

Financial Statements

ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

Year Ended June 30, 2024

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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, 2024 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, 2024 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.

Emphasis of Matter

As discussed in Note A, the financial statements present only the water, wastewater and natural gas departments of City of Rockwood, Tennessee and do not purport to, and do not, present fairly the financial position of City of Rockwood, Tennessee, as of June 30, 2024, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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 and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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, the schedules of changes in net pension liability(asset) and pension contributions be presented to supplement the financial statements. Such information is the responsibility of management and, 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 is comprised of the schedules 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 do 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 19, 2024 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.

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 19, 2024



Rockwood Water, Wastewater & Natural Gas

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Chairman: Mark Clem Commissioner: James Nuckols Commissioner: Harold Holloway
Commissioner: Larry Davis Commissioner: Ronnie Thompson General Manager: Kim Ramsey-Leffew

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2024

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, 2024. Fund and account balances shown in the MD&A are taken directly from the accompanying financial statements for the year ending June 30, 2024. These are proprietary enterprise funds. The MD&A is intended as a generalized overview of the Utility's financial status and should be read in conjunction with the Utility's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Water and Wastewater Department

- Total assets compared to the prior year, increased \$4,635,316 to \$24,371,545.
- Total liabilities compared to the prior year, increased \$4,134,813 to \$9,973,235.
- Operating revenue compared to the prior year, decreased \$315,331 to \$4,139,389.
- Operating expenses, excluding depreciation, increased \$316,382 to \$3,612,041.

Gas Department

- Total assets compared to the prior year, decreased \$1,439,042 to \$14,845,028.
- Total liabilities compared to the prior year, decreased \$995,645 to \$3,349,906.
- Operating revenue compared to the prior year, decreased \$667,340 to \$3,248,674.
- Operating expenses, excluding depreciation, decreased \$727,959 to \$2,619,467.

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, 2024**

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;">Table A-1 W&WW Water & Wastewater Condensed Statements of Net Position</p>				
	FYE 2024	FYE 2023	Dollar Change	Total Percent Change
Current and Other Assets	\$ 5,804,080	\$ 2,698,339	\$ 3,105,741	115.1%
Capital Assets	18,567,465	17,037,890	1,529,575	9.0%
Total Assets	<u>\$ 24,371,545</u>	<u>\$ 19,736,229</u>	<u>\$ 4,635,316</u>	<u>23.5%</u>
Deferred Outflow of Resources	<u>\$ 364,517</u>	<u>\$ 304,501</u>	<u>\$ 60,016</u>	<u>19.7%</u>
Long-Term Debt Outstanding	\$ 8,674,267	\$ 4,583,671	\$ 4,090,596	89.2%
Other Liabilities	1,298,967	1,254,751	44,216	3.5%
Total Liabilities	<u>\$ 9,973,234</u>	<u>\$ 5,838,422</u>	<u>\$ 4,134,812</u>	<u>70.8%</u>
Deferred Inflow of Resources	<u>\$ 143,837</u>	<u>\$ 196,665</u>	<u>\$ (52,828)</u>	<u>-26.9%</u>
Net Investment in Capital Assets	\$ 13,491,761	\$ 12,055,436	\$ 1,436,325	11.9%
Restricted	269,292	1,148,304	(879,012)	-76.5%
Unrestricted	857,939	801,903	56,036	7.0%
Total Net Position	<u>\$ 14,618,992</u>	<u>\$ 14,005,643</u>	<u>\$ 613,349</u>	<u>4.4%</u>

As can be seen from the table above, the net position of the Water and Wastewater department increased \$613,349 to \$14,618,992 in 2024 from \$14,005,643 in 2023. The increase in net position reflects the use of cash to make capital improvements and the use of cash to pay long-term debt. Deferred outflows of resources increased \$60,016 to \$364,517 in 2024. Deferred inflows of resources decreased \$52,828 to \$143,837 in 2024.

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS
ROCKWOOD, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2024**

NET POSITION – Continued

<p style="text-align: center;">Table A-1 Gas Gas Condensed Statements of Net Position</p>				
	FYE 2024	FYE 2023	Dollar Change	Total Percent Change
Current and Other Assets	\$ 3,085,157	\$ 4,524,196	\$ (1,439,039)	-31.8%
Capital Assets	11,759,873	10,961,369	798,504	7.3%
Total Assets	<u>\$ 14,845,030</u>	<u>\$ 15,485,565</u>	<u>\$ (640,535)</u>	<u>-4.1%</u>
Deferred Outflow of Resources	<u>\$ 137,610</u>	<u>\$ 109,381</u>	<u>\$ 28,229</u>	<u>25.8%</u>
Long-Term Debt Outstanding	\$ 2,708,156	\$ 2,895,831	\$ (187,675)	-6.5%
Other Liabilities	641,750	1,449,720	(807,970)	-55.7%
Total Liabilities	<u>\$ 3,349,906</u>	<u>\$ 4,345,551</u>	<u>\$ (995,645)</u>	<u>-22.9%</u>
Deferred Inflow of Resources	<u>\$ 84,901</u>	<u>\$ 105,621</u>	<u>\$ (20,720)</u>	<u>-19.6%</u>
Net Investment in Capital Assets	\$ 8,866,758	\$ 7,880,204	\$ 986,554	12.5%
Restricted	137,261	532,521	(395,260)	-74.2%
Unrestricted	2,543,813	2,731,050	(187,237)	-6.9%
Total Net Position	<u>\$ 11,547,831</u>	<u>\$ 11,143,774</u>	<u>\$ 404,057</u>	<u>3.6%</u>

As can be seen from the table above, the net position of the Gas department increased \$404,057 to \$11,547,831 in 2024 from \$11,143,774 in 2023. The increase in net position reflects the use of cash to make capital improvements and the use of cash to pay long-term debt and a decrease in other liabilities. Deferred outflows of resources increased \$28,229 to \$137,610 in 2024. Deferred inflows of resources decreased \$20,720 to \$84,901 in 2024.

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS
ROCKWOOD, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2024**

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.

<p style="text-align: center;">Table A-2 W&WW Water & Wastewater Condensed Statements of Revenues, Expenses and Changes in Net Position</p>				
	FYE 2024	FYE 2023	Dollar Change	Total Percent Change
Operating revenues	\$ 4,139,389	\$ 4,454,721	\$ (315,332)	-7.1%
Nonoperating revenues	179,943	104,265	75,678	72.6%
Total Revenues	<u>\$ 4,319,332</u>	<u>\$ 4,558,986</u>	<u>\$ (239,654)</u>	<u>-5.3%</u>
Depreciation & Amortization Expense	\$ 721,267	\$ 683,827	\$ 37,440	5.5%
Other operating expense	3,612,041	3,295,659	316,382	9.6%
Nonoperating expense	352,998	105,936	247,062	233.2%
Total Expenses	<u>\$ 4,686,306</u>	<u>\$ 4,085,422</u>	<u>\$ 600,884</u>	<u>14.7%</u>
Income (Loss) Before Capital Contributions	\$ (366,974)	\$ 473,563	\$ (840,538)	-177.5%
Capital contributions and grants	980,324	838,906	141,418	16.9%
Changes in Net Position	<u>\$ 613,349</u>	<u>\$ 1,312,469</u>	<u>\$ (699,120)</u>	<u>-53.3%</u>
Beginning Net Position	<u>14,005,643</u>	<u>12,693,174</u>	<u>1,312,469</u>	<u>10.3%</u>
Total Net Position	<u><u>\$ 14,618,992</u></u>	<u><u>\$ 14,005,643</u></u>	<u><u>\$ 613,349</u></u>	<u><u>4.4%</u></u>

As can be seen in Table A-2 W&WW above, the loss before capital contributions is (\$366,974) in 2024.

The Utility's operating revenues decreased by \$315,332 to \$4.139 million in 2024 from \$4.454 million in 2023 due to decreased sales to residential, commercial and industrial customers. Non-operating revenues increased by \$75,678 to \$179,973 in 2024, from \$104,265 in 2023. This increase is due to an increase in interest income received. Non-operating expenses increased by \$247,062 to \$352,998 in 2024, from \$105,936 in 2023. This decrease is due to bond issue costs, an increase in interest expense and loss on the disposal of equipment.

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS
ROCKWOOD, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2024**

NET POSITION – Continued

<p style="text-align: center;">Table A-2 Gas Gas Condensed Statements of Revenues, Expenses and Changes in Net Position</p>				
	FYE 2024	FYE 2023	Dollar Change	Total Percent Change
Operating revenues	\$ 3,248,674	\$ 3,916,015	\$ (667,341)	-17.0%
Nonoperating revenues	132,458	126,629	5,829	4.6%
Total Revenues	<u>\$ 3,381,132</u>	<u>\$ 4,042,644</u>	<u>\$ (661,512)</u>	<u>-16.4%</u>
Depreciation & Amortization Expense	\$ 299,423	\$ 148,937	\$ 150,486	101.0%
Other operating expense	2,619,467	3,347,427	(727,960)	-21.7%
Nonoperating expense	58,186	60,450	(2,264)	-3.7%
Total Expenses	<u>\$ 2,977,076</u>	<u>\$ 3,556,814</u>	<u>\$ (579,738)</u>	<u>-16.3%</u>
Income (Loss) Before Capital Contributions	\$ 404,057	\$ 485,831	\$ (81,774)	-16.8%
Capital contributions and grants	0	10,751	(10,751)	-100.0%
Changes in Net Position	\$ 404,057	\$ 496,581	\$ (92,524)	-18.6%
Beginning Net Position	<u>11,143,774</u>	<u>10,647,193</u>	<u>496,581</u>	<u>4.7%</u>
Total Net Position	<u><u>\$ 11,547,831</u></u>	<u><u>\$ 11,143,774</u></u>	<u><u>\$ 404,057</u></u>	<u><u>3.6%</u></u>

As can be seen in Table A-2 Gas above, the increase in Net Position is \$404,057 in 2024.

The Utility's operating revenues decreased by \$667,341 to \$3.249 million in 2024 from \$3.916 million in 2023 due to decreased sales to residential and industrial customers due to both decreased gas costs and overall consumption. Non-operating revenues increased by \$5,829 to \$132,458 in 2024, from \$126,629 in 2023. This increase is due to interest income from invested cash and rental income. Non-operating expenses decreased \$2,264 to \$58,186 in 2024, from \$60,450 in 2023. This decrease is due lower interest expense and loss on sale of equipment.

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS
ROCKWOOD, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2024**

CAPITAL ASSETS

At June 30, 2024, the Utility has invested \$37,887,333 in capital assets as shown in Table A-3 W&WW. The \$1,694,829 increase in capital assets is made up of several items. The capital assets saw increases for various machinery and equipment additions, water improvements to basis, high service pump, and church street booster station, and AMI meter replacements and ongoing water and sewer projects that remain in construction in progress.

Table A-3 W&WW Water & Wastewater Capital Assets				
	FYE 2024	FYE 2023	Dollar Change	Total Percent Change
Cost of Plant in Service	\$ 33,428,719	\$ 32,791,265	\$ 637,454	1.9%
Land	25,455	25,455	0	0.0%
Machinery & Equipment	993,165	1,315,109	(321,944)	-24.5%
Software	126,331	126,331	0	n/a
Vehicles	242,647	387,891	(145,244)	-37.4%
Construction in Progress	3,071,016	1,546,453	1,524,563	98.6%
Total Capital Assets	\$ 37,887,333	\$ 36,192,504	\$ 1,694,829	4.7%
Less: Accumulated Depreciation	(19,319,867)	(19,154,614)	(165,253)	0.9%
Net Capital Assets	\$ 18,567,465	\$ 17,037,890	\$ 1,529,575	9.0%

At June 30, 2024, the Gas fund has invested \$15,519,478 in capital assets as shown in Table A-3 Gas. The \$925,444 increase in capital assets is made up of several items including meter and regulator replacements, and the final new building and operations center and ongoing meter replacements in construction in progress.

Table A-3 Gas Gas Capital Assets				
	FYE 2024	FYE 2023	Dollar Change	Total Percent Change
Cost of Plant in Service	\$ 13,619,041	\$ 5,095,351	\$ 8,523,690	167.3%
Land	572,407	0	572,407	n/a
Machinery & Equipment	1,039,311	982,651	56,660	5.8%
Software	62,034	62,034	0	n/a
Vehicles	156,659	215,214	(58,555)	-27.2%
Construction in Progress	70,026	8,238,784	(8,168,758)	-99.2%
Total Capital Assets	\$ 15,519,478	\$ 14,594,034	\$ 925,444	6.3%
Less: Accumulated Depreciation	(3,759,607)	(3,632,667)	(126,940)	3.5%
Net Capital Assets	\$ 11,759,873	\$ 10,961,369	\$ 798,504	7.3%

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS
ROCKWOOD, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2024**

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 two licensed Professional Engineer (one full time, one part-time), 4 certified Water Plant Operators, 3 certified Wastewater Plant Operat 4 certified Distribution Operators, 4 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 3rd year in 2020-21 and covered more than sixty percent of the collection system. This evaluation work includes mapping corrections, CCTV, line cleaning, smoke testing and manhole inspections. 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. This 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. The Utility completed another CDBG grant award in 2024 for additional I & I work and the contract was awarded and completed in early 2024.

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. 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 as part of the Asset Management Program.

The sanitary survey for the water system for 2022 scored 99. The wastewater and plant had a satisfactory inspection with no violations noted in 2022. The sanitary survey due in 2024 has not been performed at this time.

The Utility is in the process of installing an AMI meter system for both water and gas. The project has been awarded in fall 2021 and is expected to be completed by 2025. This installation will include leak detection, remote shut-off (as needed).RWSG anticipates this project will capture lost revenue on both the water and gas due to old meters and reduce operation costs once implemented. The failure of our older transmitters as created issues with meter reading accuracy on both the water and gas sides. This project is on schedule for completion in early 2025.

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS
ROCKWOOD, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2024**

CAPITAL ASSETS – Continued

The Utility has preceded with the engineering and design for a water plant rehabilitation project, which will be funded with ARPA funds from the County, City, TDEC and Roane Central Utility District. The remainder of the project will be funded with State Revolving Fund (SRF). The project has been bid and award and notice to proceed is expected in January 2025. Completion is anticipated in early 2026, ahead of the October 2026 date for ARPA funding.

This fiscal year has numerous projects in various stages of planning and 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.

The natural gas system continued with all compliance and regulatory functions through 2024. The natural gas system had no violations from the annual TPUC inspection for 2024.

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, 2024 amounted to \$8,800,000. To provide liquidity for upcoming capital projects, the Utility borrowed \$4,490,000 in a capital outlay note. Other debt activity includes the principal payments during the fiscal year ending June 30, 2024 totaling \$390,000 on outstanding debt. A summary of the changes in Water & Wastewater Long-Term Debt for the fiscal year are shown in Table A-4 W&WW.

Table A-4 W&WW Water & Wastewater Long-Term Debt			
	FYE 2024	FYE 2023	Dollar Change
Bond Payable			
2021 Series Bond	\$ 4,310,000	\$ 4,700,000	\$ (390,000)
Capital Outlay Note	4,490,000	-	4,490,000
Total Long-Term Debt	\$ 8,800,000	\$ 4,700,000	\$ 4,100,000
Current Portion of Long Term Debt	(385,000)	(390,000)	5,000
Total Long-Term Debt, Excluding Current Maturities	\$ 8,415,000	\$ 4,310,000	\$ 4,105,000
2021 Bond Premium, Net of Amortization	259,267	273,671	(14,404)
Net Long-Term Debt	\$ 8,674,267	\$ 4,583,671	\$ 4,090,596

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS
ROCKWOOD, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2024**

DEBT ADMINISTRATION - Continued

Gas indebtedness outstanding at June 30, 2024 amounted to \$2,750,000. The Utility made principal payments during the fiscal year ending June 30, 2024 totaling \$180,000 on outstanding debt. A summary of the changes in Gas Long-Term Debt for the fiscal year are shown in Table A-4 Gas.

Table A-4 Gas Gas Long-Term Debt			
	<u>FYE 2024</u>	<u>FYE 2023</u>	<u>Dollar Change</u>
Bond Payable			
2021 Series Bond	\$ 2,750,000	\$ 2,930,000	\$ (180,000)
Total Long-Term Debt	\$ 2,750,000	\$ 2,930,000	\$ (180,000)
Current Portion of Long Term Debt	(180,000)	(180,000)	-
Total Long-Term Debt, Excluding Current Maturities	\$ 2,570,000	\$ 2,750,000	\$ (180,000)
2021 Bond Premium, Net of Amortization	138,156	145,831	(7,675)
Net Long-Term Debt	<u>\$ 2,708,156</u>	<u>\$ 2,895,831</u>	<u>\$ (187,675)</u>

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 ending June 30, 2024. We are experiencing a steady upward trend in our tap fees. We continue to have inquiries concerning new developments and have reevaluated our construction standards to prepare for possible development.

Plateau Park development along I-40 to the west has been purchased by Flat Rock Motorsports Park and is currently under development. The Plateau Park Partnership had previously applied for assistance in the construction of the gas facilities to the area. The Utility had committed to provide a conceptual plan for service and to assist in the construction (no commitment of dollars until tenants and gas requirements are determined) with the Plateau Park Partnership and the industrial tenants. Installing natural gas to this location would also add a potential of 500-600 residential customers in the Westel area to the Utility's system. The Utility estimates a total cost of 4-5M for the installation of the gas mains. The Partnership also received a grant to complete the gas system expansion engineering design. This work has been completed and a TDOT permit has been obtained. 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 the needed expansion will be scheduled or funded. Anticipated cost of the gas extension is estimated at \$4-6M.

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS
ROCKWOOD, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2024**

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.

RWSG experienced the loss of two major customers that affected water, sewer and gas revenues. AlbaHealth and Horsehead both closed operations in 2023.

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: On June 24, 2024 City Council approved Ordinance No 13-05 which implements a per water customer charge to applied over the coming years. This was required to secure a state revolving loan fund with a 50% grant that will make significant upcoming capital improvements in the coming years. The prior increase affecting both water and sewer customers 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 economic 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 \$10.49/Dth. The June 2024 rate for a customer inside the City Limits of Rockwood for FY-20 was \$11.55/Dth. The cost to the Utility's customer for a consumption of 72 Dth's per year would have been \$835.00. 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.

**ROCKWOOD WATER, WASTEWATER AND NATURAL GAS
ROCKWOOD, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2024**

UTILITY RATES – Continued

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, 2024 there are two industrial customers utilizing the FT-1 rate structure.

In addition to its firm gas sales customers, the Utility provides transportation to one (1) 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
214 W Rockwood Street
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, 2024

	Water and Wastewater System	Natural Gas System	Totals
PROPERTY, PLANT AND EQUIPMENT			
Land	\$ 25,455	\$ 572,407	\$ 597,862
Buildings	0	8,278,419	8,278,419
Distribution and collection	14,862,901	4,308,709	19,171,610
Utility plant	18,565,818	1,031,913	19,597,731
Transportation equipment	242,647	156,659	399,306
Machinery and equipment	957,326	867,647	1,824,973
Software	126,331	62,034	188,365
Furnitures and fixtures	35,839	171,664	207,503
Construction in progress	3,071,016	70,026	3,141,042
	37,887,333	15,519,478	53,406,811
Accumulated depreciation	(19,319,867)	(3,759,607)	(23,079,474)
	18,567,465	11,759,873	30,327,337
CURRENT ASSETS			
Cash	4,503,357	603,579	5,106,936
Accounts receivable, net of allowance for uncollectible accounts	230,019	104,031	334,050
Investments	0	1,294,693	1,294,693
Grant receivable	200,218	0	200,218
Due from other funds	0	142,211	142,211
Materials and supplies inventory	364,582	166,240	530,822
Natural gas inventory	0	451,458	451,458
Prepaid expenses	13,962	6,981	20,943
	5,312,138	2,769,194	8,081,331
RESTRICTED ASSETS			
Debt service	64,057	62,905	126,962
Capital outlay	24,991	0	24,991
Cash held for customer deposits	222,650	117,700	340,350
	311,698	180,606	492,303
OTHER ASSETS			
Net pension asset	180,244	74,356	254,600
Deferred gas costs	0	61,001	61,001
	180,244	135,357	315,601
DEFERRED OUTFLOWS OF RESOURCES			
Deferred loss on refunding of debt	30,938	0	30,938
Deferred outflows related to pension	333,579	137,610	471,189
	364,517	137,610	502,127
	<u>\$ 24,736,063</u>	<u>\$ 14,982,638</u>	<u>\$ 39,718,701</u>

See the accompanying notes to the financial statements.

	Water and Wastewater System	Natural Gas System	Totals
CURRENT LIABILITIES PAYABLE FROM CURRENT ASSETS			
Accounts payable	\$ 407,566	\$ 332,442	\$ 740,008
Accrued salaries	42,975	17,552	60,527
Sales tax payable	14,989	1,416	16,405
Due to other funds	142,211	0	142,211
	<u>607,741</u>	<u>351,410</u>	<u>959,151</u>
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS			
Current portion of long-term debt	385,000	180,000	565,000
Accrued interest payable	105,403	4,958	110,361
Customer deposits	200,824	105,382	306,206
	<u>691,227</u>	<u>290,340</u>	<u>981,567</u>
LONG-TERM DEBT, net of current portion	8,674,267	2,708,156	11,382,423
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pension	143,837	59,336	203,173
Gas rebates	0	25,565	25,565
	<u>143,837</u>	<u>84,901</u>	<u>228,738</u>
NET POSITION			
Net investment in capital assets	13,491,761	8,866,758	22,358,519
Restricted	269,292	137,261	406,553
Unrestricted	857,939	2,543,813	3,401,750
	<u>14,618,992</u>	<u>11,547,831</u>	<u>26,166,822</u>
	<u>\$ 24,736,063</u>	<u>\$ 14,982,638</u>	<u>\$ 39,718,701</u>

ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

STATEMENT OF REVENUE, EXPENSES AND CHANGE IN NET POSITION

Year Ended June 30, 2024

	Water and Wastewater System	Natural Gas System	Totals
OPERATING REVENUE			
Metered sales	\$ 2,665,426	\$ 3,081,590	\$ 5,747,016
Wastewater service sales	1,195,824	0	1,195,824
Tap fees	192,684	78,900	271,584
Forfeited discounts and penalties	45,352	28,232	73,584
Local transportation	0	48,704	48,704
Other operating income	40,104	11,249	51,353
TOTAL OPERATING REVENUE	4,139,389	3,248,674	7,388,065
OPERATING EXPENSES			
Natural gas purchases	0	1,459,095	1,459,095
Salaries	1,267,573	516,362	1,783,935
Payroll taxes	95,389	39,474	134,863
Employee benefits	283,807	127,574	411,381
Training	7,380	5,182	12,562
Postage	30,697	15,427	46,124
Membership and registration fees	11,354	12,584	23,938
Utility services	479,891	14,607	494,498
Telephone, internet and cable	28,148	11,296	39,444
Professional and contract services	215,337	112,599	327,936
Motor repairs and maintenance	32,861	15,751	48,612
Equipment repairs and maintenance	215,599	16,298	231,897
Building repairs and maintenance	7,746	1,894	9,640
Plant landfill expense	97,496	0	97,496
Office supplies	14,440	5,720	20,160
Bank charges	5,834	2,455	8,289
Small equipment	11,477	2,355	13,832
Operating supplies	169,275	68,695	237,970
Chemical and laboratory	268,601	0	268,601
Uniforms	41,236	18,044	59,280
Gas and oil	25,601	14,937	40,538

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, 2024

	Water and Wastewater System	Natural Gas System	Totals
General insurance	25,674	12,942	38,616
Building insurance	84,857	42,745	127,602
Workers compensation insurance	18,351	8,678	27,029
City services rendered	87,752	59,519	147,271
Rent	48,075	30,000	78,075
Miscellaneous	37,591	5,234	42,825
Depreciation	721,267	299,423	1,020,690
TOTAL OPERATING EXPENSES	4,333,308	2,918,890	7,252,199
(LOSS)INCOME FROM OPERATIONS	(193,920)	329,785	135,865
NONOPERATING REVENUE(EXPENSE)			
Interest income	145,767	84,383	230,150
Contributions	4,176	0	4,176
Rental income	30,000	48,075	78,075
Loss on disposal of property and equipment	(123,291)	(2,236)	(125,527)
Debt issuance costs	(26,940)	0	(26,940)
Interest expense	(202,767)	(55,950)	(258,717)
	<u>(173,055)</u>	<u>74,272</u>	<u>(98,783)</u>
(LOSS)INCOME BEFORE CAPITAL CONTRIBUTIONS	(366,974)	404,057	37,082
Capital contributions	980,324	0	980,324
CHANGE IN NET POSITION	613,349	404,057	1,017,406
NET POSITION AT THE BEGINNING OF THE YEAR	14,005,643	11,143,774	25,149,417
NET POSITION AT THE END OF THE YEAR	<u>\$ 14,618,992</u>	<u>\$ 11,547,831</u>	<u>\$ 26,166,822</u>

ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

STATEMENT OF CASH FLOWS

Year Ended June 30, 2024

	Water and Wastewater System	Natural Gas System	Totals
CASH PROVIDED(USED) BY OPERATING ACTIVITIES			
Cash received from customers	\$ 4,103,672	\$ 3,268,177	\$ 7,371,849
Cash paid to employees	(1,282,783)	(520,320)	(1,803,103)
Cash paid to suppliers	<u>(2,486,643)</u>	<u>(2,874,107)</u>	<u>(5,360,750)</u>
NET CASH PROVIDED(USED) BY OPERATING ACTIVITIES	334,246	(126,250)	207,996
CASH PROVIDED(USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of property and equipment	(2,152,712)	(1,100,203)	(3,252,915)
Principal payments on long-term debt	(390,000)	(180,000)	(570,000)
Capital contributions	714,476	0	714,476
Proceeds from issuance of long-term debt	4,490,000	0	4,490,000
Interest paid	<u>(106,147)</u>	<u>(56,325)</u>	<u>(162,472)</u>
NET CASH PROVIDED(USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	2,555,617	(1,336,528)	1,219,089
CASH PROVIDED(USED) BY INVESTING ACTIVITIES			
Rental income	30,000	48,075	78,075
Decrease in investments	769,638	1,631,899	2,401,537
Interest received	<u>145,767</u>	<u>84,383</u>	<u>230,150</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>945,405</u>	<u>1,764,357</u>	<u>2,709,762</u>

See the accompanying notes to the financial statements.

ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

STATEMENT OF CASH FLOWS

(continued)

Year Ended June 30, 2024

	Water and Wastewater System	Natural Gas System	Totals
NET INCREASE IN CASH	3,835,268	301,579	4,136,847
CASH AT THE BEGINNING OF THE YEAR	<u>979,787</u>	<u>482,606</u>	<u>1,462,393</u>
CASH AT THE END OF THE YEAR	<u>\$ 4,815,055</u>	<u>\$ 784,185</u>	<u>\$ 5,599,239</u>
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED(USED) BY OPERATING ACTIVITIES			
(Loss)income from operations	\$ (193,920)	\$ 329,785	\$ 135,865
Adjustments to reconcile (loss)income from operations to net cash provided(used) by operating activities:			
Depreciation	721,267	299,423	1,020,690
Deferred retirement contributions	(74,111)	(30,573)	(104,684)
Pension expense	39,487	16,289	55,776
(Increase)decrease in:			
Accounts receivable	(35,716)	19,502	(16,214)
Due from other funds	0	23,881	23,881
Materials and supplies inventory	(11,633)	11,555	(78)
Natural gas inventory	0	60,215	60,215
Prepaid expenses	(3,009)	(1,504)	(4,513)
Deferred gas costs	0	(26,001)	(26,001)

ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

STATEMENT OF CASH FLOWS

(continued)

Year Ended June 30, 2024

	Water and Wastewater System	Natural Gas System	Totals
Increase(decrease) in:			
Accounts payable	(74,276)	(481,151)	(555,427)
Retainage payable	0	(345,291)	(345,291)
Accrued salaries	(15,210)	(3,958)	(19,168)
Sales tax payable	2,391	336	2,727
Customer deposits	2,858	1,239	4,097
Due to other funds	(23,881)	0	(23,881)
	<u>528,167</u>	<u>(456,037)</u>	<u>72,129</u>
NET CASH PROVIDED(USED)			
BY OPERATING ACTIVITIES	<u>\$ 334,246</u>	<u>\$ (126,250)</u>	<u>\$ 207,996</u>

ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2024

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, 2024

Net Investment in Capital Assets

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

	<u>Water and Wastewater</u>	<u>Natural Gas</u>	<u>Totals</u>
Capital assets	\$ 37,887,333	\$ 15,519,478	\$ 53,406,811
Accumulated depreciation	(19,319,867)	(3,759,607)	(23,079,474)
Accrued interest payable	(105,403)	(4,958)	(110,361)
Unspent bond proceeds	4,088,966	0	4,088,966
Principal balance on long-term debt	<u>(9,059,267)</u>	<u>(2,888,156)</u>	<u>(11,947,423)</u>
	<u>\$ 13,491,761</u>	<u>\$ 8,866,758</u>	<u>\$ 22,358,519</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, 2024 the restricted net position consisted of the following:

	<u>Water and Wastewater</u>	<u>Natural Gas</u>	<u>Totals</u>
Restricted for debt service	\$ 64,057	\$ 62,905	\$ 126,962
Restricted for capital outlay	24,991	0	24,991
Restricted for net pension asset	<u>180,244</u>	<u>74,356</u>	<u>254,600</u>
	<u>\$ 269,292</u>	<u>\$ 137,261</u>	<u>\$ 406,553</u>

ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2024

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 systems and \$15,000 for the natural gas system as of June 30, 2024.

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. It is also the policy of the Utility that each employee shall use their annual leave amounts within the calendar year or the amounts will be forfeited. For this reason, all accrued vacation amounts are shown as a current liability on the statement of net position.

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, 2024

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

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, 2024

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 Wastewater</u>	<u>Natural Gas</u>	<u>Totals</u>
Unrestricted	\$ 4,503,357	\$ 603,579	\$ 5,106,936
Restricted cash and cash equivalents	<u>311,698</u>	<u>180,606</u>	<u>492,303</u>
Total	<u>\$ 4,815,055</u>	<u>\$ 784,185</u>	<u>\$ 5,599,239</u>

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.

ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2024

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, 2024 were entirely insured by the Federal Deposit Insurance Corporation or the State of Tennessee Bank Collateral Pool.

The Utility has three investments in U.S. Treasury Bills totaling \$800,552 (considered Level 1 measurement) with maturity dates of September 26, 2024, June 12, 2025 and June 12, 2025.

The Utility has one investment in a U.S. Treasury Note totaling \$244,141 (considered Level 1 measurement) with a maturity date of March 15, 2025.

The Utility has one investment in certificates of deposits totaling \$250,000 (considered Level 2 measurement) with a maturity date of December 16, 2024.

NOTE D - INTERFUND BALANCES

Amounts due from the water and wastewater systems to the natural gas system at June 30, 2024 totaling \$142,211 were a result of short-term advances for shared costs and amounts received by the water and wastewater systems which were not remitted to the natural gas system by June 30, 2024. These amounts were remitted between the funds subsequent to June 30, 2024.

ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2024

NOTE E - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2024 was as follows:

	Balance 7/1/23	Additions	Retirements	Balance 6/30/24
Water and Wastewater Systems:				
<u>Capital assets not being depreciated</u>				
Land and easements	\$ 25,455	\$ 0	\$ 0	\$ 25,455
Construction in progress	<u>1,546,453</u>	<u>1,524,562</u>	<u>0</u>	<u>3,071,016</u>
	1,571,908	1,524,562	0	3,096,471
<u>Capital assets being depreciated</u>				
Distribution and collection	15,017,271	0	(154,370)	14,862,901
Utility Plant	17,773,994	791,825	0	18,565,818
Transportation equipment	387,891	0	(145,244)	242,647
Machinery and equipment	1,177,078	58,237	(277,988)	957,326
Software	126,331	0	0	126,331
Furniture and fixtures	<u>138,031</u>	<u>0</u>	<u>(102,191)</u>	<u>35,839</u>
	34,620,596	850,062	(679,795)	34,790,863
<u>Accumulated depreciation</u>				
Distribution and collection	(7,196,566)	(282,201)	96,313	(7,382,455)
Utility plant	(10,620,361)	(331,679)	0	(10,952,040)
Transportation equipment	(308,258)	(15,250)	90,811	(232,697)
Machinery and equipment	(782,979)	(89,032)	266,699	(605,312)
Software	(125,666)	(453)	0	(126,119)
Furniture and fixtures	<u>(120,783)</u>	<u>(2,653)</u>	<u>102,191</u>	<u>(21,245)</u>
	<u>(19,154,614)</u>	<u>(721,267)</u>	<u>556,013</u>	<u>(19,319,867)</u>
	<u>\$ 17,037,890</u>	<u>\$ 1,653,357</u>	<u>\$ (123,782)</u>	<u>\$ 18,567,465</u>

ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2024

	Balance <u>7/1/23</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>6/30/24</u>
Natural Gas System:				
<u>Capital assets not being depreciated</u>				
Construction in progress	\$ 8,238,784	\$ 682,069	\$ (8,850,827)	\$ 70,026
Land	<u>0</u>	<u>572,407</u>	<u>0</u>	<u>572,407</u>
	8,238,784	1,254,476	(8,850,827)	642,433
<u>Capital assets being depreciated</u>				
Distributions and collection	4,308,709	0	0	4,308,709
Buildings	0	8,278,419	0	8,278,419
Utility plant	786,642	245,270	0	1,031,913
Transportation equipment	215,214	0	(58,555)	156,659
Machinery and equipment	894,374	7,310	(34,037)	867,647
Software	62,034	0	0	62,034
Furniture and fixtures	<u>88,277</u>	<u>165,555</u>	<u>(82,167)</u>	<u>171,664</u>
	6,355,250	8,696,554	(174,759)	14,877,045
<u>Accumulated depreciation</u>				
Distributions and collection	(2,079,982)	(92,635)	0	(2,172,617)
Buildings	0	(137,444)	0	(137,444)
Utility plant	(444,216)	(31,583)	0	(475,799)
Transportation equipment	(202,023)	(2,491)	56,455	(148,059)
Machinery and equipment	(756,612)	(25,017)	33,861	(747,769)
Software	(62,034)	0	0	(62,034)
Furniture and fixtures	<u>(87,799)</u>	<u>(10,253)</u>	<u>82,167</u>	<u>(15,885)</u>
	<u>(3,632,667)</u>	<u>(299,423)</u>	<u>172,483</u>	<u>(3,759,607)</u>
	<u>\$ 10,961,369</u>	<u>\$ 9,651,607</u>	<u>\$ (8,853,103)</u>	<u>\$ 11,759,873</u>

ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2024

NOTE F - INTERFUND RENT

The natural gas system pays the water and wastewater systems \$2,500 per month for the usage of the Church Street facility. During the year ended June 30, 2024 the total rent paid by the natural gas system was \$30,000. The water and wastewater system began paying the natural gas system \$2,167 per month for the usage of the operations building and \$2,833 per month for the usage of the administration building during the year ended June 30, 2024. The total rent paid by the water and wastewater systems was \$48,075 during the year ended June 30, 2024.

NOTE G - LONG-TERM DEBT

Long-term debt at June 30, 2024 consisted of the following:

	<u>Water and Wastewater Systems</u>	<u>Natural Gas System</u>	<u>Totals</u>
<u>Bonds Payable</u>			
General Obligation Bonds, Series 2021, interest rates ranging from 2.00% to 2.50%; payable in annual installments ranging from \$250,000 to \$565,000 through 2042, including unamortized issue premium of \$259,267 and \$138,156, respectively.	\$ 4,569,267	\$ 2,888,156	\$ 7,457,423
<u>Notes Payable</u>			
General Obligation Capital Outlay Note, Series 2023, interest rate of 4.57% paid semiannually; principal payments ranging from \$1,429,000 in in 2027 to \$1,565,000 in 2029.	4,490,000	0	4,490,000
	9,059,267	2,888,156	11,947,423
Less current maturities	<u>(385,000)</u>	<u>(180,000)</u>	<u>(565,000)</u>
	<u>\$ 8,674,267</u>	<u>\$ 2,708,156</u>	<u>\$ 11,382,423</u>

ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2024

Future maturities of bonds payable are as follows:

Year Ending June 30:	Water and Wastewater Systems		Natural Gas System		Totals		
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2025	\$ 385,000	\$ 300,843	\$ 180,000	\$ 59,500	\$ 565,000	\$ 360,343	\$ 925,343
2026	385,000	291,218	180,000	55,000	565,000	346,218	911,218
2027	1,814,000	248,940	180,000	50,500	1,994,000	299,440	2,293,440
2028	1,861,000	172,479	180,000	46,000	2,041,000	218,479	2,259,479
2029	1,935,000	93,410	180,000	41,500	2,115,000	134,910	2,249,910
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
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>\$ 8,800,000</u>	<u>\$ 1,403,190</u>	<u>\$ 2,750,000</u>	<u>\$ 488,000</u>	<u>\$11,550,000</u>	<u>\$ 1,891,190</u>	<u>\$13,441,190</u>

ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2024

Changes in long-term debt for the year ended June 30, 2024 were as follows:

	Balance 7/1/23	Proceeds	Payments	Balance 6/30/24	Amounts Due Within One Year
Bonds Payable:					
Series 2021	\$ 7,630,000	\$ 0	\$ 570,000	\$ 7,060,000	\$ 565,000
Notes Payable:					
Series 2023	<u>0</u>	<u>4,490,000</u>	<u>0</u>	<u>4,490,000</u>	<u>0</u>
	<u>\$ 7,630,000</u>	<u>\$ 4,490,000</u>	<u>\$ 570,000</u>	<u>\$ 11,550,000</u>	<u>\$ 565,000</u>

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.

The General Obligation Capital Outlay Note is 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.

NOTE H - COMMITMENTS

As of June 30, 2024, the Utility had entered into contracts totaling \$1,015,283 for services related to a sanitary sewer rehab and replacement project; \$882,452 had been expended as of June 30, 2024.

During the year ended June 30, 2024, the Utility entered into contracts totaling \$163,500 for services related to water plant improvement projects; \$25,000 had been expended as of June 30, 2024.

ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2024

NOTE I - 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 <https://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.

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.

ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2024

Employees Covered by Benefit Terms

At the measurement date of June 30, 2023, 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	66
Inactive employees entitled to but not yet receiving benefits	53
Active employee	<u>82</u>
	<u>201</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, 2024, employer contributions for the Utility were \$104,684 based on a rate of 5.9%. 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, 2023, 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, 2024

Actuarial Assumptions

The total pension liability as of June 30, 2023 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, 2023 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.

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, 2024

The best-estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	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, 2024

Changes in the Net Pension Liability(Asset)

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability(Asset) (a) - (b)
Changes for the year ended June 30, 2023:			
Increase(decrease):			
Service cost	\$ 128,632	\$ 0	\$ 128,632
Interest	312,642	0	312,642
Differences between expected and actual experience	109,158	0	109,158
Contributions - employer	0	82,895	(82,895)
Contributions - employees	0	70,370	(70,370)
Net investment income	0	325,037	(325,037)
Benefit payments, including refunds of employee contributions	(179,609)	(179,609)	0
Administrative expense	<u>0</u>	<u>(3,126)</u>	<u>3,126</u>
Net changes for the year ended June 30, 2023	370,823	295,567	75,256
Balances at June 30, 2022	<u>2,974,167</u>	<u>3,304,023</u>	<u>(329,856)</u>
Balances at June 30, 2023	<u>\$ 3,344,990</u>	<u>\$ 3,599,590</u>	<u>\$ (254,600)</u>

ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2024

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 5.75%	Current Discount Rate 6.75%	1% Increase 7.75%
Net pension liability(asset)	\$ 693,737	\$ (254,600)	\$ (1,039,470)

Pension Expense

For the year ended June 30, 2024, the Utility recognized pension expense in the amount of \$55,776.

Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2024, the Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 122,103	\$ 203,173
Net difference between projected and actual earnings on pension plan investments	53,651	0
Changes of assumptions	190,752	0
Contributions subsequent to the measurement date of June 30, 2023	<u>104,684</u>	<u>not applicable</u>
Totals	<u>\$ 471,189</u>	<u>\$ 203,173</u>

The amount shown above for “Contributions subsequent to the measurement date of June 30, 2023,” 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, 2024

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:

2025	\$ 198
2026	(19,034)
2027	151,263
2028	30,906
2029	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, 2024 the Utility reported a payable of \$16,494 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2024.

NOTE J - RISK MANAGEMENT

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

REQUIRED SUPPLEMENTARY INFORMATION

ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

CHANGES IN NET PENSION LIABILITY(ASSET)

June 30, 2024

	Measurement Date at June 30,			
	2023	2022	2021	2020
<u>Total pension liability</u>				
Service cost	\$ 128,632	\$ 155,155	\$ 123,030	\$ 119,437
Interest	312,642	367,131	369,769	359,168
Differences between actual and expected experience	109,158	(128,731)	(238,639)	(27,276)
Change of assumptions	0	0	422,612	0
Benefit payments, including refunds of employee contributions	(179,609)	(236,716)	(229,948)	(240,941)
Net change in total pension liability	370,823	156,839	446,824	210,388
Total pension liability - beginning	2,974,167	2,817,328	2,370,504	2,160,116
Total pension liability - ending (a)	3,344,990	2,974,167	2,817,328	2,370,504
<u>Plan fiduciary net position</u>				
Contributions - employer	82,895	84,304	86,567	83,011
Contributions - employee	70,370	76,362	78,412	75,193
Net investment income	325,037	(235,083)	1,305,446	246,604
Benefit payments, including refunds of employee contributions	(179,609)	(236,716)	(229,948)	(240,941)
Administrative expense	(3,126)	(3,267)	(3,033)	(3,008)
Net change in plan fiduciary net position	295,567	(314,400)	1,237,443	160,859
Plan fiduciary net position - beginning	3,304,023	3,618,423	2,380,980	2,220,121
Plan fiduciary net position - ending (b)	3,599,590	3,304,023	3,618,423	2,380,980
Net pension liability(asset) - ending (a) - (b)	<u>\$ (254,600)</u>	<u>\$ (329,856)</u>	<u>\$ (801,095)</u>	<u>\$ (10,476)</u>

See the accompanying independent accountants' audit report.

Measurement Date at June 30,					
2019	2018	2017	2016	2015	2014
\$ 129,798	\$ 123,569	\$ 74,281	\$ 21,386	\$ 14,851	\$ 36,783
347,859	323,454	194,437	55,870	150,702	91,165
(40,685)	90,151	54,192	(3,085)	31,628	(26,687)
0	0	0	0	0	0
(223,188)	(200,415)	(120,475)	(40,577)	(79,648)	(47,992)
213,784	336,759	202,435	33,594	117,533	53,269
1,946,332	1,609,573	1,407,138	1,373,544	1,256,011	1,202,742
2,160,116	1,946,332	1,609,573	1,407,138	1,373,544	1,256,011
72,037	61,746	37,117	12,256	34,654	31,294
73,209	73,426	8,299	13,235	37,424	22,226
353,020	368,723	221,650	40,497	96,926	196,285
(223,188)	(200,415)	(120,474)	(40,578)	(79,648)	(47,992)
(3,046)	(3,359)	(2,019)	(526)	(1,031)	(508)
272,032	300,121	144,573	24,884	88,325	201,305
1,948,089	1,647,968	1,503,395	1,478,511	1,390,186	1,188,881
2,220,121	1,948,089	1,647,968	1,503,395	1,478,511	1,390,186
<u>\$ (60,005)</u>	<u>\$ (1,757)</u>	<u>\$ (38,395)</u>	<u>\$ (96,257)</u>	<u>\$ (104,967)</u>	<u>\$ (134,175)</u>

ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

CHANGES IN NET PENSION LIABILITY(ASSET)

(continued)

June 30, 2024

	Measurement Date at June 30,			
	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
Plan fiduciary net position as a percentage of total net pension liability	107.61%	111.09%	128.43%	100.44%
Covered employee payroll	\$1,749,559	\$1,635,793	\$1,653,291	\$1,548,365
Net pension liability(asset) as a percentage of covered employee payroll	14.55%	20.16%	48.45%	0.68%

Notes to Changes in Net Pension Liability(Asset)

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,					
2019	2018	2017	2016	2015	2014
102.78%	100.09%	102.39%	106.84%	107.64%	110.68%
\$1,508,059	\$1,405,336	\$1,442,227	\$1,351,806	\$1,230,841	\$1,126,738
3.98%	0.13%	2.66%	7.12%	8.53%	11.91%

ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

PENSION CONTRIBUTIONS

June 30, 2024

	2024	Year Ended June 30,		2021
		2023	2022	
Actuarially determined contributions	\$ 104,684	\$ 103,224	\$ 89,969	\$ 90,931
Contributions in relation to the actuarially determined contributions	(104,684)	(103,224)	(89,969)	(90,931)
Contributions deficiency(excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered employee payroll	\$1,774,302	\$1,749,559	\$1,635,793	\$1,653,291
Contributions as a percentage of covered employee payroll	5.90%	5.90%	5.50%	5.50%

Notes to Pension Contributions

Valuation date: Actuarially determined contribution rates for the year ended June 30, 2024 were calculated based on the June 30, 2022 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	2.25%
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 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	2.125%

See the accompanying independent accountants' audit report.

2020	2019	Year Ended June 30,		2016	2015
		2018	2017		
\$ 85,383	\$ 74,364	\$ 60,570	\$ 62,160	\$ 63,263	\$ 56,688
(85,383)	(74,364)	(60,570)	(62,160)	(63,263)	(56,688)
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$1,548,365	\$1,508,059	\$1,405,336	\$1,442,227	\$1,351,806	\$1,230,841
5.51%	4.93%	4.31%	4.31%	4.68%	4.61%

Changes of Assumptions

In 2021 the following assumptions were changed: decreased inflation rate from 2.50% 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. 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.

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.

SUPPLEMENTARY INFORMATION

ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

LONG-TERM DEBT REQUIREMENTS

June 30, 2024

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
General Obligation Bonds, Series 2021			
Year Ending June 30:			
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>\$ 7,060,000</u>	<u>\$ 1,166,800</u>	<u>\$ 8,226,800</u>

See the accompanying independent accountants' audit report.

ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

LONG-TERM DEBT REQUIREMENTS

(continued)

June 30, 2024

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
General Obligation Capital Outlay Note, Series 2023			
Year Ending <u>June 30:</u>			
2025	\$ 0	\$ 205,193	\$ 205,193
2026	0	205,193	205,193
2027	1,429,000	172,540	1,601,540
2028	1,496,000	105,704	1,601,704
2029	1,565,000	35,760	1,600,760
	<u>\$ 4,490,000</u>	<u>\$ 724,390</u>	<u>\$ 5,214,390</u>

ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

CHANGES IN LONG-TERM DEBT BY INDIVIDUAL ISSUE

Year Ended June 30, 2024

<u>Description of Indebtedness</u>	<u>Original Amount of Issue</u>	<u>Interest Rate</u>	<u>Date of Issue</u>
<u>Bonds Payable</u>			
General Obligation Bonds, Series 2021	\$ 8,775,000	2-2.5%	9/2/2021
<u>Notes Payable</u>			
General Obligation Capital Outlay Note, Series 2023	\$ 4,490,000	4.57%	12/22/2023

See the accompanying independent accountants' audit report.

<u>Last Maturity Date</u>	<u>Outstanding 7/1/2023</u>	<u>Issued During Period</u>	<u>Paid and/or Matured During Period</u>	<u>Refunded During Period</u>	<u>Outstanding 6/30/2024</u>
6/30/2042	\$ 7,630,000	\$ 0	\$ 570,000	\$ 0	\$ 7,060,000
6/30/2029	<u>0</u>	<u>4,490,000</u>	<u>0</u>	<u>0</u>	<u>4,490,000</u>
	<u>\$ 7,630,000</u>	<u>\$ 4,490,000</u>	<u>\$ 570,000</u>	<u>\$ 0</u>	<u>\$ 11,550,000</u>

ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2024

<u>Federal Grantor/Pass-Through Grantor/Program Name</u>	<u>Assistance Listing Number</u>	<u>Contract Number</u>	<u>Expenditures</u>
U.S. Department of Housing and Urban Development/Tennessee Department of Economic and Community Development/ Water System Improvements	14.228	33004-21420	\$ 407,657
U.S. Department of Treasury/Roane County, Tennessee/Coronavirus State and Local Fiscal Recovery Funds	21.027	N/A	<u>310,880</u>
			<u>\$ 718,537</u>

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, 2024. 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, 2024

	Inside City	Outside City	South Roane County
Water Rates:			
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:			
Water:			
3/4"	\$ 1,300.00	\$ 1,490.00	
1"	1,420.00	1,630.00	
2" and larger	Priced as needed	Priced as needed	
4"	940.00-1,280.00	1,160.00-1,432.00	
Sewer:			
6"	1,460.00	1,610.00	
Sewer - grinder pump and tap	6,200.00	6,200.00	
Per foot charge after first 100' on private property	1.00	1.00	

See the accompanying independent accountants' audit report.

ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

UTILITY RATES AND METERED CUSTOMERS

(continued)

June 30, 2024

Tap Fees (continued):

Natural gas:

250K BTU	900.00	900.00
250K BTU – 425K BTU	1,500.00	1,500.00
425K BTU – 630K BTU	1,780.00	1,780.00
630K BTU – 800K BTU	3,000.00	3,000.00
800K BTU – 1M BTU	3,200.00	3,200.00
1M BTU – 1.4M BTU	3,600.00	3,600.00
1.4M BTU – 2.3M BTU	4,600.00	4,600.00
2.3M BTU – 5M BTU	5,500.00	5,500.00

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

Service:

Returned check fee	\$ 25.00
Pilot light	50.00
Meter lid replacement	42.00
Tampering fee	500.00
After hours fee	75.00

Number of Metered Customers:

Water	3,987
Wastewater	1,810
Gas	2,886

ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

PRINCIPAL OFFICIALS

June 30, 2024

Mark Clem, Chairman
Ronnie Thompson, Vice-Chairman
Larry Davis, Commissioner
Joe Moore, Commissioner
Paul Kamikawa, Commissioner
Kimberly Ramsey Leffew, P.E., Manager
Natausha Bruneel, 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, the financial statements of Rockwood Water, Wastewater & Natural Gas Systems, as of and for the year ended June 30, 2024, and the related notes to the financial statements, and have issued our report thereon dated December 19, 2024.

Report on 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 or significant deficiencies may exist that have not been identified.

Report on 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 first letters of each word being capitalized and prominent.

December 19, 2024

ROCKWOOD WATER, WASTEWATER & NATURAL GAS SYSTEMS

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

Year Ended June 30, 2024

No prior year findings were reported.