>FYE 2022</b>  | <b>FYE 2021</b> | <b>Dollar Change</b> |
| Bond Payable  |                  |                 |                      |
| 2021 Series Bond  | \$ 3,110,000     | \$ 0            | \$ 3,110,000         |
| <br>Total Long-Term Debt                                  | <br>\$ 3,110,000 | <br>\$ 0        | <br>\$ 3,110,000     |
| Current Portion of Long Term Debt                         | (180,000)        | 0               | (180,000)            |
| <br>Total Long-Term Debt, Excluding<br>Current Maturities | <br>\$ 2,930,000 | <br>\$ 0        | <br>\$ 2,930,000     |
| <br>2021 Bond Premium, Net of Amortization                | <br>153,506      | <br>0           | <br>153,506          |
| <br>Net Long-Term Debt                                    | <br>\$ 3,083,506 | <br>\$ 0        | <br>\$ 3,083,506     |

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

**ECONOMIC FACTORS AND CONDITIONS OF FUTURE SIGNIFICANCE**

Residential and commercial development has increased in the year ended June 30, 2022. We are experiencing a steady upward trend in our tap fees. We continue to have inquiries concerning new developments and are reevaluating all our construction standards to prepare for possible development.

Plateau Park development along I-40 to the west is a large industrial park, which was sold to investors for a new project -Flatrock Motorsports Park. RWSG has applied for grant funding for the construction of the gas facilities to the area. The design and permitting were completed several years ago with a grant from Plateau Park Partnership. 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. 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 require the gas installation so the goal is to be ready to proceed to construction plans and construction once funding and occupancy is scheduled. Anticipated cost of the gas extension is estimated at \$4-5M and construction time line is 18-24 months.

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

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 also has an interconnection with City of Kingston. This interconnect is a critical segment of emergency management for both communities.

The Utility has provided a plan of service for wastewater in the area of Tom Fuller Park to the City to assist in the development of the waterside area and RV Park. Grants (in coordination with the City of Rockwood), developers and the Utility would provide funding for this service. The Utility applied for and received an ARC grant for the system expansion. The project is under construction and expected to be completed by May 2023. The goal is to provide economic stimulus to the area.

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 when extensions will occur.

**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. Any discussions of rate increases have been delayed due to COVID concerns.

**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 \$7.99 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 \$10.40/Dth. The June 2022 rate for a customer inside the City Limits of Rockwood for FY-20 was \$15.58/Dth. The cost to the Utility's customer for a consumption of 72 Dth's per year would have been \$748.80. 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, 2022 there are three industrial customers utilizing the FT-1 rate structure.



**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS  
ROCKWOOD, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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**UTILITY RATES – Continued**

In addition to its firm gas sales customers, the Utility provides transportation to two (2) 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.

**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.



# ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

## STATEMENT OF NET POSITION

June 30, 2022

|   | Water and<br>Wastewater<br>System | Natural Gas<br>System | Totals               |
|---|-----------------------------------|-----------------------|----------------------|
| <b>PROPERTY, PLANT AND EQUIPMENT</b>                                |                                   |                       |                      |
| Land  | \$ 25,455                         | \$ 0                  | \$ 25,455            |
| Distribution and collection   | 12,891,125                        | 4,285,958             | 17,177,083           |
| Utility plant   | 17,680,318                        | 703,884               | 18,384,202           |
| Transportation equipment  | 387,891                           | 215,214               | 603,105              |
| Machinery and equipment   | 1,074,179                         | 852,872               | 1,927,051            |
| Software  | 126,331                           | 62,034                | 188,365              |
| Furnitures and fixtures   | 131,647                           | 88,277                | 219,924              |
| Construction in progress  | 1,410,105                         | 906,035               | 2,316,140            |
|   | <u>33,727,051</u>                 | <u>7,114,274</u>      | <u>40,841,325</u>    |
| Accumulated depreciation  | (18,470,787)                      | (3,483,730)           | (21,954,517)         |
|   | <u>15,256,264</u>                 | <u>3,630,544</u>      | <u>18,886,808</u>    |
| <b>CURRENT ASSETS</b>   |                                   |                       |                      |
| Cash  | 946,200                           | 3,684,306             | 4,630,506            |
| Accounts receivable, net of<br>allowance for uncollectible accounts | 206,223                           | 120,676               | 326,899              |
| Investments   | 0                                 | 2,262,715             | 2,262,715            |
| Grant receivable  | 43,580                            | 0                     | 43,580               |
| Due from other funds  | 0                                 | 352,825               | 352,825              |
| Materials and supplies inventory                                    | 264,666                           | 117,320               | 381,986              |
| Natural gas inventory   | 0                                 | 298,928               | 298,928              |
| Prepaid expenses  | 10,034                            | 5,017                 | 15,051               |
|   | <u>1,470,702</u>                  | <u>6,841,787</u>      | <u>8,312,490</u>     |
| <b>RESTRICTED ASSETS</b>  |                                   |                       |                      |
| Debt service  | 89,143                            | 0                     | 89,143               |
| Investments   | 1,569,944                         | 3,517,571             | 5,087,515            |
| Capital outlay  | 25,165                            | 3,971                 | 29,136               |
| Cash held for customer deposits                                     | 226,519                           | 161,122               | 387,641              |
|   | <u>1,910,771</u>                  | <u>3,682,664</u>      | <u>5,593,435</u>     |
| <b>OTHER ASSETS</b>   |                                   |                       |                      |
| Net pension asset   | 496,599                           | 304,496               | 801,095              |
| Deferred gas costs  | 0                                 | 184,648               | 184,648              |
|   | <u>496,599</u>                    | <u>489,144</u>        | <u>985,743</u>       |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>                               |                                   |                       |                      |
| Deferred loss on refunding of debt                                  | 40,652                            | 0                     | 40,652               |
| Deferred outflows related to pension                                | 292,645                           | 179,440               | 472,085              |
|   | <u>333,296</u>                    | <u>179,440</u>        | <u>512,736</u>       |
|   | <u>\$ 19,467,632</u>              | <u>\$ 14,823,580</u>  | <u>\$ 34,291,212</u> |

See the accompanying notes to the financial statements.

|   | Water and<br>Wastewater<br>System | Natural Gas<br>System | Totals               |
|---|-----------------------------------|-----------------------|----------------------|
| <b>CURRENT LIABILITIES PAYABLE<br/>FROM CURRENT ASSETS</b>    |                                   |                       |                      |
| Accounts payable  | \$ 149,129                        | \$ 408,944            | \$ 558,073           |
| Accrued salaries  | 62,744                            | 22,693                | 85,437               |
| Sales tax payable   | 14,338                            | 1,552                 | 15,890               |
| Due to other funds  | 352,825                           | 0                     | 352,825              |
|   | <u>579,036</u>                    | <u>433,189</u>        | <u>1,012,225</u>     |
| <b>CURRENT LIABILITIES PAYABLE<br/>FROM RESTRICTED ASSETS</b> |                                   |                       |                      |
| Current portion of long-term debt                             | 440,000                           | 180,000               | 620,000              |
| Accrued interest payable                                      | 9,700                             | 5,708                 | 15,408               |
| Customer deposits   | 187,761                           | 98,986                | 286,747              |
|   | <u>637,461</u>                    | <u>284,694</u>        | <u>922,155</u>       |
| <b>LONG-TERM DEBT,<br/>net of current portion</b>             | 4,988,074                         | 3,083,506             | 8,071,580            |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                          |                                   |                       |                      |
| Deferred inflows related to pension                           | 569,886                           | 349,433               | 919,319              |
| Gas rebates   | 0                                 | 25,565                | 25,565               |
|   | <u>569,886</u>                    | <u>374,998</u>        | <u>944,884</u>       |
| <b>NET POSITION</b>   |                                   |                       |                      |
| Net investment in capital assets                              | 10,895,527                        | 3,631,539             | 14,527,066           |
| Restricted  | 1,103,814                         | 304,496               | 1,408,310            |
| Unrestricted  | 693,833                           | 6,711,157             | 7,404,990            |
|   | <u>12,693,174</u>                 | <u>10,647,192</u>     | <u>23,340,366</u>    |
|   | <u>\$ 19,467,632</u>              | <u>\$ 14,823,580</u>  | <u>\$ 34,291,212</u> |

# ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

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

Year Ended June 30, 2022

|                                    | Water and<br>Wastewater<br>System | Natural Gas<br>System | Totals       |
|------------------------------------|-----------------------------------|-----------------------|--------------|
| <b>OPERATING REVENUE</b>           |                                   |                       |              |
| Metered sales                      | \$ 2,623,097                      | \$ 3,492,782          | \$ 6,115,879 |
| Wastewater service sales           | 1,378,136                         | 0                     | 1,378,136    |
| Tap fees                           | 166,421                           | 79,267                | 245,688      |
| Forfeited discounts and penalties  | 49,444                            | 42,965                | 92,409       |
| Local transportation               | 0                                 | 117,815               | 117,815      |
| Other operating income             | 20,266                            | 10,578                | 30,844       |
| <b>TOTAL OPERATING REVENUE</b>     | 4,237,364                         | 3,743,407             | 7,980,771    |
| <b>OPERATING EXPENSES</b>          |                                   |                       |              |
| Natural gas purchases              | 0                                 | 2,015,590             | 2,015,590    |
| Salaries                           | 1,239,619                         | 383,580               | 1,623,199    |
| Payroll taxes                      | 92,897                            | 32,302                | 125,199      |
| Health insurance                   | 264,355                           | 101,865               | 366,220      |
| Training                           | 12,298                            | 5,588                 | 17,886       |
| Other employee benefits            | (38,735)                          | (31,737)              | (70,472)     |
| Postage                            | 25,037                            | 11,704                | 36,741       |
| Membership and registration fees   | 18,209                            | 12,242                | 30,451       |
| Utilities                          | 454,335                           | 4,897                 | 459,232      |
| Telephone, internet and cable      | 31,540                            | 12,903                | 44,443       |
| Professional and contract services | 117,751                           | 67,097                | 184,848      |
| Motor repairs and maintenance      | 21,498                            | 10,748                | 32,246       |
| Equipment repairs and maintenance  | 70,864                            | 8,617                 | 79,481       |
| Building repairs and maintenance   | 6,433                             | 513                   | 6,946        |
| Plant landfill expense             | 46,301                            | 0                     | 46,301       |
| Office supplies                    | 10,946                            | 4,398                 | 15,344       |
| Bank charges                       | 5,010                             | 2,406                 | 7,416        |
| Small equipment                    | 6,747                             | 1,432                 | 8,179        |
| Operating supplies                 | 99,646                            | 28,834                | 128,480      |
| Chemical and laboratory            | 215,201                           | 0                     | 215,201      |
| Uniforms                           | 38,894                            | 13,293                | 52,187       |
| Gas and oil                        | 29,732                            | 17,664                | 47,396       |

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, 2022

|  | Water and<br>Wastewater<br>System | Natural Gas<br>System       | Totals                      |
|--|-----------------------------------|-----------------------------|-----------------------------|
| Safety supplies                                      | 3,635                             | 746                         | 4,381                       |
| General insurance                                    | 20,300                            | 10,191                      | 30,491                      |
| Building insurance                                   | 54,133                            | 26,472                      | 80,605                      |
| Workers compensation insurance                       | 10,128                            | 5,755                       | 15,883                      |
| City services rendered                               | 134,000                           | 66,000                      | 200,000                     |
| Rent   | 0                                 | 30,000                      | 30,000                      |
| Miscellaneous  | 27,520                            | 4,161                       | 31,681                      |
| Depreciation   | 635,469                           | 146,679                     | 782,148                     |
| <b>TOTAL OPERATING EXPENSES</b>                      | <b>3,653,762</b>                  | <b>2,993,941</b>            | <b>6,647,703</b>            |
| <b>INCOME FROM OPERATIONS</b>                        | <b>583,602</b>                    | <b>749,466</b>              | <b>1,333,068</b>            |
| <b>NONOPERATING REVENUE(EXPENSE)</b>                 |                                   |                             |                             |
| Interest income                                      | 1,285                             | 0                           | 1,285                       |
| Rental income  | 30,000                            | 0                           | 30,000                      |
| Bond issuance costs                                  | (107,297)                         | (60,683)                    | (167,980)                   |
| Interest expense                                     | (97,426)                          | (68,176)                    | (165,602)                   |
|  | <u>(173,438)</u>                  | <u>(128,860)</u>            | <u>(302,297)</u>            |
| <b>INCOME BEFORE<br/>CAPITAL CONTRIBUTIONS</b>       | <b>410,164</b>                    | <b>620,606</b>              | <b>1,030,771</b>            |
| Capital contributions                                | <u>169,888</u>                    | <u>0</u>                    | <u>169,888</u>              |
| <b>CHANGE IN NET POSITION</b>                        | <b>580,052</b>                    | <b>620,606</b>              | <b>1,200,659</b>            |
| <b>NET POSITION AT THE BEGINNING<br/>OF THE YEAR</b> | <u>12,113,122</u>                 | <u>10,026,585</u>           | <u>22,139,707</u>           |
| <b>NET POSITION AT THE END<br/>OF THE YEAR</b>       | <u><u>\$ 12,693,174</u></u>       | <u><u>\$ 10,647,192</u></u> | <u><u>\$ 23,340,366</u></u> |

# ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

## STATEMENT OF CASH FLOWS

Year Ended June 30, 2022

|  | Water and<br>Wastewater<br>System | Natural Gas<br>System | Totals       |
|--|-----------------------------------|-----------------------|--------------|
| <b>CASH PROVIDED(USED) BY<br/>OPERATING ACTIVITIES</b>                         |                                   |                       |              |
| Cash received from customers   | \$ 4,234,868                      | \$ 3,722,072          | \$ 7,956,940 |
| Cash paid to employees   | (1,241,950)                       | (383,263)             | (1,625,213)  |
| Cash paid to suppliers   | (2,021,765)                       | (2,485,133)           | (4,506,898)  |
| <b>NET CASH PROVIDED BY<br/>OPERATING ACTIVITIES</b>                           | 971,153                           | 853,676               | 1,824,829    |
| <b>CASH PROVIDED(USED) BY<br/>CAPITAL AND RELATED<br/>FINANCING ACTIVITIES</b> |                                   |                       |              |
| Acquisition of property and equipment  | (451,574)                         | (108,457)             | (560,031)    |
| Principal payments on long-term debt   | (5,164,755)                       | (60,000)              | (5,224,755)  |
| Capital contributions  | 255,074                           | 0                     | 255,074      |
| Proceeds from issuance of long-term debt                                       | 5,903,744                         | 3,329,192             | 9,232,936    |
| Bond issuance costs  | (107,297)                         | (60,683)              | (167,980)    |
| Interest paid  | (130,001)                         | (68,654)              | (198,655)    |
| <b>NET CASH PROVIDED BY CAPITAL<br/>AND RELATED FINANCING ACTIVITIES</b>       | 305,191                           | 3,031,398             | 3,336,589    |
| <b>CASH PROVIDED(USED) BY<br/>INVESTING ACTIVITIES</b>                         |                                   |                       |              |
| Rental income  | 30,000                            | 0                     | 30,000       |
| Increase in investments  | (1,025,053)                       | (2,432,636)           | (3,457,689)  |
| Cash received from funds loaned to others                                      | 0                                 | 250,000               | 250,000      |
| Interest received  | 1,285                             | 0                     | 1,285        |
| <b>NET CASH (USED) BY<br/>INVESTING ACTIVITIES</b>                             | (993,768)                         | (2,182,636)           | (3,176,404)  |

See the accompanying notes to the financial statements.

# ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

## STATEMENT OF CASH FLOWS

(continued)

Year Ended June 30, 2022

|  | Water and<br>Wastewater<br>System | Natural Gas<br>System       | Totals                      |
|--|-----------------------------------|-----------------------------|-----------------------------|
|  | <u>                    </u>       | <u>                    </u> | <u>                    </u> |
| <b>NET INCREASE IN CASH</b>  | 282,576                           | 1,702,438                   | 1,985,014                   |
| <b>CASH AT THE BEGINNING<br/>OF THE YEAR</b>   | <u>1,004,451</u>                  | <u>2,146,958</u>            | <u>3,151,409</u>            |
| <b>CASH AT THE END OF THE YEAR</b>   | <u><u>\$ 1,287,027</u></u>        | <u><u>\$ 3,849,399</u></u>  | <u><u>\$ 5,136,426</u></u>  |
| <b>RECONCILIATION OF INCOME FROM<br/>OPERATIONS TO NET CASH<br/>PROVIDED(USED)<br/>BY OPERATING ACTIVITIES</b> |                                   |                             |                             |
| Income from operations   | \$ 583,602                        | \$ 749,466                  | \$ 1,333,068                |
| Adjustments to reconcile income from<br>operations to net cash provided by<br>operating activities:            |                                   |                             |                             |
| Depreciation   | 635,469                           | 146,679                     | 782,148                     |
| Deferred retirement contributions  | (55,772)                          | (34,197)                    | (89,969)                    |
| Pension expense  | (56,880)                          | (34,877)                    | (91,757)                    |
| (Increase)decrease in:   |                                   |                             |                             |
| Accounts receivable  | (2,496)                           | (21,335)                    | (23,831)                    |
| Due from other funds   | 0                                 | (18)                        | (18)                        |
| Materials and supplies inventory   | (48,952)                          | (11,983)                    | (60,935)                    |
| Natural gas inventory  | 0                                 | (16,574)                    | (16,574)                    |
| Prepaid expenses   | (3,582)                           | (2,295)                     | (5,877)                     |
| Deferred gas costs   | 0                                 | (149,469)                   | (149,469)                   |

ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

**STATEMENT OF CASH FLOWS**

(continued)

Year Ended June 30, 2022

|  | Water and<br>Wastewater<br>System | Natural Gas<br>System    | Totals                     |
|--|-----------------------------------|--------------------------|----------------------------|
| Increase(decrease) in:                               |                                   |                          |                            |
| Accounts payable                                     | (103,637)                         | 195,472                  | 91,835                     |
| Accrued expenses                                     | 6,050                             | 2,144                    | 8,194                      |
| Customer deposits                                    | 17,334                            | 30,661                   | 47,995                     |
| Due to other funds                                   | 18                                | 0                        | 18                         |
|  | <u>387,552</u>                    | <u>104,208</u>           | <u>491,760</u>             |
| <b>NET CASH PROVIDED<br/>BY OPERATING ACTIVITIES</b> | <u><u>\$ 971,153</u></u>          | <u><u>\$ 853,676</u></u> | <u><u>\$ 1,824,829</u></u> |

## ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

### **NOTES TO THE FINANCIAL STATEMENTS**

June 30, 2022

#### **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, 2022

### 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<br/>Wastewater</u> | <u>Natural Gas</u>  |
|-------------------------------------|---------------------------------|---------------------|
| Capital assets                      | \$ 33,727,051                   | \$ 7,114,274        |
| Accumulated depreciation            | (18,470,787)                    | (3,483,730)         |
| Accrued interest payable            | (9,700)                         | (5,708)             |
| Unspent bond proceeds               | 1,077,037                       | 3,270,209           |
| Principal balance on long-term debt | <u>(5,428,074)</u>              | <u>(3,263,506)</u>  |
|                                     | <u>\$ 10,895,527</u>            | <u>\$ 3,631,539</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, 2022 the restricted net position consisted of the following:

|                                     | <u>Water and<br/>Wastewater</u> | <u>Natural Gas</u> | <u>Total</u>        |
|-------------------------------------|---------------------------------|--------------------|---------------------|
| Restricted cash – debt service      | \$ 585,183                      | \$ 0               | \$ 585,183          |
| Restricted cash – construction fund | 22,032                          | 0                  | 22,032              |
| Restricted for net pension asset    | <u>496,599</u>                  | <u>304,496</u>     | <u>801,095</u>      |
|                                     | <u>\$ 1,103,814</u>             | <u>\$ 304,496</u>  | <u>\$ 1,408,310</u> |

# ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

## **NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2022

### 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.

### 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, 2022.

### 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, 2022

### 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, 2022

Long-Term Debt

Bonds and notes payable are reported net of any applicable bond premiums and discounts. Bond premiums and discounts are deferred and amortized over the life of the bonds and notes using the straight-line method.

Deferred Gas Costs

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

**NOTE C - CASH AND INVESTMENTS**

Investments that have maturities of less than ninety days at the date of purchase are classified as cash equivalents. Cash represents money on deposit in various banks. Cash and investments are stated at cost, which approximates market value. A summary of cash balances is as follows:

|                             | <u>Water and<br/>Wastewater</u> | <u>Natural Gas</u>  | <u>Totals</u>       |
|-----------------------------|---------------------------------|---------------------|---------------------|
| Unrestricted                | \$ 946,200                      | \$ 3,684,306        | \$ 4,630,506        |
| Restricted cash             | 315,662                         | 161,122             | 476,784             |
| Restricted cash equivalents | <u>25,165</u>                   | <u>3,971</u>        | <u>29,136</u>       |
| Total                       | <u>\$ 1,287,027</u>             | <u>\$ 3,849,399</u> | <u>\$ 5,136,426</u> |

## ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

### **NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2022

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, 2022 were entirely insured by the Federal Deposit Insurance Corporation or the State of Tennessee Bank Collateral Pool.

The Utility has eight investments in US Treasury Bills totaling \$7,350,230 (considered Level 1 measurement) with maturity dates of November 17, 2022, December 22, 2022, May 31, 2023, November 30, 2023, May 31, 2023, August 2, 2022, October 4, 2022 and August 2, 2022.

#### **NOTE D - INTERFUND BALANCES**

Amounts due from the Water and Wastewater System to the Natural Gas System at June 30, 2022 totaling \$352,825 were a result of short-term advances for shared costs and amounts received by the Water and Wastewater System which were not remitted to the Natural Gas System by June 30, 2022. These amounts were remitted between the funds subsequent to June 30, 2022.

# ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

## **NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2022

### **NOTE E – CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2022 was as follows:

|   | Balance<br>7/1/21    | Additions         | Retirements         | Balance<br>6/30/22   |
|---|----------------------|-------------------|---------------------|----------------------|
| <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                    | 1,768,589            | 328,198           | (686,681)           | 1,410,105            |
|   | <u>1,794,044</u>     | <u>328,198</u>    | <u>(686,681)</u>    | <u>1,435,560</u>     |
| <u>Capital assets being depreciated</u>     |                      |                   |                     |                      |
| Distribution and collection                 | 12,891,125           | 0                 | 0                   | 12,891,125           |
| Utility Plant                               | 16,948,391           | 731,927           | 0                   | 17,680,318           |
| Transportation equipment                    | 387,891              | 0                 | 0                   | 387,891              |
| Machinery and equipment                     | 1,001,872            | 72,306            | 0                   | 1,074,179            |
| Software                                    | 126,331              | 0                 | 0                   | 126,331              |
| Furniture and fixtures                      | 125,824              | 5,824             | 0                   | 131,647              |
|   | <u>31,481,434</u>    | <u>810,057</u>    | <u>0</u>            | <u>32,291,491</u>    |
| <u>Accumulated depreciation</u>             |                      |                   |                     |                      |
| Distribution and collection                 | (6,721,292)          | (287,683)         | 0                   | (7,008,975)          |
| Utility plant                               | (9,987,151)          | (246,665)         | 0                   | (10,233,816)         |
| Transportation equipment                    | (264,395)            | (24,424)          | 0                   | (288,819)            |
| Machinery and equipment                     | (623,466)            | (72,548)          | 0                   | (696,014)            |
| Software                                    | (123,306)            | (1,907)           | 0                   | (125,213)            |
| Furniture and fixtures                      | (115,709)            | (2,241)           | 0                   | (117,950)            |
|   | <u>(17,835,318)</u>  | <u>(635,469)</u>  | <u>0</u>            | <u>(18,470,787)</u>  |
|   | <u>\$ 15,440,160</u> | <u>\$ 502,786</u> | <u>\$ (686,681)</u> | <u>\$ 15,256,264</u> |



ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2022

|   | Balance<br>7/1/21   | Additions          | Retirements | Balance<br>6/30/22  |
|---|---------------------|--------------------|-------------|---------------------|
| <b>Natural Gas System:</b>                  |                     |                    |             |                     |
| <u>Capital assets not being depreciated</u> |                     |                    |             |                     |
| Construction in progress                    | \$ 843,352          | \$ 62,683          | \$ 0        | \$ 906,035          |
| <u>Capital assets being depreciated</u>     |                     |                    |             |                     |
| Distributions and collection                | 4,285,958           | 0                  | 0           | 4,285,958           |
| Utility plant                               | 666,151             | 37,733             | 0           | 703,884             |
| Transportation equipment                    | 215,214             | 0                  | 0           | 215,214             |
| Machinery and equipment                     | 844,831             | 8,041              | 0           | 852,872             |
| Software                                    | 62,034              | 0                  | 0           | 62,034              |
| Furniture and fixtures                      | 88,277              | 0                  | 0           | 88,277              |
|   | 6,162,465           | 45,774             | 0           | 6,208,239           |
| <u>Accumulated depreciation</u>             |                     |                    |             |                     |
| Distributions and collection                | (1,897,032)         | (91,316)           | 0           | (1,988,349)         |
| Utility plant                               | (391,134)           | (24,662)           | 0           | (415,795)           |
| Transportation equipment                    | (191,857)           | (6,379)            | 0           | (198,236)           |
| Machinery and equipment                     | (707,921)           | (23,596)           | 0           | (731,516)           |
| Software                                    | (61,307)            | (727)              | 0           | (62,034)            |
| Furniture and fixtures                      | (87,799)            | 0                  | 0           | (87,799)            |
|   | (3,337,051)         | (146,679)          | 0           | (3,483,730)         |
|   | <u>\$ 3,668,767</u> | <u>\$ (38,222)</u> | <u>\$ 0</u> | <u>\$ 3,630,544</u> |

**NOTE F - 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, 2022 the total rent paid by the Natural Gas System was \$30,000.

# ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

## **NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2022

### **NOTE G - LONG-TERM DEBT**

Long-term debt at June 30, 2022 consisted of the following:

|   | <u>Water and<br/>Wastewater<br/>System</u> | <u>Natural Gas<br/>System</u> | <u>Totals</u>       |
|---|--|-------------------------------|---------------------|
| <u>Bonds Payable</u>  |  |                               |                     |
| General Obligation Bonds, Series 2021,<br>interest rates ranging from 2.00%<br>to 2.50%; payable in annual<br>installments ranging from \$250,000<br>to \$620,000 through 2042, including<br>unamortized issue premium of<br>\$288,074 and \$153,506, respectively. | \$ 5,428,074                               | \$ 3,263,506                  | \$ 8,691,580        |
| Less current maturities   | <u>(440,000)</u>                           | <u>(180,000)</u>              | <u>(620,000)</u>    |
|   | <u>\$ 4,988,074</u>                        | <u>\$ 3,083,506</u>           | <u>\$ 8,071,580</u> |

Future maturities of bonds payable are as follows:

|                                 | <u>Water and<br/>Wastewater<br/>System</u> |                 | <u>Natural Gas<br/>System</u> |                 | <u>Totals</u>    |                 |               |
|---------------------------------|--|-----------------|-------------------------------|-----------------|------------------|-----------------|---------------|
| <u>Year Ending<br/>June 30:</u> | <u>Principal</u>                           | <u>Interest</u> | <u>Principal</u>              | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> | <u>Totals</u> |
| 2023                            | \$ 440,000                                 | \$ 116,400      | \$ 180,000                    | \$ 68,500       | \$ 620,000       | \$ 184,900      | \$ 804,900    |
| 2024                            | 390,000                                    | 105,400         | 180,000                       | 64,000          | 570,000          | 169,400         | 739,400       |
| 2025                            | 385,000                                    | 95,650          | 180,000                       | 59,500          | 565,000          | 155,150         | 720,150       |
| 2026                            | 385,000                                    | 86,025          | 180,000                       | 55,000          | 565,000          | 141,025         | 706,025       |
| 2027                            | 385,000                                    | 76,400          | 180,000                       | 50,500          | 565,000          | 126,900         | 691,900       |
| 2028                            | 365,000                                    | 66,775          | 180,000                       | 46,000          | 545,000          | 112,775         | 657,775       |
| 2029                            | 370,000                                    | 57,650          | 180,000                       | 41,500          | 550,000          | 99,150          | 649,150       |
| 2030                            | 235,000                                    | 48,400          | 180,000                       | 37,000          | 415,000          | 85,400          | 500,400       |
| 2031                            | 235,000                                    | 43,700          | 180,000                       | 33,400          | 415,000          | 77,100          | 492,100       |

# ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

## NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2022

| Year Ending<br>June 30: | Water and<br>Wastewater<br>System |                   | Natural Gas<br>System |                   | Totals              |                     |                     |
|-------------------------|-----------------------------------|-------------------|-----------------------|-------------------|---------------------|---------------------|---------------------|
|                         | Principal                         | Interest          | Principal             | Interest          | Principal           | Interest            | Totals              |
| 2032                    | 235,000                           | 39,000            | 180,000               | 29,800            | 415,000             | 68,800              | 483,800             |
| 2033                    | 240,000                           | 34,300            | 175,000               | 26,200            | 415,000             | 60,500              | 475,500             |
| 2034                    | 240,000                           | 29,500            | 175,000               | 22,700            | 415,000             | 52,200              | 467,200             |
| 2035                    | 195,000                           | 24,700            | 120,000               | 19,200            | 315,000             | 43,900              | 358,900             |
| 2036                    | 195,000                           | 20,800            | 120,000               | 16,800            | 315,000             | 37,600              | 352,600             |
| 2037                    | 195,000                           | 16,900            | 120,000               | 14,400            | 315,000             | 31,300              | 346,300             |
| 2038                    | 130,000                           | 13,000            | 120,000               | 12,000            | 250,000             | 25,000              | 275,000             |
| 2039                    | 130,000                           | 10,400            | 120,000               | 9,600             | 250,000             | 20,000              | 270,000             |
| 2040                    | 130,000                           | 7,800             | 120,000               | 7,200             | 250,000             | 15,000              | 265,000             |
| 2041                    | 130,000                           | 5,200             | 120,000               | 4,800             | 250,000             | 10,000              | 260,000             |
| 2042                    | <u>130,000</u>                    | <u>2,600</u>      | <u>120,000</u>        | <u>2,400</u>      | <u>250,000</u>      | <u>5,000</u>        | <u>255,000</u>      |
|                         | <u>\$ 5,140,000</u>               | <u>\$ 900,600</u> | <u>\$ 3,110,000</u>   | <u>\$ 620,500</u> | <u>\$ 8,250,000</u> | <u>\$ 1,521,100</u> | <u>\$ 9,771,100</u> |

Changes in long-term debt for the year ended June 30, 2022 were as follows:

|                       | Balance<br>7/1/21   | Proceeds            | Payments            | Balance<br>6/30/22  | Amounts Due<br>Within<br>One Year |
|-----------------------|---------------------|---------------------|---------------------|---------------------|-----------------------------------|
| <b>Bonds Payable:</b> |                     |                     |                     |                     |                                   |
| Capital Outlay 2012   | \$ 1,400,000        | \$ 0                | \$ 1,400,000        | \$ 0                | \$ 0                              |
| Series 2013A          | 614,350             | 0                   | 614,350             | 0                   | 0                                 |
| Series 2013B          | 673,900             | 0                   | 673,900             | 0                   | 0                                 |
| Series 2021           | 250,000             | 0                   | 250,000             | 0                   | 0                                 |
| Series 2021           | 0                   | 8,775,000           | 525,000             | 8,250,000           | 620,000                           |
| Series 2007           | 453,234             | 0                   | 453,234             | 0                   | 0                                 |
| Series 2012           | <u>1,155,000</u>    | <u>0</u>            | <u>1,155,000</u>    | <u>0</u>            | <u>0</u>                          |
|                       | 4,546,484           | 8,775,000           | 5,071,484           | 8,250,000           | 620,000                           |
| <b>Notes Payable:</b> |                     |                     |                     |                     |                                   |
| Sewer 2000-139        | <u>153,271</u>      | <u>0</u>            | <u>153,271</u>      | <u>0</u>            | <u>0</u>                          |
|                       | <u>\$ 4,699,755</u> | <u>\$ 8,775,000</u> | <u>\$ 5,224,755</u> | <u>\$ 8,250,000</u> | <u>\$ 620,000</u>                 |

## ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

### **NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2022

The General Obligation Bonds 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. The General Obligation Bonds loan agreement does not include terms related to significant events of default with finance-related consequences, termination events with finance-related consequences or subjective acceleration clauses.

During the year ended June 30, 2022, the Utility refunded the General Obligation Bonds, Series 2012, Water and Sewer Revenue and Tax Refunding Bonds, Series 2007, Water and Sewer Revenue and Tax Bond, Series 2013A, Water and Sewer Revenue and Tax Bond, Series 2013B, General Obligation Capital Outlay Notes, Series 2017 and Water and Sewer Revenue Loan 2000-139 at an interest rate ranging from 2% to 2.5%. The difference between the cash flows of the old debt compared to the cash flows of the new debt is approximately \$576,693, and the economic gain is \$439,024.

#### **NOTE H - 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.

## ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

### NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2022

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

#### Employees Covered by Benefit Terms

At the measurement date of June 30, 2021, 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 | 63         |
| Inactive employees entitled to but not yet receiving benefits    | 54         |
| Active employee  | <u>81</u>  |
|  | <u>198</u> |

#### 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, 2022, employer contributions for the Utility were \$89,969 based on a rate of 5.5%. 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, 2021, and the total pension liability used to calculate net pension liability(asset) was determined by an actuarial valuation as of that date.

## ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

### **NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2022

#### Actuarial Assumptions

The total pension liability as of June 30, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

|                           |   |
|---------------------------|---|
| Inflation                 | 2.25%   |
| Salary increases          | Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4.00% |
| Investment rate of return | 6.75%, net of pension plan investment expenses, including inflation                         |
| Cost-of-living adjustment | 2.125%  |

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

The actuarial assumptions used in the June 30, 2021 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2016 through June 30, 2020. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

#### Changes of Assumptions

In 2021, the following assumptions were changed: decrease inflation rate from 2.5% to 2.25%; decreased the investment rate of return from 7.25% to 6.75%; decreased the cost-of-living adjustment from 2.25% to 2.125%; and modified mortality assumptions.

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



# ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

## NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2022

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:

| <u>Asset Class</u>                    | <u>Long-Term Expected<br/>Real Rate of Return</u> | <u>Target<br/>Allocation</u> |
|---------------------------------------|---|------------------------------|
| U.S. equity                           | 4.88%   | 31.00%                       |
| Developed market international equity | 5.37  | 14.00                        |
| Emerging market international equity  | 6.09  | 4.00                         |
| Private equity and strategic lending  | 6.57  | 20.00                        |
| U.S. fixed income                     | 1.20  | 20.00                        |
| Real estate                           | 4.38  | 10.00                        |
| Short-term securities                 | 0.00  | 1.00                         |
|                                       |   | <u>100.00%</u>               |

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 6.75% based on a blending of the future capital market projections, historical market returns and expected inflation rate, as described above.

### Discount Rate

The discount rate used to measure the total pension liability was 6.75%. 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, 2022

Changes in the Net Pension Liability(Asset)

|  | Total Pension<br>Liability<br>(a) | Plan Fiduciary<br>Net Position<br>(b) | Net Pension<br>Liability(Asset)<br>(a) - (b) |
|--|-----------------------------------|---------------------------------------|--|
| Changes for the year ended June 30, 2021:                        |                                   |                                       |  |
| Increase(decrease):  |                                   |                                       |  |
| Service cost   | \$ 123,030                        | \$ 0                                  | \$ 123,030                                   |
| Interest   | 369,769                           | 0                                     | 369,769                                      |
| Differences between expected and<br>actual experience            | (238,639)                         | 0                                     | (238,639)                                    |
| Changes in assumptions   | 422,612                           | 0                                     | 422,612                                      |
| Contributions - employer   | 0                                 | 86,567                                | (86,567)                                     |
| Contributions - employees  | 0                                 | 78,412                                | (78,412)                                     |
| Net investment income  | 0                                 | 1,305,446                             | (1,305,446)                                  |
| Benefit payments, including refunds of<br>employee contributions | (229,948)                         | (229,948)                             | 0  |
| Administrative expense   | <u>0</u>                          | <u>(3,033)</u>                        | <u>3,033</u>                                 |
| Net changes for the year ended June 30, 2021                     | 446,824                           | 1,237,443                             | (790,619)                                    |
| Balances at June 30, 2020  | <u>2,370,504</u>                  | <u>2,380,980</u>                      | <u>(10,476)</u>                              |
| Balances at June 30, 2021  | <u>\$ 2,817,328</u>               | <u>\$ 3,618,423</u>                   | <u>\$ (801,095)</u>                          |

# ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

## **NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2022

### 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 6.75%, as well as what the net pension liability(asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

|                              | 1% Decrease<br>5.75% | Current<br>Discount Rate<br>6.75% | 1% Increase<br>7.75% |
|------------------------------|----------------------|-----------------------------------|----------------------|
| Net pension liability(asset) | \$ (48,973)          | \$ (801,095)                      | \$ (1,426,478)       |

### Negative Pension Expense

For the year ended June 30, 2022, the Utility recognized negative pension expense in the amount of \$91,757.

### Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2021, the Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | Deferred<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>Resources |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience                                  | \$ 24,127                            | \$ 222,932                          |
| Net difference between projected and<br>actual earnings on pension plan investments | 0                                    | 696,387                             |
| Changes in assumptions  | 357,989                              | 0                                   |
| Contributions subsequent to the<br>measurement date of June 30, 2021                | <u>89,969</u>                        | <u>not applicable</u>               |
| Totals  | <u>\$ 472,085</u>                    | <u>\$ 919,319</u>                   |

The amount shown above for "Contributions subsequent to the measurement date of June 30, 2021," 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, 2022

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:

|            |              |
|------------|--------------|
| 2023       | \$ (108,765) |
| 2024       | (143,647)    |
| 2025       | (133,874)    |
| 2026       | (150,918)    |
| 2027       | 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, 2022 the Utility reported a payable of \$19,117 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2022.

**NOTE I – CONTINGENCIES**

As of June 30, 2022, a Consent Order and Assessment from the State of Tennessee Department of Environment and Conservation assessed civil penalties against the Utility totaling \$80,850 related to the operation of the municipal sewage treatment plant. The Utility paid \$16,170 in penalties prior to June 30, 2022. The balance of the penalties has not been recorded as a liability in the financial statements as they are contingent upon the Utility meeting certain goals within given deadlines as specified in the order. If these goals are met, the penalties will be forgiven. Management intends to meet the remaining goals within the deadlines.

REQUIRED SUPPLEMENTARY INFORMATION





ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

**CHANGES IN NET PENSION LIABILITY(ASSET)**

June 30, 2022

|   | Measurement Date at June 30, |             |             |
|---|------------------------------|-------------|-------------|
|   | 2021                         | 2020        | 2019        |
| <u>Total pension liability</u>                                |                              |             |             |
| Service cost  | \$ 123,030                   | \$ 119,437  | \$ 129,798  |
| Interest  | 369,769                      | 359,168     | 347,859     |
| Differences between actual and expected experience            | (238,639)                    | (27,276)    | (40,685)    |
| Change of assumptions   | 422,612                      | 0           | 0           |
| Benefit payments, including refunds of employee contributions | (229,948)                    | (240,941)   | (223,188)   |
| Net change in total pension liability                         | 446,824                      | 210,388     | 213,784     |
| Total pension liability - beginning                           | 2,370,504                    | 2,160,116   | 1,946,332   |
| Total pension liability - ending (a)                          | 2,817,328                    | 2,370,504   | 2,160,116   |
| <u>Plan fiduciary net position</u>                            |                              |             |             |
| Contributions - employer                                      | 86,567                       | 83,011      | 72,037      |
| Contributions - employee                                      | 78,412                       | 75,193      | 73,209      |
| Net investment income   | 1,305,446                    | 246,604     | 353,020     |
| Benefit payments, including refunds of employee contributions | (229,948)                    | (240,941)   | (223,188)   |
| Administrative expense  | (3,033)                      | (3,008)     | (3,046)     |
| Net change in plan fiduciary net position                     | 1,237,443                    | 160,859     | 272,032     |
| Plan fiduciary net position - beginning                       | 2,380,980                    | 2,220,121   | 1,948,089   |
| Plan fiduciary net position - ending (b)                      | 3,618,423                    | 2,380,980   | 2,220,121   |
| Net pension liability(asset) - ending (a) - (b)               | \$ (801,095)                 | \$ (10,476) | \$ (60,005) |

See the accompanying independent accountants' audit report.

| Measurement Date at June 30, |             |             |              |              |
|------------------------------|-------------|-------------|--------------|--------------|
| 2018                         | 2017        | 2016        | 2015         | 2014         |
| \$ 123,569                   | \$ 74,281   | \$ 21,386   | \$ 14,851    | \$ 36,783    |
| 323,454                      | 194,437     | 55,870      | 150,702      | 91,165       |
| 90,151                       | 54,192      | (3,085)     | 31,628       | (26,687)     |
| 0                            | 0           | 0           | 0            | 0            |
| (200,415)                    | (120,475)   | (40,577)    | (79,648)     | (47,992)     |
| 336,759                      | 202,435     | 33,594      | 117,533      | 53,269       |
| 1,609,573                    | 1,407,138   | 1,373,544   | 1,256,011    | 1,202,742    |
| 1,946,332                    | 1,609,573   | 1,407,138   | 1,373,544    | 1,256,011    |
| 61,746                       | 37,117      | 12,256      | 34,654       | 31,294       |
| 73,426                       | 8,299       | 13,235      | 37,424       | 22,226       |
| 368,723                      | 221,650     | 40,497      | 96,926       | 196,285      |
| (200,415)                    | (120,474)   | (40,578)    | (79,648)     | (47,992)     |
| (3,359)                      | (2,019)     | (526)       | (1,031)      | (508)        |
| 300,121                      | 144,573     | 24,884      | 88,325       | 201,305      |
| 1,647,968                    | 1,503,395   | 1,478,511   | 1,390,186    | 1,188,881    |
| 1,948,089                    | 1,647,968   | 1,503,395   | 1,478,511    | 1,390,186    |
| \$ (1,757)                   | \$ (38,395) | \$ (96,257) | \$ (104,967) | \$ (134,175) |

# ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

## **CHANGES IN NET PENSION LIABILITY(ASSET)**

(continued)

June 30, 2022

|  | Measurement Date at June 30, |              |              |
|--|------------------------------|--------------|--------------|
|  | 2021                         | 2020         | 2019         |
| Plan fiduciary net position as a percentage of total net pension liability | 128.43%                      | 100.44%      | 102.78%      |
| Covered employee payroll   | \$ 1,607,504                 | \$ 1,548,365 | \$ 1,508,059 |
| Net pension liability(asset) as a percentage of covered employee payroll   | 49.83%                       | 0.68%        | 3.98%        |

### **Notes to Schedule**

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

### Changes of Assumptions

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

| Measurement Date at June 30, |              |              |              |              |
|------------------------------|--------------|--------------|--------------|--------------|
| 2018                         | 2017         | 2016         | 2015         | 2014         |
| 100.09%                      | 102.39%      | 106.84%      | 107.64%      | 110.68%      |
| \$ 1,405,336                 | \$ 1,442,227 | \$ 1,351,806 | \$ 1,230,841 | \$ 1,126,738 |
| 0.13%                        | 2.66%        | 7.12%        | 8.53%        | 11.91%       |

# ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

## PENSION CONTRIBUTIONS

June 30, 2022

|   | 2022        | Year Ended June 30, |             | 2019        |
|---|-------------|---------------------|-------------|-------------|
|   |             | 2021                | 2020        |             |
| Actuarially determined contributions                                    | \$ 89,969   | \$ 90,931           | \$ 85,383   | \$ 74,364   |
| Contributions in relation to<br>the actuarially determined contribution | (89,969)    | (90,931)            | (85,383)    | (74,364)    |
| Contributions deficiency(excess)  | \$ 0        | \$ 0                | \$ 0        | \$ 0        |
| Covered employee payroll  | \$1,607,504 | \$1,646,883         | \$1,548,365 | \$1,508,059 |
| Contributions as a percentage of covered<br>employee payroll            | 5.60%       | 5.52%               | 5.51%       | 4.93%       |

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

### Notes to Pension Contributions

Valuation date: Actuarially determined contribution rates for the year ended June 30, 2022 were calculated based on the June 30, 2020 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%  |

See the accompanying independent accountants' audit report.

|             | Year Ended June 30, |             |             |             |  |
|-------------|---------------------|-------------|-------------|-------------|--|
| 2018        | 2017                | 2016        | 2015        | 2014        |  |
| \$ 60,570   | \$ 62,160           | \$ 63,263   | \$ 56,688   | \$ 79,322   |  |
| (60,570)    | (62,160)            | (63,263)    | (56,688)    | (79,322)    |  |
| \$ 0        | \$ 0                | \$ 0        | \$ 0        | \$ 0        |  |
| \$1,405,336 | \$1,442,227         | \$1,351,806 | \$1,230,841 | \$1,126,738 |  |
| 4.31%       | 4.31%               | 4.68%       | 4.61%       | 7.04%       |  |

#### Changes 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.



## SUPPLEMENTARY INFORMATION

# ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

## **LONG-TERM DEBT REQUIREMENTS**

June 30, 2022

|  | <u>Principal</u>    | <u>Interest</u>     | <u>Totals</u>       |
|--|---------------------|---------------------|---------------------|
| General Obligation Bonds,<br>Series 2021 |                     |                     |                     |
| Year Ending<br><u>June 30:</u>           |                     |                     |                     |
| 2023                                     | \$ 620,000          | \$ 184,900          | \$ 804,900          |
| 2024                                     | 570,000             | 169,400             | 739,400             |
| 2025                                     | 565,000             | 155,150             | 720,150             |
| 2026                                     | 565,000             | 141,025             | 706,025             |
| 2027                                     | 565,000             | 126,900             | 691,900             |
| 2028                                     | 545,000             | 112,775             | 657,775             |
| 2029                                     | 550,000             | 99,150              | 649,150             |
| 2030                                     | 415,000             | 85,400              | 500,400             |
| 2031                                     | 415,000             | 77,100              | 492,100             |
| 2032                                     | 415,000             | 68,800              | 483,800             |
| 2033                                     | 415,000             | 60,500              | 475,500             |
| 2034                                     | 415,000             | 52,200              | 467,200             |
| 2035                                     | 315,000             | 43,900              | 358,900             |
| 2036                                     | 315,000             | 37,600              | 352,600             |
| 2037                                     | 315,000             | 31,300              | 346,300             |
| 2038                                     | 250,000             | 25,000              | 275,000             |
| 2039                                     | 250,000             | 20,000              | 270,000             |
| 2040                                     | 250,000             | 15,000              | 265,000             |
| 2041                                     | 250,000             | 10,000              | 260,000             |
| 2042                                     | 250,000             | 5,000               | 255,000             |
|  | <u>\$ 8,250,000</u> | <u>\$ 1,521,100</u> | <u>\$ 9,771,100</u> |

See the accompanying independent accountants' audit report.

# ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

## CHANGES IN LONG-TERM DEBT BY INDIVIDUAL ISSUE

Year Ended June 30, 2022

| <u>Description of Indebtedness</u>                               | <u>Original<br/>Amount<br/>of Issue</u> | <u>Interest<br/>Rate</u> | <u>Date<br/>of<br/>Issue</u> |
|--|---|--------------------------|------------------------------|
| <u>Bonds Payable</u>   |   |                          |                              |
| General Obligation Bonds, Series 2012                            | \$ 2,520,000                            | 1.00%                    | 5/30/2012                    |
| Water and Sewer Revenue and Tax Refunding<br>Bonds, Series 2007  | 541,500                                 | 4.50%                    | 6/1/2012                     |
| Water and Sewer Revenue and Tax Bond, Series 2013A               | 697,000                                 | 2.75%                    | 4/16/2014                    |
| General Obligation Bonds, Series 2021                            | 8,775,000                               | 2-2.5%                   | 9/2/2021                     |
| Water and Sewer Revenue and Tax Bond, Series 2013B               | 777,000                                 | 2.13%                    | 4/16/2014                    |
| <u>Notes Payable</u>   |   |                          |                              |
| General Obligation Interfund Capital Outlay<br>Note, Series 2020 | 250,000                                 | 2.00%                    | 5/26/2021                    |
| General Obligation Capital Outlay Notes, Series 2017             | 1,500,000                               | 2.70%                    | 4/6/2017                     |
| Water and Sewer Revenue Loan 2000-139                            | 1,498,604                               | 2.70%                    | 6/4/2002                     |

See the accompanying independent accountant's audit report.

| <u>Last<br/>Maturity<br/>Date</u> | <u>Outstanding<br/>7/1/2021</u> | <u>Issued<br/>During<br/>Period</u> | <u>Paid and/or<br/>Matured<br/>During<br/>Period</u> | <u>Refunded<br/>During<br/>Period</u> | <u>Outstanding<br/>6/30/2022</u> |
|-----------------------------------|---------------------------------|-------------------------------------|--|---------------------------------------|----------------------------------|
| 6/30/2031                         | \$ 1,155,000                    | \$ 0                                | \$ 0   | \$ 1,155,000                          | \$ 0                             |
| 6/30/2047                         | 453,234                         | 0                                   | 778  | 452,456                               | 0                                |
| 6/30/2052                         | 614,350                         | 0                                   | 1,060  | 613,290                               | 0                                |
| 6/30/2042                         | 0                               | 8,775,000                           | 525,000  | 0                                     | 8,250,000                        |
| 6/30/2052                         | 673,900                         | 0                                   | 1,322  | 672,578                               | 0                                |
| 6/1/2023                          | 250,000                         | 0                                   | 250,000  | 0                                     | 0                                |
| 6/1/2029                          | 1,400,000                       | 0                                   | 0  | 1,400,000                             | 0                                |
| 6/30/2023                         | <u>153,271</u>                  | <u>0</u>                            | <u>14,988</u>  | <u>138,283</u>                        | <u>0</u>                         |
|                                   | <u>\$ 4,699,755</u>             | <u>\$ 8,775,000</u>                 | <u>\$ 793,148</u>                                    | <u>\$ 4,431,607</u>                   | <u>\$ 8,250,000</u>              |

# ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

## EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2022

| <u>Federal Grantor/<br/>Pass-Through Grantor</u>  | <u>Assistance<br/>Listing<br/>Number</u> | <u>Contract Number</u> | <u>Expenditures</u> |
|---|--|------------------------|---------------------|
| U.S. Department of Housing and Urban<br>Development/Tennessee Department of<br>Economic and Community Development | 14.228                                   | 33004-21420            | \$ 6,831            |
| Appalachian Regional Commission/<br>Tennessee Department of Economic<br>and Community Development                 | 23.002                                   | 33004-92018            | <u>102,365</u>      |
|   |  |                        | <u>\$ 109,196</u>   |

### NOTE 1 - BASIS OF PRESENTATION

This schedule summarizes the expenditures of Rockwood Water, Wastewater & Natural Gas Systems under programs of the federal government for the year ended June 30, 2022. The schedule is presented using the accrual basis of accounting. Because this schedule presents only a selected portion of the operations of Rockwood Water, Wastewater & Natural Gas Systems, it is not intended and does not present the net position or changes in net position of Rockwood Water, Wastewater & Natural Gas Systems.

See the accompanying independent accountants' audit report.

## OTHER INFORMATION

# ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

## UTILITY RATES AND METERED CUSTOMERS

June 30, 2022

### Water Rates:

|  | Inside<br>City | Outside<br>City | South<br>Roane<br>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"  | \$ 1,100.00      | \$ 1,310.00       |
| 1"  | 1,260.00         | 1,470.00          |
| 2" and larger   | Priced as needed | Priced as needed  |
| Sewer – residential 4"                                  | 880.00-1,200.00  | 1,100.00-1,350.00 |
| Sewer – residential 6"                                  | 880.00-1,200.00  | 1,200.00-1,400.00 |
| Sewer – grinder pump and tap                            | 4,100.00         | 4,300.00          |
| Per foot charge after first 100' on<br>private property | 1.00             | 1.00              |
| Natural Gas   | 750.00           | 750.00            |

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 uninterrupted gas supply.

### Number of Metered Customers:

|            |       |
|------------|-------|
| Water      | 4,019 |
| Wastewater | 1,869 |
| Gas        | 2,877 |

See the accompanying independent accountants' audit report.



ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

**PRINCIPAL OFFICIALS**

June 30, 2022

Loren Bone, Chairman  
Mark Clem, 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, 2022, and the related notes to the financial statements, and have issued our report thereon dated December 13, 2022.

**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.

A handwritten signature in black ink that reads "Mitchell Emert & Hill". The script is cursive and fluid, with the ampersand clearly visible between the two names.

December 13, 2022

ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

**SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS**

Year Ended June 30, 2022

No prior year findings were reported.