

**KNOX CHAPMAN UTILITY DISTRICT
OF KNOX COUNTY**

Knoxville, Tennessee

COMPREHENSIVE ANNUAL FINANCIAL REPORT

**For the Years Ended
February 29, 2020 and February 28, 2019**

PREPARED BY:

Meredith Cooper, Finance Director

KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY

February 29, 2020 and February 28, 2019

TABLE OF CONTENTS

	<u>Page Number</u>
INTRODUCTORY SECTION	
Letter of Transmittal.....	i-iii
Organizational Chart.....	iv
Roster of District Officials and Others	v
GFOA Certificate of Achievement	vi
FINANCIAL SECTION	
Independent Auditor's Report.....	1-2
Management's Discussion and Analysis	3-10
Basic Financial Statements:	
Proprietary Fund Balance Sheets	11-12
Proprietary Fund Statements of Revenues, Expenses, and Changes in Net Position	13
Proprietary Fund Statements of Cash Flows	14-15
Statements of Fiduciary Net Position - Pension Trust Fund	16
Statements of Changes in Fiduciary Net Position - Pension Trust Fund	17
Notes to the Financial Statements	18-40
REQUIRED SUPPLEMENTARY INFORMATION	
Schedules of Changes in District's Net Pension Liability and Related Ratios – Last Five Fiscal Years.....	41
Schedules of District's Pension Contributions – Last Five Fiscal Years	42
Schedules of Investment Returns (Losses) – Last Five Fiscal Years	43
OTHER SUPPLEMENTARY INFORMATION	
Schedule of Debt Service Requirements.....	44-45
Schedule of Changes in Long-Term Debt By Individual Issue.....	46
Schedule of Insurance Coverage	47-48
Schedule of Water Rates and Statistics	49-50
AWWA Water Schedule for the Fiscal Year Ended February 29, 2020	51-52
AWWA Water Schedule for the Fiscal Year Ended February 28, 2019	53-54
STATISTICAL SECTION (UNAUDITED)	
Net Position by Component – Last Ten Fiscal Years.....	55
Changes in Net Position – Last Ten Fiscal Years	56
Water Produced, Sold and Consumed – Last Ten Fiscal Years	57
Annual Taps Sold – Last Ten Fiscal Years	58
Number of Water and Wastewater Customers by Type – Last Ten Fiscal Years.....	59
Water and Wastewater Rates – Last Ten Fiscal Years.....	60-61

KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY

February 29, 2020 and February 28, 2019

TABLE OF CONTENTS (Continued)

	<u>Page Number</u>
STATISTICAL SECTION (UNAUDITED) (Continued)	
Ten Largest Customers – Current Fiscal Year and Nine Years Ago	62
Outstanding Debt Per Customer – Last Ten Fiscal Years	63
Pledged Revenue Coverage – Last Ten Fiscal Years	64
Demographic and Economic Statistics – Last Ten Calendar Years.....	65
Principal Employers – Current Calendar Year and Nine Years Ago	66
Number of Employees by Activity – Last Ten Fiscal Years.....	67
Operating and Capital Indicators – Last Ten Fiscal Years	68
INTERNAL CONTROL AND COMPLIANCE SECTION	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	69-70
Schedule of Disposition of Prior Year Findings	71

INTRODUCTORY SECTION



Knox Chapman Utility District

August 28, 2020

Board of Commissioners of
Knox Chapman Utility District of Knox County
Knoxville, Tennessee

State law and the Comptroller of the Treasury, State of Tennessee, require that every political subdivision or municipal corporation publish within six months of the close of each fiscal year-end, a complete set of audited financial statements. This Comprehensive Annual Financial Report (CAFR) of the Knox Chapman Utility District of Knox County (the District) is published to fulfill these requirements for the fiscal years ended February 29, 2020 and February 28, 2019.

Internal Controls

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of material misstatements.

Independent Audit

Pugh and Company, P.C. has issued an unmodified ("clean") opinion on the District's financial statements for the years ended February 29, 2020 and February 28, 2019. As stated in the independent auditor's report, the audits were conducted in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. The independent auditor's report is located at the front of the financial section of this report.

Management's Discussion and Analysis (MD&A)

Generally Accepted Accounting Principles (GAAP) require that management provide a narrative introduction, overview, and analysis to accompany the financial statements in the form of MD&A. This Letter of Transmittal is designed to complement the MD&A and should be read in conjunction with it. The District's MD&A can be found immediately following the Independent Auditor's Report.

Profile of the District

The District was created under the authority of Title 7, Chapter 82 of the 1937 Utility District Law of the State of Tennessee. The District began operations on April 20, 1955. The purpose of the District is to "acquire, construct, improve, extend, operate, and maintain a water system." The District serves 14,617 water and 2,720 wastewater customers in Knox, Sevier, and Blount counties. The District's primary source of water is the French Broad River.

The District is governed by a Board of Commissioners composed of three citizens who live within or who are customers of the District. Board members are appointed by the Knox County Mayor for a term of four years.

The District's primary capital assets consist of one water treatment plant, one office building and related maintenance facility, and nine water reservoir tanks.

The District receives no financial support from Knox, Sevier, or Blount County, Tennessee and has no taxing authority. The District's revenues are derived from water and wastewater charges based upon metered water consumption of customers. The water and wastewater rates are established by the Board of Commissioners.

Budgeting

The District adopts flexible annual operating and capital budgets. Budgets are adopted on a basis consistent with GAAP. The current operating budget details the District's plans to earn and expend funds for charges incurred for operation, maintenance, certain interest and general functions, and other charges for the fiscal year. The capital budget details the plan to receive and expend cash basis capital contributions, grants, borrowings and certain revenues for capital projects.

Local Economy

The District is located within the Knoxville Metropolitan Statistical Area (MSA) which includes Knox, Blount, Anderson, Sevier, Loudon and Union Counties. The Knoxville MSA is also the trade center for several counties in East Tennessee, and parts of Kentucky, Virginia and North Carolina.

For calendar year-ended 2019, the unemployment rates according to the U.S. Bureau of Labor Statistics for Knox County, State of Tennessee, and the Nation were 2.9%, 3.3% and 3.5%, respectively.

Per capita income in 2018 for Knox County, State of Tennessee, and the Nation was \$49,738, \$46,900 and \$54,446, respectively.

The Knoxville MSA has several large employers including the Tennessee Valley Authority, U.S. Department of Energy, Alcoa Aluminum, several hospitals, Clayton Homes, Denso, the University of Tennessee, and several regional shopping malls and centers.

Long-Term Financial Planning

The District has projected a 2% to 3% annual increase in the number of customers over the next several years. The District is planning several capital improvements including upgrading water and sewer lines and pump stations.

The financing of the District's capital improvements is by internally generated cash flows and the issuance of long-term debt.

Relevant Financial Policies

The combination of continued customer growth and moderate rate increases are projected to provide the District with adequate resources to provide for the delivery of water and wastewater services and for capital improvements.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the District for its CAFR for the fiscal year ended February 28, 2019. This was the fifteenth consecutive year the District has received this prestigious award. In order to be awarded a Certificate of Achievement, the District must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of only one year. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

The preparation of this CAFR results from the combined efforts of our staff and technical assistance provided by our independent auditors. Those involved have our sincere appreciation for the individual and collective contributions made in preparation of the report. Thank you very much for your professional dedication.

Recognition and appreciation are also extended to the Board for its continued guidance of the operation of the District in a financially responsible and progressive manner.

Respectfully submitted,



Scott Prater
General Manager



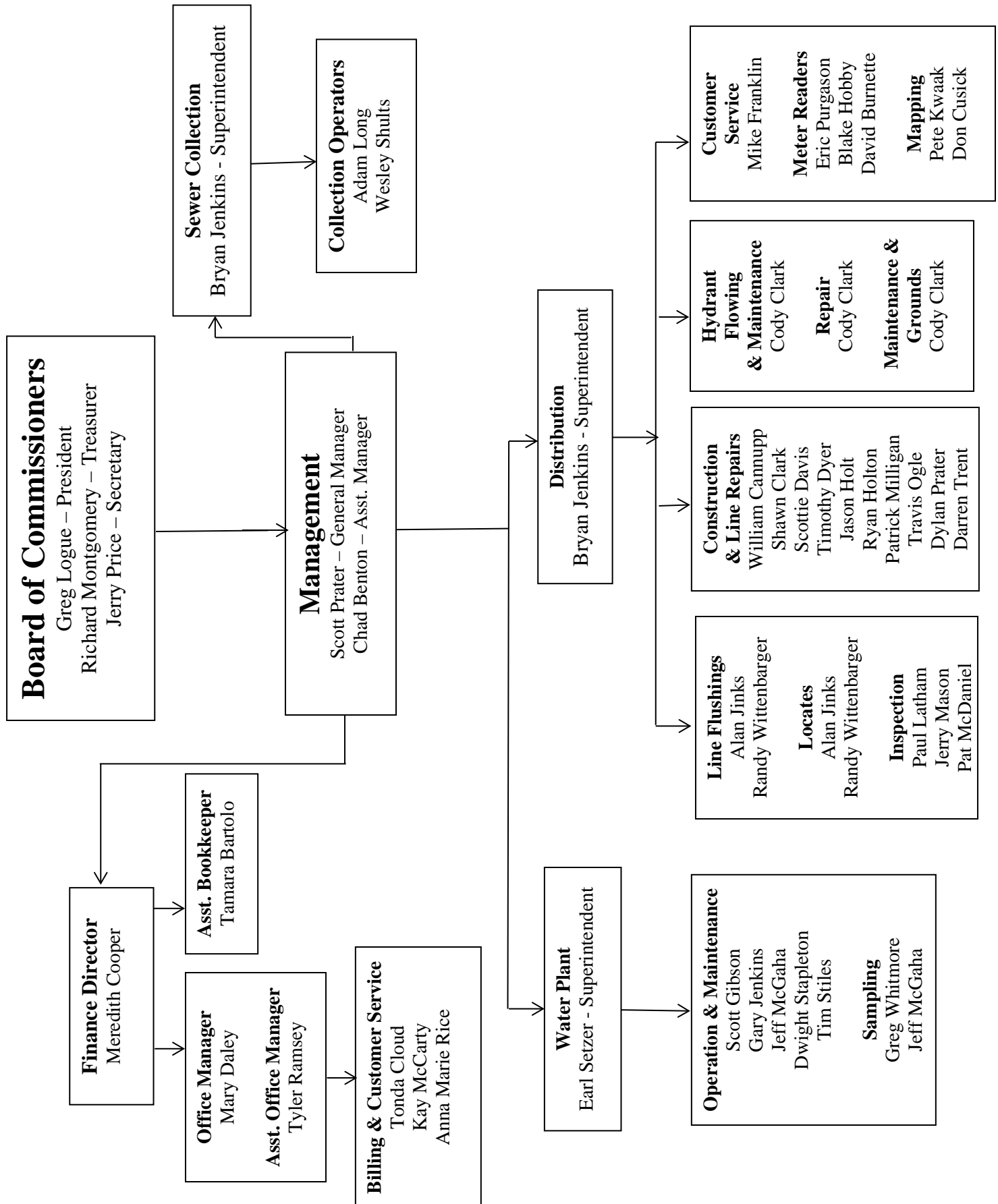
Meredith Cooper
Finance Director

KNOX CHAPMAN UTILITY DISTRICT

Organizational Chart

February 29, 2020

- iv -



KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY

ROSTER OF DISTRICT OFFICIALS AND OTHERS

February 29, 2020

Board of Commissioners

Expiration of Term

Gregory Logue, President

June 15, 2023

Richard Montgomery, Treasurer

October 6, 2020

Jerry Price, Secretary

April 4, 2022

Management

Title

Scott Prater

General Manager

Chad Benton

Assistant Manager

Meredith Cooper

Finance Director

Independent Auditors

General Counsel

Pugh & Company, P.C.
Certified Public Accountants
Knoxville, Tennessee

Edward Cox, Attorney at Law
Hagood, Tarpy & Cox
Knoxville, Tennessee

Consulting Engineer

Ryan Blake, P.E.
W.K. Dickson & Co., Inc.
Knoxville, Tennessee



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Knox-Chapman Utility District
of Knox County, Tennessee**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

February 28, 2019

Christopher P. Morrell

Executive Director/CEO

FINANCIAL SECTION



PUGH & COMPANY, P.C.
315 NORTH CEDAR BLUFF ROAD, SUITE 200
KNOXVILLE, TENNESSEE 37923
TELEPHONE 865-769-0660
FAX 865-769-1660
www.pughcpas.com

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Knox Chapman Utility District of Knox County
Knoxville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the Knox Chapman Utility District of Knox County (the "District") which comprise the proprietary fund balance sheets and the statements of fiduciary net position - pension trust fund as of February 29, 2020 and February 28, 2019, and the related proprietary fund statements of revenues, expenses, and changes in net position and cash flows and the statements of changes in fiduciary net position - pension trust fund for the years then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



An independently owned member
RSM US Alliance



TSCPA
Members of the Tennessee Society
Of Certified Public Accountants

RSM US Alliance member firms are separate and independent businesses and legal entities that are responsible for their own acts and omissions, and each are separate and independent from RSM US LLP. RSM US LLP is the U.S. member firm of RSM International, a global network of independent audit, tax, and consulting firms. Members of RSM US Alliance have access to RSM International resources through RSM US LLP but are not member firms of RSM International.

Opinions

In our opinion, the proprietary fund balance sheets and the statements of fiduciary net position - pension trust fund financial statements referred to above present fairly, in all material respects, the financial position of the District as of February 29, 2020 and February 28, 2019 and the changes in financial position and cash flows of the proprietary fund and the statements of changes in fiduciary net position – pension trust fund thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 and the schedules of changes in district's net pension liability and related ratios, schedules of district's pension contributions and schedules of investment returns (losses) on pages 41 through 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements of the District as a whole. The introductory, other supplementary information and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The information included in the other supplementary information section as listed in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The information included in the introductory and statistical sections as listed in the table of contents have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2020 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 the District's internal control over financial reporting and compliance.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
August 28, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents management's analysis of Knox Chapman Utility District's (the "District") financial condition and results of operations for the years ending February 29, 2020, February 28, 2019 and February 28, 2018. This information should be read in conjunction with the accompanying financial statements and the additional information we have furnished in our letter of transmittal on pages i to iii.

FINANCIAL HIGHLIGHTS

Management believes the District's financial position is strong. The following are key financial highlights:

- The District treated 1.53, 1.39, and 1.35 billion gallons of water for 2020, 2019, and 2018, representing an increase of 10.1% and 3.7% from the previous year.
- Total assets and deferred outflows of resources at year-end 2020 and 2019 were \$78.6 and \$79.6 million and exceeded liabilities and deferred outflows by \$25.9 million for 2020 and \$23.8 million for 2019, (net position).
- Unrestricted net position at year-end 2020 and 2019 was \$7.0 million and \$7.4 million and was available to support short-term operations. Unrestricted net position decreased by approximately \$400k during 2020 and increased by \$1.3 million during 2019.
- Operating revenues in 2020 and 2019 were \$11.6 million and \$11.3 million, an increase of \$241,313 (2.1%) and an increase of \$792,006 (7.5%) when compared to 2019 and 2018, respectively. The increase in 2020 and 2019 was due to an increase in the water and wastewater rate schedules, along with an increase in customers.
- Operating expenses in 2020 and 2019 were \$8.7 million and \$8.2 million, an increase of \$493,996 (6.2%) and an increase of \$443,380 (5.7%) when compared to 2019 and 2018, respectively.
- Operating income for 2020 and 2019 was \$2.9 million and \$3.1 million, representing a decrease of -9% from 2019 to 2020 and an increase of 13% from 2018 to 2019. Net position, before capital contributions for 2020 and 2019, decreased by \$(89,838) and increased by \$507,660 when compared to 2019 and 2018, respectively.
- Operating income to total operating revenues were 24.7% for 2020 and 27.6% for 2019.
- Debt service coverage was 162% for 2020, 164% for 2019 and 156% for 2018.
- Capital contributions were \$905,961, \$194,631, and \$133,274 for 2020, 2019 and 2018, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

OVERVIEW OF THE ANNUAL FINANCIAL STATEMENTS

Management's Discussion and Analysis ("MD&A") serves as an introduction to the basic financial statements and supplementary information. The MD&A represents management's examination and analysis of the District's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the District's budget, bond resolutions and other management tools were used for this analysis.

The financial statements report information about the District using full accrual accounting methods as utilized by similar business activities in the private sector. However, rate-regulated accounting principles applicable to private sector utilities are not used by government utilities.

The proprietary fund financial statements include a balance sheet; a statement of revenues, expenses, and changes in net position; a statement of cash flows; and notes to the financial statements. The balance sheet presents the financial position of the District on a full accrual basis of accounting. While the balance sheet provides information about the nature and amount of resources and obligations at year-end, the statement of revenues, expenses, and changes in net position presents the results of the business activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about the District's recovery of its costs. The District's rates are based on a cost of service rate study that is periodically updated. Rate setting policies use different methods of cost recovery not fully provided for by generally accepted accounting standards. The primary objectives of the rate model are to improve equality among customer classes and to ensure that capital costs are allocated on the basis of long-term capacity needs. The statement of cash flows presents cash receipt and cash disbursement information and changes in cash and cash equivalents resulting from operational, financing, and investing activities. The basic financial statements can be found on pages 11–40.

The fiduciary fund type – pension trust fund financial statements are used to account for the resources held in trust for the benefit of the participants in the District's pension plan. These resources are not available to support the District's operations. The accounting for the pension trust fund is much like that used for the proprietary fund discussed above. Since the pension trust fund is not available to support the District's operations, there is no presentation or discussion of the funds activities within the MD&A. (see the pension trust fund financial statements herein)

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the District's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies, and subsequent events, if any. Other supplementary information contains information about long-term debt, insurance coverage, schedule of water rates and unaccounted water.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FINANCIAL ANALYSIS

The following comparative condensed proprietary fund financial statements and other selected information provide key financial data and indicators for management, monitoring, and planning.

Condensed Proprietary Fund Balance Sheets
(In Thousands of Dollars)
February 29, 2020, February 28, 2019 and February 28, 2018

	<u>2020</u>	<u>2019</u>	<u>2018</u>
ASSETS			
Current Assets	\$ 8,714	\$ 9,582	\$ 8,711
Capital Assets:			
Producing – Net	59,093	59,073	60,282
Construction in Progress	4,196	1,837	1,128
Other Assets – Net	<u>3,755</u>	<u>6,380</u>	<u>7,366</u>
Total Assets	<u>75,758</u>	<u>76,872</u>	<u>77,487</u>
Deferred Outflows			
Deferred Cost of Defeased Bonds	1,742	1,928	2,118
Deferred Cost of Pension	<u>1,088</u>	<u>827</u>	<u>644</u>
Total Deferred Outflows of Resources	<u>2,830</u>	<u>2,755</u>	<u>2,762</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>\$ 78,588</u>	<u>\$ 79,627</u>	<u>\$ 80,249</u>
LIABILITIES			
Current Liabilities	\$ 3,068	\$ 2,859	\$ 2,955
Non-Current Liabilities	<u>49,293</u>	<u>52,583</u>	<u>54,641</u>
Total Liabilities	52,361	55,442	57,596
Deferred Inflows	<u>282</u>	<u>398</u>	<u>403</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS	<u>52,643</u>	<u>55,840</u>	<u>57,999</u>
NET POSITION			
Net Investment in Capital Assets	15,609	13,108	12,887
Restricted:			
Debt Service	3,335	3,250	3,230
Unrestricted	<u>7,001</u>	<u>7,429</u>	<u>6,133</u>
Total Net Position	<u>25,945</u>	<u>23,787</u>	<u>22,250</u>
TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION	<u>\$ 78,588</u>	<u>\$ 79,627</u>	<u>\$ 80,249</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Condensed Proprietary Fund Statements of Revenues, Expenses,
and Changes in Net Position
(In Thousands of Dollars)

For The Years Ended February 29, 2020, February 28, 2019 and February 28, 2018

	2020	2019	2018
Operating Revenues			
Water – Net	\$ 8,628	\$ 8,513	\$ 8,124
Wastewater - Net	2,219	1,931	1,916
Connection Fees	601	703	368
Service Fees	96	98	98
Miscellaneous	40	97	44
Total Operating Revenues	<u>11,584</u>	<u>11,342</u>	<u>10,550</u>
Operating Expenses			
Water Purification and Supply	1,307	1,240	1,101
Water Transmission and Distribution	2,430	2,088	1,934
Wastewater Collection	920	862	719
Customer Accounting and Collection	682	682	656
Administrative and General	998	1,024	1,111
Depreciation and Amortization	2,365	2,311	2,244
Total Operating Expenses	<u>8,702</u>	<u>8,207</u>	<u>7,765</u>
Operating Income	<u>2,882</u>	<u>3,135</u>	<u>2,786</u>
Non-Operating Revenues (Expenses)			
Investment Income	266	136	31
Interest Expense	(1,896)	(1,941)	(1,983)
Gain (Loss) on Disposal of Capital Assets	0	12	0
Total Non-Operating Revenues (Expenses) – Net	<u>(1,630)</u>	<u>(1,793)</u>	<u>(1,952)</u>
Increase (Decrease) in Net Position Before Capital Contributions	<u>1,252</u>	<u>1,343</u>	<u>834</u>
Capital Contributions			
Cash	785	0	45
Donated Lines	121	195	88
Total Capital Contributions	<u>906</u>	<u>195</u>	<u>133</u>
Change in Net Position	2,158	1,537	967
Net Position, Beginning of Year	<u>23,787</u>	<u>22,250</u>	<u>21,283</u>
Net Position, End of Year	<u>\$ 25,945</u>	<u>\$ 23,787</u>	<u>\$ 22,250</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

OTHER SELECTED INFORMATION

	2020	2019	2018
Employees at Year-End	41	36	38
Average Employees	37	37	37
Customers (Billing Units) at Year-End:			
Water	14,617	14,318	14,072
Wastewater	2,720	2,667	2,577
Water (Millions of Gallons)			
Treated	1,529	1,388	1,344
Sold:			
Retail	936.0	922.0	866.0
Wholesale	92.6	96.8	55.1
Per Average Employee:			
Operating Revenues	\$ 313,071	\$ 306,549	\$ 285,144
Operating Expenses	\$ 235,187	\$ 221,809	\$ 209,853
Residential Rates Per 1,000 Gallons of			
Water Consumed:			
Water	\$ 6.30	\$ 6.30	\$ 6.30
Wastewater	\$ 6.22	\$ 5.98	\$ 5.81
Ratio of Operating Revenues to:			
Operating Expenses	1.33	1.38	1.36
Operating Expenses – Net of			
Depreciation and Amortization	1.83	1.92	1.91
Total Assets	0.15	0.14	0.13
Net Position	0.45	0.48	0.47
Debt Related Ratios:			
Long-Term Debt to Net Position	1.84	2.14	2.35
Long-Term Debt to Total Assets	0.63	0.66	0.68
Operating Coverage	1.62	1.64	1.56

GENERAL TRENDS AND SIGNIFICANT EVENTS

Customer growth in the District has remained steady over the last decade. The District's number of water customers increased during 2020 by 2.1%, and increased in 2019 and 2018 by 1.7% each year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

PROPRIETARY FUND FINANCIAL CONDITION

The District's financial condition remained strong at year-end 2020 and 2019 with adequate liquid assets and a reasonable level of unrestricted net position. The current financial condition, staff capabilities, operating plans and upgrade plans to meet future water quality requirements are well balanced and under control.

Total assets decreased by \$(1,115,708) and \$(613,395) or -1.4% and -0.8% during 2020 and 2019, respectively. The decrease during 2020 and 2019 is due to regular debt payments made during the year along with paying of the City of Maryville Note Payable during 2020.

Customer accounts receivable, net of allowance, at year-end 2020 was \$1,431,294 and for year-end 2019 was \$1,434,598 which includes unbilled revenues. At 2020 and 2019 years-end, 95% of accounts receivable were current within 30 days. The District's bad debt expense was \$57,000, \$52,000, \$50,597 during 2020, 2019, and 2018, respectively.

PROPRIETARY FUND RESULTS OF OPERATIONS

Operating Revenues

Revenues from operations fall into three general categories: water service, wastewater service, and ancillary charges. Ancillary charges include connection fees, account set up and penalty fees, and charges for miscellaneous billed services. The District has four classes of water and wastewater customers: residential, wholesale, commercial, and industrial. The increase in 2020 was due to changing the water and wastewater rate schedules.

The average realized rate from water sales per thousand gallons during 2020, 2019 and 2018:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Residential	\$ 0.93	\$ 0.96	\$ 0.96
Retail	1.50	1.56	1.52
Wholesale	3.98	3.98	3.42

Capital Contributions

The District collects water and wastewater connection fees in order to ensure that current customers do not bear the burden of growth. These fees are paid by new customers and represent the cost of water and wastewater capacity of the new customers. These fees are paid at the time a new customer water meter is connected to the system. In addition, the District accepts new water and wastewater lines that are donated by residential and commercial real estate developers.

Capital contributions during 2020, 2019 and 2018 consisted of the following:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Cash:			
Developers	\$ 784,587	\$ 0	\$ 45,244
Noncash:			
Capital Assets Donated by Developers	<u>121,374</u>	<u>194,631</u>	<u>88,030</u>
Total	<u>\$ 905,961</u>	<u>\$ 194,631</u>	<u>\$ 133,274</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

PROPRIETARY FUND RESULTS OF OPERATIONS (Continued)

Expenses

Operating expenses, excluding depreciation and amortization, increased by \$457,234 (7.8%) in 2020, increased by \$375,998 (6.8%) in 2019 and increased by \$58,667 (1.10%) in 2018, respectively. This was a result of increases (decreases) in:

	2020	2019	2018
Salaries and Benefits	\$ 85,941	\$ 73,706	\$ 116,685
Repairs and Maintenance	390,415	(86,130)	137,921
Wastewater Treatment Fees	78,367	91,694	(40,662)
Power Purchased	30,967	13,838	(22,642)
Vehicle Expenses	3,074	14,394	13,899
Engineering Fees	(15,740)	23,604	28,612
Retirement Plan	(176,211)	225,332	(40,658)
Other	43,557	19,560	(134,488)
Total	<u>\$ 440,370</u>	<u>\$ 375,998</u>	<u>\$ 58,667</u>

During 2020, salaries and benefits increased mainly due to board approved increase in wages. The increase in repairs and maintenance was largely due to asphalt repair and repairs on equipment.

During 2019, salaries and benefits increased mainly due to board approved increase in wages and increased pension expense.

During 2018, salaries and benefits increased due to board approved increase in wages. There were also large payouts of Paid Time Off and an increase in the In-House Labor for the year.

PROPRIETARY FUND CAPITAL ASSETS

During 2020, 2019 and 2018, the District increased its producing capital assets (including construction costs) by \$4,250,534, \$2,064,110 and \$4,491,169, respectively. These increases were due to the following:

	2020	2019	2018
Vehicles	\$ 70,676	\$ 98,343	\$ 84,724
Water and Wastewater Lines	1,882,254	1,018,708	2,388,819
Machinery and Equipment	360,818	0	140,927
Land and Easements	70,583	0	0
Construction in Progress	2,845,319	947,059	1,876,699
Total	<u>\$ 5,229,650</u>	<u>\$ 2,064,110</u>	<u>\$ 4,491,169</u>

The District's capital asset activity for 2020 and 2019 is described in Notes 5, 6 and 7 to the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

PROPRIETARY FUND DEBT

At year-end 2020, 2019 and 2018, the District had \$49.3 million, \$52.6 million and \$54.3 million, respectively, in long and short-term debt, a decrease of \$(3,127,825), \$(1,785,764) and \$(1,694,144) in 2020, 2019, and 2018, respectively. During 2020, 2019 and 2018, the District paid \$2,957,226, \$1,608,910 and \$1,489,987, respectively in debt principal payments.

The long-term debt to total asset ratio was 0.63 in 2020, 0.66 in 2019 and 0.68 in 2018.

More detailed information about the District's debt is described in Notes 8 and 9 to the financial statements.

ECONOMIC FACTORS AND FISCAL YEAR 2021

- Water rates will increase during FY 2021 with a \$1 minimum bill increase planned. Wastewater rates will be increased by 4% in FY 2021.
- Number of customers is projected to increase during 2020.
- Salary rate increase of 3% - 4% projected for employees for 2021.
- The FY 2021 actuarial recommended minimum employer contribution to the defined benefit plan is \$108,029 or 14% of covered payroll.
- FY 2021 Operating Budget:

Revenues	\$ 12,008,600
Expenses	<u>(10,017,400)</u>
Increase in Net Position Before Capital Contributions	<u>\$ 1,991,200</u>

CONTACTING THE DISTRICT

This comprehensive annual financial report is designed to provide our customers, creditors, and regulatory agencies with a general overview of the District's finances. If you have any questions about this report or need additional information, you may contact the District at:

Scott Prater, General Manager
Knox Chapman Utility District
P.O. Box 9569
Knoxville, TN 37940
865-577-4497

BASIC FINANCIAL STATEMENTS

KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY

PROPRIETARY FUND BALANCE SHEETS

	As of	February 29, 2020	February 28, 2019
ASSETS AND DEFERRED OUTFLOWS			
CURRENT ASSETS			
Cash and Cash Equivalents	\$	4,025,499	\$ 4,982,317
Investments		3,070,066	2,885,167
Accounts Receivable - Customers (Net of Allowance for Uncollectible Accounts of \$69,100 in 2020 and \$67,700 in 2019)		1,431,294	1,434,598
Inventory - Materials		155,514	249,849
Prepaid Expenses		30,735	30,331
Total Current Assets		<u>8,713,108</u>	<u>9,582,262</u>
NON-CURRENT ASSETS			
Capital Assets – Net of Accumulated Depreciation/Amortization:			
Land		532,479	461,896
Plant, Equipment and Intangible Assets		58,560,654	58,611,424
Construction in Progress		4,195,817	1,836,784
Total Capital Assets		<u>63,288,950</u>	<u>60,910,104</u>
Other Assets			
Cash and Cash Equivalents - Restricted		126,179	2,814,297
Investments - Restricted		3,628,790	3,566,073
Deposits		25	25
Total Other Assets		<u>3,754,994</u>	<u>6,380,395</u>
Total Non-Current Assets		<u>67,043,944</u>	<u>67,290,499</u>
TOTAL ASSETS		<u>75,757,052</u>	<u>76,872,761</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Cost of Defeased Bonds		1,742,031	1,928,268
Deferred Cost of Pension		1,087,132	826,382
Total Deferred Outflows of Resources		<u>2,829,163</u>	<u>2,754,650</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$	<u><u>78,586,215</u></u>	\$ <u><u>79,627,411</u></u>

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

KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY
PROPRIETARY FUND BALANCE SHEETS (Continued)

	As of	February 29, 2020	February 28, 2019
LIABILITIES, DEFERRED INFLOWS AND NET POSITION			
CURRENT LIABILITIES			
Accounts Payable	\$	239,096	\$ 242,921
Construction and Retainage Payable		161,891	28,839
Accrued Liabilities		666,413	612,912
Accrued Notes Payable Interest		11,384	24,350
Accrued Revenue Bond Interest		281,975	292,217
Revenue Bonds and Notes Payable – Current Portion		<u>1,706,755</u>	<u>1,658,410</u>
Total Current Liabilities		<u>3,067,514</u>	<u>2,859,649</u>
NON-CURRENT LIABILITIES			
Net Pension Liability		1,389,373	1,539,032
Revenue Bonds and Notes Payable – Net of Current Portion		47,680,599	50,856,769
Other Non-Current Liabilities		<u>222,278</u>	<u>187,946</u>
Total Non-Current Liabilities		<u>49,292,250</u>	<u>52,583,747</u>
Total Liabilities		<u>52,359,764</u>	<u>55,443,396</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Cost of Pension		<u>282,409</u>	<u>397,640</u>
NET POSITION			
Net Investment in Capital Assets		15,607,917	13,108,652
Restricted:			
Debt Service		3,335,430	3,249,506
Unrestricted		<u>7,000,695</u>	<u>7,428,217</u>
Total Net Position		<u>25,944,042</u>	<u>23,786,375</u>
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	\$	<u><u>78,586,215</u></u>	\$ <u><u>79,627,411</u></u>

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

KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY

PROPRIETARY FUND STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	For the Fiscal Years Ended,	February 29, 2020	February 28, 2019
OPERATING REVENUES			
Water – Net	\$	8,627,947	\$ 8,512,931
Wastewater – Net		2,218,585	1,931,485
Connection Fees		601,035	703,426
Service Fees		95,948	97,803
Miscellaneous		40,129	96,686
Total Operating Revenues		<u>11,583,644</u>	<u>11,342,331</u>
OPERATING EXPENSES			
Water Purification and Supply		1,307,119	1,240,495
Water Transmission and Distribution		2,430,258	2,087,651
Wastewater Collection		920,083	862,186
Customer Accounting and Collections		682,193	681,757
Administrative and General		997,756	1,024,951
Depreciation and Amortization		2,364,519	2,310,892
Total Operating Expenses		<u>8,701,928</u>	<u>8,207,932</u>
OPERATING INCOME		<u>2,881,716</u>	<u>3,134,399</u>
NON-OPERATING REVENUES (EXPENSES)			
Investment Income		266,459	135,870
Interest Expense		(1,896,469)	(1,940,882)
Gain (Loss) on Disposal of Capital Assets		0	12,158
Total Non-Operating Revenues (Expenses) - Net		<u>(1,630,010)</u>	<u>(1,792,854)</u>
INCREASE (DECREASE) IN NET POSITION BEFORE CAPITAL CONTRIBUTIONS		<u>1,251,706</u>	<u>1,341,545</u>
CAPITAL CONTRIBUTIONS			
Cash Contributions		784,587	0
Developers Contributions of Capital Assets		121,374	194,631
Total Capital Contributions		<u>905,961</u>	<u>194,631</u>
CHANGE IN NET POSITION		<u>2,157,667</u>	<u>1,536,176</u>
NET POSITION, BEGINNING OF YEAR		<u>23,786,375</u>	<u>22,250,199</u>
NET POSITION, END OF YEAR	\$	<u><u>25,944,042</u></u>	\$ <u><u>23,786,375</u></u>

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

KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY
PROPRIETARY FUND STATEMENTS OF CASH FLOWS

For the Fiscal Years Ended,	February 29, 2020	February 28, 2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from Customers and Users	\$ 11,594,890	\$ 11,304,905
Payments to Employees	(3,512,246)	(3,515,771)
Payments to Suppliers	<u>(3,047,754)</u>	<u>(2,929,293)</u>
Net Cash Provided by (Used in) Operating Activities	<u>5,034,890</u>	<u>4,859,841</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and Construction of Capital Assets	(5,406,578)	(1,631,474)
Interest Paid on Long-Term Debt	(1,880,183)	(1,940,501)
Principal Paid on Long-Term Debt	(2,957,226)	(1,608,910)
Capital Contributions	784,587	0
Proceeds from Sale of Capital Assets	<u>0</u>	<u>14,667</u>
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>(9,459,400)</u>	<u>(5,166,218)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received on Investments	379,421	22,885
Purchase of Investments	(4,121,089)	(2,193,065)
Sales of Investments	<u>4,521,242</u>	<u>2,199,760</u>
Net Cash Provided by (Used in) Investing Activities	<u>779,574</u>	<u>29,580</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,644,936)	(276,797)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>7,796,614</u>	<u>8,073,411</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 4,151,678</u></u>	<u><u>\$ 7,796,614</u></u>

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

KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY
PROPRIETARY FUND STATEMENTS OF CASH FLOWS (Continued)

For the Fiscal Years Ended,	February 29, 2020	February 28, 2019
CASH AND CASH EQUIVALENTS AT END OF YEAR		
CONSIST OF:		
Unrestricted Cash and Cash Equivalents	\$ 4,025,499	\$ 4,982,317
Restricted Cash and Cash Equivalents	<u>126,179</u>	<u>2,814,297</u>
Total	<u><u>\$ 4,151,678</u></u>	<u><u>\$ 7,796,614</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating Income	\$ 2,881,716	\$ 3,134,399
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	2,364,519	2,310,892
Provision for Uncollectible Receivables	57,000	52,000
Changes in:		
Accounts Receivable	(53,696)	(90,927)
Materials and Supplies Inventory	94,335	5,912
Prepaid Expenses	(404)	(10,990)
Accounts Payable	129,227	(204,850)
Accrued Pension	(525,640)	(418,552)
Accrued Liabilities	<u>87,833</u>	<u>81,957</u>
Net Cash Provided by (Used in) Operating Activities	<u><u>\$ 5,034,890</u></u>	<u><u>\$ 4,859,841</u></u>
Noncash Capital and Related Financing Activities		
Contributions of Capital Assets by Developers	\$ (121,374)	\$ (194,631)
Amortization of Bond Premium	(170,599)	(176,853)
Amortization of Deferred Refundings	186,237	189,988

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

KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY
STATEMENTS OF FIDUCIARY NET POSITION - PENSION TRUST FUND

	As of,	February 29, 2020	February 28 2019
ASSETS			
Investments, at Fair Value:			
Mutual Funds:			
Money Market - Short Term	\$	163,730	\$ 273,789
Domestic Equity		2,543,973	2,291,943
International Equity		1,128,154	981,962
Bonds		2,377,879	1,791,888
Market Neutral/Alternative		738,787	611,492
Real Estate		367,178	310,614
Floating Rate Loans		<u>323,520</u>	<u>245,278</u>
Total Investments		<u>7,643,221</u>	<u>6,506,966</u>
TOTAL ASSETS	\$	<u><u>7,643,221</u></u>	\$ <u><u>6,506,966</u></u>
LIABILITIES AND NET POSITION			
NET POSITION			
Restricted for Pension Benefits	\$	<u><u>7,643,221</u></u>	\$ <u><u>6,506,966</u></u>

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

KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION - PENSION TRUST FUND

	For the Fiscal Years Ended,	February 29, 2020	February 28, 2019
ADDITIONS			
Employer Contributions		\$ 960,000	\$ 960,000
Net Investment Income (Loss)		<u>221,531</u>	<u>204,655</u>
Total Additions		<u>1,181,531</u>	<u>1,164,655</u>
DEDUCTIONS			
Benefit Payments:			
Lump Sum Payments		0	1,200,429
Annuity Payments		39,275	39,276
Administrative Expenses		<u>6,001</u>	<u>6,229</u>
Total Deductions		<u>45,276</u>	<u>1,245,934</u>
CHANGE IN NET POSITION		1,136,255	(81,279)
NET POSITION - RESTRICTED FOR PENSION BENEFITS, BEGINNING OF YEAR		<u>6,506,966</u>	<u>6,588,245</u>
NET POSITION - RESTRICTED FOR PENSION BENEFITS, END OF YEAR		<u>\$ 7,643,221</u>	<u>\$ 6,506,966</u>

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

KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY

NOTES TO THE FINANCIAL STATEMENTS

February 29, 2020 and February 28, 2019

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Knox Chapman Utility District of Knox County (the "District") was created on April 20, 1955, by Knox County, Tennessee under the authority of Title 7, Chapter 82 of the 1937 Utility District Law of the State of Tennessee. The District serves approximately 14,600 water and 2,700 wastewater customers in Knox, Blount and Sevier Counties.

The District's Board of Commissioners is appointed by the Knox County Mayor for staggered four-year terms. Knox County does not have any fiscal or budgetary control over the District. In addition, Knox County does not approve or pledge assets to secure the debts of the District. The operations of the District are funded by water and wastewater rates established by the Board of Commissioners.

A summary of the major accounting policies of the District are presented as follows:

Fiscal Year-End - The District operates on a fiscal year ending February 28 (February 29 on leap years). All references herein refer to the fiscal year-end unless otherwise specified.

Basis of Accounting and Presentation - The District's financial statements are presented on the full accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The District applies all Governmental Accounting Standards Board (GASB) pronouncements.

All operating activities (other than the fiduciary fund activities related to the defined benefit pension plan) of the District are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net position (i.e., total assets net of total liabilities) is segregated into invested in capital assets, net of related debt; restricted for capital activity and debt service; and unrestricted components.

The fiduciary fund type – pension trust fund is used to account for resources held in trust for the benefit of participants in the District's defined benefit pension plan. These resources are not included in the District's proprietary fund financial statements because they are not available to support the operations of the District. The accounting used for the fiduciary fund – pension trust fund is essentially the same as that used for the proprietary fund, using the same measurement focus and basis of accounting. The Board of Commissioners provides the fiduciary responsibility for the administration and investing activities of the defined benefit plan as reported as the pension trust fund.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgeting - The District's proprietary fund adopts flexible annual operating and capital budgets. Budgets are adopted on a basis consistent with generally accepted accounting principles. The current operating budget projects the District's plans to earn and expend funds for charges incurred for operation, maintenance, certain interest and general functions, and other charges for the fiscal year. The capital budget details the plan to receive and expend cash basis capital contribution fees, grants, borrowings, and certain revenues for capital projects. The District's budgets are not legally binding.

There were no budgetary amendments during fiscal years ended 2020 and 2019. All unexpended and unencumbered appropriations in the operating budget remaining at the end of the fiscal year lapse at year-end. No appropriation for a capital project in the capital budget lapses until the purpose for which the appropriation was made has been accomplished or abandoned.

Management submits a proposed budget to the District's Board of Commissioners prior to the March Board meeting. A budget is adopted by resolution prior to March 1. During the year, management is authorized to transfer budgeted amounts between line items within the District's departments.

Cash and Cash Equivalents - Cash and cash equivalents, for purposes of the statements of cash flows, include restricted and unrestricted cash on hand or on deposit, and money market funds.

Investments - Investments are reported at their fair value. Fair value is based upon quoted market prices. Realized gains and (losses) from the sale of investments are calculated separately from the change in the fair value. Realized gains or (losses) in the current period include unrealized amounts from prior periods.

Restricted Assets - Restricted assets represent cash, cash equivalents and investments maintained in accordance with bond resolutions, loan agreements, grant awards, and other resolutions and formal actions of the District's Board of Commissioners or by agreement for the purpose of funding certain debt service payments, depreciation and contingency activities, and improvements and extensions to the system. Restricted assets are generally not available for current operating expenses.

Receivables and Revenues - Revenues are billed monthly to customers on a cyclical meter reading basis. Unbilled revenues are accrued for estimated usage from the last meter reading date to year-end.

Accounts receivable are stated at the amount management expects to collect from outstanding balances. The District provides for probable uncollectible receivables through a reduction (expense) of gross water and wastewater revenues and a credit to an allowance based on its assessment of the current status of individual accounts and historical write-off experience. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Operating revenues consist of water and wastewater revenues, net of allowance for uncollectibles, and forfeited discounts, inspection fees, and various service fees. Connection (tap) fees are recorded as revenue to the extent of expenses incurred in connecting a customer to the system. Connection fees in excess of costs are recorded as capital contributions.

Non-operating revenues consist of investment income. Investment income is interest earned, net of related fees, and the change in unrealized gains and losses on the fair value of marketable debt securities. Other non-operating revenues include the gain on the sale of capital assets.

Inventory - Inventory consists of plant materials and operating supplies and is valued at average cost.

Expenses - Operating expenses consist of the cost of water and wastewater collection, treatment, storage and distribution. Other operating expenses include customer billing, collections, administrative and general expenses and depreciation on capital assets.

Non-operating expenses consist of interest on long-term liabilities, bond issuance expense and loss on the disposal or impairment of capital assets.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets and Intangible Assets - Property, plant, and equipment in service and construction in progress are recorded at cost, if purchased or constructed. Assets acquired through contributions from developers or other customers are capitalized at their acquisition value, if available, or at engineers' cost to construct at the date of the contribution. Utility systems acquired from other governmental service providers are recorded at the purchase price, limited to fair market value.

Intangible assets are recorded at cost. Estimated useful lives are based upon renewal periods as limited by contractual or legal provisions.

Maintenance and repairs, which do not significantly extend the value or life of property, plant, and equipment, are expensed as incurred.

The District defines a capital, or intangible asset, as an asset with an initial individual cost, or a project with a cumulative cost of more than \$5,000 and an estimated useful life in excess of one year.

Assets are depreciated or amortized on the straight-line method. Depreciation and amortization are calculated using the following estimated useful lives:

	Years
Transmission and Distribution Systems	40-50
Vehicles	5-10
Equipment	5-20
Buildings and Improvements	15-40
Office Furniture and Equipment	5-10
Meters	20
Wastewater Capacity Costs	20-40

Long-Term Obligations and Costs - Long-term obligations are reported at face value, net of applicable premiums and discounts. Premiums and discounts are amortized over the life of the bonds.

Compensated Absences - The District pays employees, upon termination or retirement, unused paid time off (PTO) at their hourly pay rate. The District records an expense and liability as the benefits are earned under the vesting method.

Pension Plan (Defined Benefit) - For purposes of measuring the District's net pension liability, pension expense, and deferred inflows and outflows of resources related to the pension plan, management determines these amounts using the same basis as they are reported in the pension trust fund financial statements. Benefit payments are recognized by the Plan when due and payable in accordance with the benefit terms and the Plan reports its investments at estimated fair value. The Plan's financial statements are presented in the accompanying financial statements as a pension trust fund. See Notes 3 and 13 for additional information.

Contributions - Contributions are recognized in the statement of revenues, expenses, and changes in net position when earned. Contributions include developer contributed utility systems, capacity and other supplemental support by other utilities and industrial customers, and federal, state, and local grants in support of system improvements.

Deferred Outflows and Inflows of Resources - In addition to assets, the balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. In addition to liabilities, the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position - Proprietary Fund - Net position comprises the various net earnings from operating and non-operating revenues, expenses, and contributions of capital. Net position is classified in the following three components: net investment in capital assets; restricted for capital activity and debt service; and unrestricted net position. Net investment in capital assets consists of all capital assets, net of accumulated depreciation and deferred outflows of resources and deferred inflows of resources and reduced by outstanding debt that is attributable to the acquisition, construction, and improvement of those assets; debt or deferred inflow of resources attributable to unspent proceeds or other restricted cash and investments are excluded from the determination. Restricted for capital activity and debt service consists of net positions for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations, and enabling legislation, including self-imposed legal mandates. The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

Net Position - Pension Trust Fund - Net fiduciary position consists of results from net investment income (loss), employer contributions, benefits paid and administrative expenses of the District's defined benefit pension plan (pension trust fund). Fiduciary net position is classified as follows: restricted for pension benefits.

Net Position Flow Assumption - Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. When both restricted and unrestricted resources are available for use, it is the District's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Reclassifications - Certain items in the 2019 financial statements have been reclassified to conform with the 2020 financial statements.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and reported amounts of revenues and expenses during the reporting period. Estimates are used to determine depreciation expense, the allowance for doubtful accounts, and certain claims and judgment liabilities, among other accounts. Actual results may differ from those estimates.

Recent Accounting Pronouncements - GASB Statement No. 83, *Certain Asset Retirement Obligations*, will enhance comparability of financial statements by establishing uniform criteria for governments to recognize and measure certain AROs including obligations that may not have been previously reported. This Statement will also enhance the decision-usefulness of the information provided to financial statement users by requiring disclosures related to those AROs. The requirements of this Statement are effective for reporting periods beginning after June 15, 2019. The District is currently evaluating the impact of implementation of GASB 83 on its financial statements.

GASB Statement No 84, *Fiduciary Activities* will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Greater consistency and comparability enhances the value provided by the information reported in financial statements for assessing government accountability and stewardship. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The District is currently evaluating the impact of implementation of GASB 84 on its financial statements.

Evaluation of Subsequent Events - Management has evaluated subsequent events through August 28, 2020, which is the date the financial statements became available for issuance. See Note 16.

NOTE 2 - DEPOSITS AND INVESTMENTS - PROPRIETARY FUND

The District's proprietary fund had the following deposits and investments at year-end 2020 and 2019:

	2020		2019	
	Fair Value	Weighted Average Maturity (Years)	Fair Value	Weighted Average Maturity (Years)
Deposits:				
Demand Deposits	\$ 4,151,678	N/A	\$ 7,796,614	N/A
Investments:				
Federal Agency Debt Securities	0	0	250,003	0
Cash & Cash Equivalents	211,244	N/A	212,646	N/A
Certificates of Deposit	6,487,612	1.327	5,988,591	1.93
Total Investments	6,698,856		6,451,240	
Total	\$ 10,850,534		\$ 14,247,854	

A summary of the deposits and investments on the balance sheets:

	2020	2019
Current Assets:		
Cash and Cash Equivalents	\$ 4,025,499	\$ 4,982,317
Investments	3,070,066	2,885,167
	7,095,565	7,867,484
Other Assets:		
Cash and Cash Equivalents-Restricted	126,179	2,814,297
Investments - Restricted	3,628,790	3,566,073
	3,754,969	6,380,370
Total	\$ 10,850,534	\$ 14,247,854

The District's investments were in the following:

	2020	2019
Certificates of Deposit	96.85%	92.82%
Cash & Cash Equivalents	3.15%	3.30%
Federal Agency Debt Securities	0.00%	3.88%
Total	100%	100%

Restricted Cash Equivalents and Investments - The restricted cash and cash equivalents and investments are for construction projects and are to be used solely for the repayment of debt and improvements to the District's system.

NOTE 2 - DEPOSITS AND INVESTMENTS - PROPRIETARY FUND (Continued)

Custodial Credit Risk - Deposits - Tennessee State Law requires utility districts to secure deposits by having financial institutions pledge governmental securities as collateral. The market value of pledged securities must equal at least 105% of the District's uninsured deposits.

All of the District's proprietary fund's cash equivalents, deposits, and certificates of deposit at February 29, 2020 and February 28, 2019 were covered by Federal Depository Insurance Coverage (FDIC) and the bank collateral pool administered by the Treasurer of the State of Tennessee.

The bank may use one of three different pledged security levels (90%, 100% or 105%) depending on the specific bank holding the deposit. Participating banks determine the aggregate balance of their public fund accounts for the District. Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the State Treasurer on behalf of the Bank Collateral Pool. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured and classified as Category 1, under GASB Statement No. 40, for purposes of custodial credit risk disclosure.

Investments at Fair Value - The carrying value of the investments is presented at fair value.

Investment Income - Investment income consisted of the following:

	2020	2019
Interest Income	\$ 161,981	\$ 146,872
Gain (Loss) - Net	104,478	(11,002)
Total	<u>\$ 266,459</u>	<u>\$ 135,870</u>

Investment Policies - State statute (TCA § 7-82-108) authorizes the District to invest in obligations of the federal government, federal agency debt securities, State of Tennessee, state local government investment pool (SLGIP), municipal bonds issued in Tennessee, certificates of deposit and other time deposits and repurchase agreements. The District may also invest in collateralized certificates of deposit, repurchase agreements by banks pledging specific debt securities or those which participate in the state collateral pool.

Custodial Credit Risk: The District's Investment Policy requires that investment securities be registered in the name of Knox Chapman Utility District. All safekeeping receipts for investment instruments are held in accounts in the District's name and all securities are registered in the District's name.

Credit Risk: The District's Investment Policy limits investments in non-federal obligations to issuers that are rated in the two highest rating categories by a nationally recognized rating agency of such obligations.

Interest Rate Risk: The District's Investment Policy limits its holdings to obligations having a final maturity on the date of investment of not to exceed forty-eight (48) months, or which may be tendered by the holder to the issuer thereof, or an agent of the issuer, at not less than forty-eight (48) month intervals. Presently, the District is investing in securities which mature in 48 months or less or are auction-rate securities with cycles less than 30 days. Investments are made based upon prevailing market conditions with the intent to hold the instrument until maturity. If the performance of the portfolio can be improved upon by the sale of an investment prior to maturity, the policy allows for the implementation of this strategy.

Concentration of Credit Risk: The District's Investment Policy has no limit to its exposure to federal government and federal agency issuers as a whole or individually. All other obligations are limited with a maximum exposure of 25% of the entire investment portfolio of all funds.

The District's Investment Policy does not require diversification among authorized investment broker-dealers.

NOTE 3 - FAIR VALUE OF INVESTMENTS

Fair Value of Investments

GAAP establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets that the Plan has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets in active markets;
- Quoted prices for identical or similar assets in inactive markets;
- Inputs other than quoted prices that are observable for the asset, such as interest rates and yield curves, implied volatilities, and credit spreads;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used should maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for investments measured at fair value.

Federal Agency Debt Securities - Individual debt securities are valued using pricing models that maximize the use of observable inputs for similar securities which includes the yield currently available on comparable securities of issuers with similar maturities and credit ratings.

Certificate of Deposits - Valued at amortized cost, which approximates fair value.

Mutual Funds - Valued at the daily closing price as reported by the fund. Mutual funds held by the Plan are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Plan are deemed to be actively traded.

Investment Contracts with Pooled Separate Accounts - The fair value of units in the investment contracts with pooled separate accounts are determined using the net asset value (NAV) provided by the administrator of the pooled separate accounts. The NAV is based on the value of the underlying assets owned by the pooled separate accounts, minus its liabilities, and then divided by the number of units outstanding.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the District believes the valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

NOTE 3 - FAIR VALUE OF INVESTMENTS (Continued)

The following table sets forth by level, within the fair value hierarchy, the District's investments at fair value as of February 29, 2020:

	Fair Value Measurements Using			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investments				
Proprietary Fund				
Certificates of Deposit	\$ 6,487,612	\$ 0	\$ 0	\$ 6,487,612
	6,487,612	0	0	6,487,612
Cash and Cash Equivalents	211,244	0	0	211,244
Total Proprietary Fund	6,698,856	0	0	6,698,856
Fiduciary Fund				
Equity Investments:				
Mutual Funds	7,643,221	0	0	7,643,221
Total Investments	\$ 14,342,077	\$ 0	\$ 0	\$ 14,342,077

The following table sets forth by level, within the fair value hierarchy, the District's investments at fair value as of February 28, 2019:

	Fair Value Measurements Using			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investments				
Proprietary Fund				
Federal Agency Debt Securities	\$ 0	\$ 250,003	\$ 0	\$ 250,003
Certificates of Deposit	5,988,591	0	0	5,988,591
	5,988,591	250,003	0	6,238,594
Cash and Cash Equivalents	212,646	0	0	212,646
Total Proprietary Fund	6,201,237	250,003	0	6,451,240
Fiduciary Fund				
Equity Investments:				
Mutual Funds	6,506,966	0	0	6,506,966
Total Investments	\$ 12,708,203	\$ 250,003	\$ 0	\$ 12,958,206

NOTE 3 - FAIR VALUE OF INVESTMENTS - FIDUCIARY FUND (Continued)

Investment Contracts with Insurance Companies – Pooled Separate Accounts - The pension trust fund (the “Plan”) entered into four individual variable rate annuity contracts with MetLife Insurance Company and Prudential Life Insurance Company for certain participants. The insurance companies maintain the funds in pooled separate accounts (PSA) with underlying investments in various mutual funds. The overall investment strategy is approximately 60% equity funds and 40% bond or fixed income funds. The investment contracts permit withdrawals of funds by the Plan without a surrender charge of \$25,000 to \$30,000 annually with three to five days’ notice. The Plan is expected to make annual transfers of approximately \$60,000 for reinvestment and participant distributions. On August 18, 2018, the Plan liquidated the investment contracts and reinvested the sales proceeds in equity mutual funds.

A Change in Fair Value Levels - To assess the appropriate classification of investments within the fair value hierarchy, the availability of market data is monitored. Changes in economic conditions or valuation techniques may require the transfer of investments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. Management evaluates the significance of transfers between levels based upon the nature of the investment and size of the transfer relative to total net position available for benefits. For the years 2020 and 2019, there were no transfers in or out of Levels 1, 2 or 3.

NOTE 4 - CREDIT RISKS - FIDUCIARY FUND

Custodial Credit Risk - The District's policy requires that investment securities be registered in the name of the District and that investments are held in accounts under trust. In the case of bank deposits (cash and cash equivalents), this is the risk that in the event of a bank failure, the Plan's deposits may not be returned to it. As of February 29, 2020 and February 28, 2019, all of the District's fiduciary trust fund's cash deposits were covered by Federal Deposit Insurance Corporation (FDIC) coverage.

Credit Risk - The Fiduciary Fund invests in several bond mutual funds which are not rated by a nationally recognized rating organization.

NOTE 5 - CAPITAL ASSETS

A summary of capital asset activity and changes in accumulated depreciation and amortization for the year ended February 29, 2020 was as follows:

	Balance 3/1/2019	Additions	Deletions Retirements Transfers	Balance 2/29/2020
Capital Assets				
Capital Assets Not Being Depreciated/Amortized:				
Water System:				
Land and Easements	\$ 382,798	\$ 34,783	\$ 0	\$ 417,581
Construction in Progress	1,836,784	2,845,319	(486,286)	4,195,817
Wastewater System:				
Land and Easements	79,098	35,800	0	114,898
Total Capital Assets, Not Being Depreciated/Amortized	<u>2,298,680</u>	<u>2,915,902</u>	<u>(486,286)</u>	<u>4,728,296</u>
Capital Assets Being Depreciated/Amortized:				
Water System:				
Mains, Lines and Equipment	35,164,451	1,233,806	0	36,398,257
Treatment Facilities	28,955,818	0	0	28,955,818
Wastewater System:				
Collection Lines and Equipment	16,472,952	30,150	0	16,503,102
Wastewater Capacity Costs	2,849,920	979,116	0	3,829,036
Office Property and Equipment	965,323	0	0	965,323
Vehicles	684,023	70,676	0	754,699
Total Capital Assets Being Depreciated/Amortized	<u>85,092,487</u>	<u>2,313,748</u>	<u>0</u>	<u>87,406,235</u>
Less Accumulated Depreciation/Amortization For:				
Water System:				
Mains, Lines and Equipment	(9,994,094)	(959,674)	0	(10,953,768)
Treatment Facilities	(8,087,486)	(686,117)	0	(8,773,603)
Wastewater System:				
Collection Lines and Equipment	(5,918,882)	(435,987)	0	(6,354,869)
Wastewater Capacity Costs	(1,390,625)	(135,239)	0	(1,525,864)
Office Property and Equipment	(610,344)	(71,063)	0	(681,407)
Vehicles	(479,632)	(76,438)	0	(556,070)
Total Accumulated Depreciation/Amortization	<u>(26,481,063)</u>	<u>(2,364,518)</u>	<u>0</u>	<u>(28,845,581)</u>
Total Capital Assets Being Depreciated/Amortized - Net	<u>58,611,424</u>	<u>(50,770)</u>	<u>0</u>	<u>58,560,654</u>
Net Capital Assets	<u>\$ 60,910,104</u>	<u>\$ 2,865,132</u>	<u>\$ (486,286)</u>	<u>\$ 63,288,950</u>

Depreciation and amortization expense was \$2,229,280 and \$135,239 for 2020, respectively.

NOTE 5 - CAPITAL ASSETS (Continued)

A summary of capital asset activity and changes in accumulated depreciation for the year ended February 28, 2019 was as follows:

	Balance 3/1/2018	Additions	Deletions Retirements Transfers	Balance 2/28/2019
Capital Assets				
Capital Assets Not Being Depreciated/Amortized:				
Water System:				
Land and Easements	\$ 357,580	\$ 25,218	\$ 0	\$ 382,798
Construction in Progress	1,127,730	947,059	(238,005)	1,836,784
Wastewater System:				
Land and Easements	79,098	0	0	79,098
Total Capital Assets, Not Being Depreciated/Amortized	<u>1,564,408</u>	<u>972,277</u>	<u>(238,005)</u>	<u>2,298,680</u>
Capital Assets Being Depreciated/Amortized:				
Water System:				
Mains, Lines and Equipment	34,294,356	870,095	0	35,164,451
Treatment Facilities	28,955,818	0	0	28,955,818
Wastewater System:				
Collection Lines and Equipment	16,349,557	123,395	0	16,472,952
Wastewater Capacity Costs	2,849,920	0	0	2,849,920
Office Property and Equipment	965,323	0	0	965,323
Vehicles	685,623	98,343	(99,943)	684,023
Total Capital Assets Being Depreciated/Amortized	<u>84,100,597</u>	<u>1,091,833</u>	<u>(99,943)</u>	<u>85,092,487</u>
Less Accumulated Depreciation/Amortization For:				
Water System:				
Mains, Lines and Equipment	(9,069,528)	(924,566)	0	(9,994,094)
Treatment Facilities	(7,397,031)	(690,455)	0	(8,087,486)
Wastewater System:				
Collection Lines and Equipment	(5,486,804)	(432,078)	0	(5,918,882)
Wastewater Capacity Costs	(1,271,794)	(118,831)	0	(1,390,625)
Office Property and Equipment	(538,737)	(71,607)	0	(610,344)
Vehicles	(491,553)	(73,355)	85,276	(479,632)
Total Accumulated Depreciation/Amortization	<u>(24,255,447)</u>	<u>(2,310,892)</u>	<u>85,276</u>	<u>(26,481,063)</u>
Total Capital Assets Being Depreciated/Amortized - Net	<u>59,845,150</u>	<u>(1,219,059)</u>	<u>(14,667)</u>	<u>58,611,424</u>
Net Capital Assets	<u>\$ 61,409,558</u>	<u>\$ (246,782)</u>	<u>\$ (252,672)</u>	<u>\$ 60,910,104</u>

Depreciation and amortization expense was \$2,192,061 and \$118,831 for 2019, respectively.

NOTE 6 - INTANGIBLE ASSETS

Wastewater Capacity Costs

During 2007, the District amended their agreement with the City of Maryville to increase the City's wastewater treatment plant capacity to accommodate the District's increase in wastewater sent to the City's wastewater treatment plant. The District recorded a related intangible asset of \$1,429,332 to be amortized over the remaining term of the contract of 20 years. The remaining net wastewater capacity cost was \$524,087 and \$595,554 at year-end 2020 and 2019. Amortization expense for 2020 and 2019 was \$71,467 annually.

The District entered into an agreement with the City of Maryville to pay the City for its share of any new construction costs to the City's wastewater treatment plant. The District also recorded a related intangible asset of \$1,420,588 to be amortized over the term of the City's related debt of 30 years. The remaining net wastewater capacity costs were \$935,221 and \$982,573 at year-end 2020 and 2019. Amortization expense for 2020 and 2019 was \$47,354 annually.

During fiscal year 2020, the District entered into an agreement with the City of Maryville to increase the City's wastewater treatment plant capacity to accommodate the District's increase in wastewater sent to the City's wastewater treatment plant. The District recorded a related intangible asset of \$979,116 to be amortized over 40 years. The remaining net wastewater capacity cost was \$962,798 at year-end 2020. Amortization expense for 2020 was \$16,318.

NOTE 7 - CONSTRUCTION IN PROGRESS

Construction in progress consisted of:

	2020		2019	
	Actual To Date	Remaining Commitment	Actual To Date	Remaining Commitment
Alcoa Hwy TDOT Project	\$ 224,738	\$ 0	\$ 187,471	\$ 0
Kimberlin Heights Phase 1	0	0	471,787	0
Kimberlin Heights Phase 2	791,707	0	12,625	0
Hendron Chapel/Chapman-TDOT Project	48,059	0	4,900	0
Ford Hill - TDOT Project	493,044	0	490,240	0
Stock Creek Basin	912,543	0	555,051	501,000
Johnson Univ Forcemain	1,231,241	0	98,160	0
Water Storage Tank Recoating	494,485	0	16,550	0
Total	<u>\$ 4,195,817</u>	<u>\$ 0</u>	<u>\$ 1,836,784</u>	<u>\$ 501,000</u>

NOTE 8 - REVENUE BONDS AND NOTES PAYABLE

Overview - Bonds

On September 28, 2005, the District issued \$2,194,100 in Water and Sewer Revenue Bonds, Series 2005 with an average interest rate of 4.125%. These bonds are payable to Rural Development, a department of the U.S. Department of Agriculture. The bonds are payable in 456 monthly installments of \$9,545 beginning October 26, 2006 and ending September 28, 2043. The bonds were issued to finance the radio read meter replacement program.

On March 31, 2011, the District issued \$14,890,000 in Water and Sewer Revenue Bonds, Series 2011 with an average interest rate 4.75%. The bonds were sold at a premium of \$237,097. Principal payments are due annually in varying amounts from \$50,000 to \$1,265,000 beginning in 2013 through 2036. The bonds were issued to finance extensions and improvements to the District's water procurement, treatment, storage and distribution system. The premium is amortized over the life of the bonds using the proportionate-to-stated interest requirements method. On February 23, 2017, a partial advanced refunding of \$11,940,000 of the total outstanding principal amount of \$13,270,000 was completed and the refunded portion was considered defeased (see Note 9).

On October 18, 2012, the District issued \$18,095,000 in Water and Sewer Revenue Refunding and Improvement Bonds, Series 2012 with an average interest rate of 3.75%. The bonds were sold at a premium of \$753,367. Principal payments are due annually in varying amounts from \$125,000 to \$2,565,000 through 2040. The bonds were issued to finance capital improvements to the District's system including the completion of a water treatment plant, lines and extensions, replacement of 13.2 miles of galvanized pipe and to currently refund the 2003 Series issue. The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$227,255. This difference is reported in the accompanying financial statements and is being charged to operations through the year 2025 using the proportionate-to-stated interest requirements method. The bond premium is amortized over the life of the bonds using the proportionate-to-stated interest requirements method. Although the reacquisition price exceeded the net carrying amount of the old debt, the District reduced its aggregate debt service payments by \$698,708 and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$599,952. The amount of the reacquisition price recorded as part of bond interest expense was \$16,028 in 2020 and \$17,334 in 2019.

On April 16, 2015, the District issued \$15,505,000 in Water and Sewer Revenue Refunding and Improvement Bonds, Series 2015 with an average interest rate of 2.80%. Principal payments are due annually in amounts ranging from \$35,000 to \$1,010,000 on January 1, 2016 through January 1, 2040. The bonds were issued to finance capital improvements to the District's water and sewer systems and to complete a partial advance refunding of \$6,530,000, out of \$6,740,000 principal outstanding, of the Series 2007A bonds and to fully advance refund the \$4,175,000 outstanding Series 2007B bonds. The Series 2015 bonds original bond premium at issuance was \$1,264,980 and is amortized over the life of the bonds using the proportionate-to-stated interest requirements method. The refunded bonds for the Series 2007A and 2007B have been called and redeemed on January 1, 2017. The reacquisition price exceeded the net carrying amount of the old debt (deferred cost of defeasance) by \$941,373 and this amount is being amortized as part of interest expense through the original 2007A & 2007B maturity dates of January 1, 2031 and January 1, 2037, respectively. The deferred cost of defeasance will be amortized using the proportionate-to-stated interest requirements method. Due to the decrease in the average coupon interest rate from 4.19% for the Series 2007A and 4.52% for the 2007B Series to 2.80% for the Series 2015, the refunding decreased total aggregate debt service payments by \$372,288. The District obtained an economic gain (difference between the present value of the old and new debt service payments) of \$798,091. The amount of the deferred cost of defeasance recorded as part of bond interest expense was \$64,941 and \$65,638 in 2020 and 2019, respectively.

NOTE 8 - REVENUE BONDS AND NOTES PAYABLE (Continued)

Overview - Bonds (Continued)

On February 23, 2017, the District issued \$17,310,000 in Water and Sewer Revenue Refunding and Improvement Bonds, Series 2017 with an average interest rate of 3.60%. Principal payments are due annually in amounts ranging from \$145,000 to \$1,450,000 on January 1, 2018 through January 1, 2041. The bonds were issued to finance capital improvements to the District's water and sewer systems and to complete a partial advance refunding of \$11,940,000, out of \$13,270,000 principal outstanding, of the Series 2011 bonds. The Series 2017 bonds original bond premium at issuance was \$485,381 and is amortized over the life of the bonds using the proportionate-to-stated interest requirements method. The refunded bonds for the Series 2011 will be called and redeemed on January 1, 2021, at a redemption price of par plus accrued interest to the redemption date. As of February 23, 2017, the refunded bonds are considered defeased and the liability has been removed from the District's balance sheet. On February 23, 2017, the District placed \$13,470,414 of funds with the escrow agent (Regions Bank) which was used to purchase U.S. Treasury Bills and Notes for the purpose of generating sources for future debt service payments of \$12,232,859. Future payments consist of annual bond interest payments of \$292,859 for the 2011 Series for fiscal years 2017 through 2021. The reacquisition price exceeded the net carrying amount of the old debt (deferred cost of defeasance) by \$1,416,345 and this amount is being amortized as part of interest expense through the original 2011 maturity date of January 1, 2037. The deferred cost of defeasance will be amortized using the proportionate-to-stated interest requirements method. Due to the decrease in the average coupon interest rate from 4.86% for the Series 2011 to 3.60% for the Series 2017, the refunding decreased total aggregate debt service payments by \$990,290. The District obtained an economic gain (difference between the present value of the old and new debt service payments) of \$658,708. The amount of the deferred cost of defeasance recorded as part of bond interest expense was \$105,268 and \$107,017 in 2020 and 2019, respectively.

The bond holders have a statutory mortgage lien upon the District as permitted by TCA § 7-82-101, and will remain in effect until the various bond issues are paid in full. While the interest on all of the above bonds is generally exempt from federal income taxes for individuals and corporations, it should be noted that the interest may affect (i) adjusted current earnings and the environmental tax for certain corporations, (ii) loss reserve deduction for property and casualty insurance companies, (iii) branch profits tax by certain foreign corporations, (iv) passive income for certain S-corporations, and (v) the determination of gross income for recipients of certain social security and railroad retirement benefits.

Overview - Notes Payable

The District amended their agreement with the City of Maryville (#1) to increase the amount of wastewater sent to the City's wastewater treatment plant from 400,000 gallons to 700,000 gallons per day (see Note 6). The District further agreed to pay the City an initial down payment of \$322,986 in March 2006 and to make 20 annual payments to the City of \$79,710 beginning July 1, 2006 as part of its share to the City to make improvements to increase the capacity of the City's treatment facility. The District recorded a \$1,106,346 liability for the net present value of the annual payments using an interest rate of 4.10%. The amount of interest expense was \$17,899 and \$20,333 for 2020 and 2019, respectively. The amount of principal payments were \$60,167 and \$57,798 for 2020 and 2019, respectively. The amount of the liability at year-end 2020 and 2019 was \$416,494 and \$476,661, respectively.

The District entered into an agreement with the City of Maryville (#2) to pay the City for its share of any new construction costs to the City's wastewater treatment plant. During 2009, the City issued bonds to finance the upgrade and expansion of their plant (see Note 6). The District's portion of the City's expansion was \$1,420,588 recorded as a liability with an interest rate of 5.0% in the District's financial statements. The District has agreed to pay the City semi-annual payments beginning December 1, 2008 through June 1, 2038. The annual payments range from \$55,839 to \$101,984. The amount of interest expense was \$44,884 and \$41,543 for 2020 and 2019, respectively. The amount of principal payments were \$10,707 and \$10,294 for 2020 and 2019, respectively. The amount of the liability at year-end 2020 and 2019 was \$0 and \$1,309,525, respectively. The note was paid off as of February 27, 2020.

NOTE 8 - REVENUE BONDS AND NOTES PAYABLE (Continued)

Overview - Notes Payable (Continued)

Bonds and notes payable at year-end 2020 and 2019, consisted of the following:

	<u>2020</u>	<u>2019</u>
Revenue Bonds		
Water and Sewer Revenue Bonds, Series 2005	\$ 1,722,836	\$ 1,765,370
Water and Sewer Revenue Bonds, Series 2011	415,000	815,000
Water and Sewer Revenue Refunding and Improvement Bonds, Series 2012	14,195,000	14,470,000
Water and Sewer Revenue Refunding and Improvement Bonds, Series 2015	14,125,000	14,780,000
Water and Sewer Revenue Refunding and Improvement Bonds, Series 2017	<u>16,740,000</u>	<u>16,955,000</u>
	47,197,836	48,785,370
Add: Unamortized Bond Premium	1,773,023	1,943,622
Less: Current Portion	<u>(1,644,120)</u>	<u>(1,587,535)</u>
Total Revenue Bonds	<u>47,326,739</u>	<u>49,141,457</u>
Other Direct Borrowings		
Note Payable – City of Maryville – #1	416,494	476,661
Note Payable – City of Maryville – #2	<u>0</u>	<u>1,309,525</u>
	416,494	1,786,186
Less: Current Portion	<u>(62,634)</u>	<u>(70,874)</u>
Total Other Direct Borrowings	<u>353,860</u>	<u>1,715,312</u>
Total Long-Term Debt	<u>\$ 47,680,599</u>	<u>\$ 50,856,769</u>

Interest expense for bonds and notes payable consisted of:

	<u>2020</u>	<u>2019</u>
Interest Bonds Payable	\$ 1,825,306	\$ 1,870,060
Change in Accrued Interest Payable on Revenue Bonds at Year-End	(10,242)	(7,173)
Amortization of Bond Premium	(170,599)	(176,853)
Amortization of Deferred Cost of Defeasance	186,237	189,988
Paying Agent Fees	2,984	2,984
Interest on Note Payable - Maryville	<u>62,783</u>	<u>61,876</u>
Total	<u>\$ 1,896,469</u>	<u>\$ 1,940,882</u>

NOTE 8 - REVENUE BONDS AND NOTES PAYABLE (Continued)

Activity

Long-term debt activity during 2020 was as follows:

Bonds and Notes Notes Payable	Balance 03/01/19	Reclassifications Additions	Reductions	Balance 02/29/20	Due Within One Year
Revenue Bonds	\$ 48,785,370	\$ 0	\$ (1,587,534)	\$ 47,197,836	\$ 1,644,120
Other Direct Borrowings	1,786,186	0	(1,369,692)	416,494	62,634
	<u>50,571,556</u>	<u>0</u>	<u>(2,957,226)</u>	<u>47,614,330</u>	<u>1,706,754</u>
Noncash Items:					
Add: Bond Premium 2011 Series	17,368	0	(11,260)	6,108	0
Add: Bond Premium 2012 Series	519,420	0	(33,393)	486,027	0
Add: Bond Premium 2015 Series	987,435	0	(90,883)	896,552	0
Add: Bond Premium 2017 Series	419,400	0	(35,063)	384,337	0
Total	<u>\$ 52,515,179</u>	<u>\$ 0</u>	<u>\$ (3,127,825)</u>	<u>\$ 49,387,354</u>	<u>\$ 1,706,754</u>

Long-term debt activity during 2019 was as follows:

Bonds and Notes Notes Payable	Balance 03/01/18	Reclassifications Additions	Reductions	Balance 02/28/19	Due Within One Year
Revenue Bonds	\$ 50,326,189	\$ 0	\$ (1,540,819)	\$ 48,785,370	\$ 1,587,535
Other Direct Borrowings	1,854,277	0	(68,091)	1,786,186	70,874
	<u>52,180,466</u>	<u>0</u>	<u>(1,608,910)</u>	<u>50,571,556</u>	<u>1,658,409</u>
Noncash Items:					
Add: Bond Premium 2011 Series	32,394	0	(15,026)	17,368	0
Add: Bond Premium 2012 Series	554,031	0	(34,611)	519,420	0
Add: Bond Premium 2015 Series	1,079,212	0	(91,777)	987,435	0
Add: Bond Premium 2017 Series	454,839	0	(35,439)	419,400	0
Total	<u>\$ 54,300,942</u>	<u>\$ 0</u>	<u>\$ (1,785,763)</u>	<u>\$ 52,515,179</u>	<u>\$ 1,658,409</u>

Debt Service

The annual requirements for the payment of the principal and interest on the bonds and notes payable as of February 29, 2020, are as follows:

Fiscal Year	REVENUE BONDS			OTHER DIRECT BORROWINGS			TOTAL DEBT		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2021	\$ 1,644,120	\$ 1,762,271	\$ 3,406,391	\$ 62,634	\$ 17,076	\$ 79,710	\$ 1,706,754	\$ 1,779,347	\$ 3,486,101
2022	1,701,177	1,714,964	3,416,141	65,202	14,509	79,711	1,766,379	1,729,473	3,495,852
2023	1,753,119	1,664,822	3,417,941	67,875	11,835	79,710	1,820,994	1,676,657	3,497,651
2024	1,795,142	1,604,699	3,399,841	70,658	9,052	79,710	1,865,800	1,613,751	3,479,551
2025	1,857,069	1,543,672	3,400,741	73,555	6,155	79,710	1,930,624	1,549,827	3,480,451
2026-2030	10,320,900	6,658,205	16,979,105	76,570	3,139	79,709	10,397,470	6,661,344	17,058,814
2031-2035	12,478,575	4,438,254	16,916,829	0	0	0	12,478,575	4,438,254	16,916,829
2036-2040	15,011,735	1,902,468	16,914,203	0	0	0	15,011,735	1,902,468	16,914,203
2041-2044	635,999	39,092	675,091	0	0	0	635,999	39,092	675,091
Total	<u>\$ 47,197,836</u>	<u>\$ 21,328,447</u>	<u>\$ 68,526,283</u>	<u>\$ 416,494</u>	<u>\$ 61,766</u>	<u>\$ 478,260</u>	<u>\$ 47,614,330</u>	<u>\$ 21,390,213</u>	<u>\$ 69,004,543</u>

Pledged Revenue Coverage

During 2020 and 2019, the District's pledged revenue coverage ratio was 1.62 and 1.64. The District is required to maintain a minimum debt service coverage ratio of 1.20.

NOTE 9 - DEFEASANCE OF DEBT

During fiscal year 2017, the District issued Water and Sewer Refunding and Improvement Bonds Series 2017 which included an advance refunding of debt with a partial defeasance of the Revenue and Refunding Bonds Series 2011 for \$11,940,000 under an irrevocable trust (escrow) agreement with Regions Bank dated February 23, 2017. The Series 2011 bond principal and accrued interest will be called and redeemed on January 1, 2021.

NOTE 10 - COMPENSATED ABSENCES

Changes in compensated absences for the years ended February 29, 2020 and February 28, 2019 consisted of:

	2020	2019
Beginning Balance	\$ 376,124	\$ 356,364
Earned	242,955	193,366
Used	(193,123)	(173,606)
Ending Balance	\$ 425,956	\$ 376,124
Current Portion Due	\$ 222,278	\$ 188,178

NOTE 11 - NET POSITION

Proprietary fund net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. The net position for 2020 and 2019 were as follows:

	2020	2019
Net Investment in Capital Assets:		
Net Property, Plant and Equipment	\$ 63,288,950	\$ 60,910,104
Less: Revenue Bonds and Notes Payable - Net of Discounts, Premiums and Unamortized Deferred Refunding Loss	(47,645,321)	(50,586,909)
Add: Debt Proceeds to be Used for Capital Assets	126,179	2,814,296
Less: Reclassification from Restricted for Capital Activity	(161,891)	(28,839)
	<u>15,607,917</u>	<u>13,108,652</u>
Restricted for Capital Activity:		
Restricted Cash and Cash Equivalents	126,179	2,814,297
Less: Accounts Payable for Capital Assets	(161,891)	(28,839)
Less: Debt Proceeds to be Used for Capital Assets	(126,179)	(2,814,297)
Reclassified to Invested in Capital Assets – Net of Related Debt	<u>161,891</u>	<u>28,839</u>
	<u>0</u>	<u>0</u>
Restricted for Debt Service:		
Restricted Investments	3,628,790	3,566,073
Less: Accrued Interest Payable – Bonds and Notes	(293,360)	(316,567)
	<u>3,335,430</u>	<u>3,249,506</u>
Unrestricted	<u>7,000,695</u>	<u>7,428,217</u>
Total	<u>\$ 25,944,042</u>	<u>\$ 23,786,375</u>

NOTE 12 - NET WATER AND WASTEWATER REVENUES

Net water and wastewater revenues earned during 2020 and 2019 are as follows:

	2020		2019	
	Water	Wastewater	Water	Wastewater
Gross Revenues	\$ 8,673,411	\$ 2,230,121	\$ 8,553,827	\$ 1,942,589
Less: Provision for Bad Debts	(45,464)	(11,536)	(40,896)	(11,104)
Total	<u>\$ 8,627,947</u>	<u>\$ 2,218,585</u>	<u>\$ 8,512,931</u>	<u>\$ 1,931,485</u>

NOTE 13 - RETIREMENT PLANS

A - Defined Benefit Plan

General Information about the Defined Benefit Pension Plan

Plan Description - The District's single-employer defined benefit pension plan, the Knox Chapman Utility District Defined Benefit Pension Plan (the Plan), provides pension benefits for all full-time employees of the District who have been employed for at least 6 months and are at least 21 years old. The Plan is a single-employer noncontributory pension plan and assets are held with Commercial Bank and Trust Company as investment custodian and trustee. The Plan is administered by USI Consulting Group.

Benefits Provided - The Plan provides retirement, disability and death benefits. Retirement benefits are calculated as 2.25% per year of service (limited to 100%) times the highest average of 36 consecutive months of compensation. The Plan provides participants with several options for retirement benefit payments, including several annuity choices or a lump sum payment. Vesting begins at 20% per year after two years of service. An employee becomes fully vested after six years of service and normal retirement age is 65. The Plan does not issue separate financial statements. The District's Board of Commissioners has the authority to amend or change the Plan and its benefit terms.

The District's Board of Commissioners froze the Plan to new participants effective August 5, 2013. New employees hired by the District are required to participate in the defined contribution plan. Since the Plan is sponsored by a governmental entity this Plan is not covered by the Pension Benefit Guaranty Corporation, a U.S. Government Agency.

Employees Covered by Benefit Terms - At February 29, 2020 and February 28, 2019, the following employees were covered by the benefit terms:

	2020	2019
Inactive Employees or Beneficiaries Currently Receiving Benefits	2	2
Inactive Employees Entitled to, but not yet Receiving Benefits	5	5
Active Employees	19	19
Total	<u>26</u>	<u>26</u>

Contributions - The Board of Commissioners establishes contribution amounts based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability for past service costs. For fiscal years 2020 and 2019 the District's contributions were approximately 74% and 71% of annual covered payroll, respectively.

NOTE 13 - RETIREMENT PLANS (Continued)

A - Defined Benefit Plan (Continued)

Net Pension Liability

The District's net pension liability was measured as of February 29, 2020 and February 28, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of March 1, 2018 and 2017.

Actuarial Assumptions - The total pension liability in the February 29, 2020 and February 28, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Cost Method: Entry Age Normal

Amortization Method: Level Percentage of Payroll, Closed

Remaining Amortization Period: 15 Years (2018), 16 (2019)

Asset Valuation Method: Actuarial value of plan assets (2020), Fair Market Value (2019)

Investment Rate of Return: 6.75% (2020) and 7.25% (2019) per Annum

Discount Rate: 6.75% (2020) and 7.25% (2019)

Salary Increases: 3.50% (2020) and 4.00% (2019) per Annum

Lump Sums: 67% Election Rate with 4.25% (2019) and 4.50% (2018) Present Value Rate; Annuity 33%

Retirement Age: Retirement Age of 65 combined with a graded service table (2020, 2019)

Cost of Living Increase: 0.0%

Mortality: RP-2014 Blue Collar with Scale MP-2019 (2020, 2019)

The actuarial assumptions used in the 2020 and 2019 valuation were based on the results of actual experience of the Plan from March 1, 2011 through February 28, 2015.

Investment Policies and Strategies - The Plan's trustees have adopted an investment policy to ensure that sufficient investment income can be generated to accumulate resources to pay benefits. The long-term expected rate of return on pension plan investments was determined using a modified building blocks methodology in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges 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 an assumed inflation rate of 2.30% per annum in 2020 and 2.48% in 2019. The target allocation, actual exposure and best estimates of average long-term expected real rates of return for each major asset class as of February 29, 2020 and are summarized in the following table:

Asset Class	Target Allocation	Average Long-Term Expected Real Rate of Return	
		2020	2019
US Equity - Large Cap	18%	5.91%	8.73%
US Equity - Small/Mid Cap	17%	7.07%	10.13%
Non-US Equity - Developed	10%	6.85%	9.46%
Non-US Equity - Emerging	5%	9.17%	11.94%
US Corporate Bonds - Core	22%	2.12%	4.63%
US Corporate Bonds - High Yield	4%	4.00%	6.44%
Non-US Debt - Developed	7%	1.49%	3.56%
US Treasuries (Cash Equivalents)	2%	0.76%	3.10%
Real Estate	5%	5.52%	7.67%
Hedge Funds	10%	4.22%	6.61%
Total	100%		

Rates of Return (Loss) - The annual money-weighted rates of return (loss) on the Plan's investments, net of investment expenses, for the fiscal years 2020 and 2019 was 3.20% and 3.11%, respectively.

NOTE 13 - RETIREMENT PLANS (Continued)

A - Defined Benefit Plan (Continued)

Net Pension Liability (Continued)

Discount Rate - The discount rate used to measure the total pension liability for the fiscal years 2020 and 2019 was 6.75% and 7.25%. The projection of cash flows used to determine the discount rate assumed that District contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future payments of current plan 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.

Tennessee State Law for Local Government Sponsored Defined Benefit Plans - Tennessee Code Annotated (TCA) Section 9-3-501, requires the District to make annual employer contributions equal to 100% of its actuarially determined contributions (ADC), use the entry age normal cost method, limit future pension benefit improvements if the net pension plan funded ratio is less than 60% and other requirements beginning in fiscal year 2016 with various provisions phased in through fiscal year 2020.

Changes in Net Pension Liability

The changes in net pension liability are shown below:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Position Liability
	(a)	(b)	(a) - (b)
For the Fiscal Year Ended February 29, 2020			
Balances at March 1, 2019	\$ 8,045,997	\$ 6,506,965	\$ 1,539,032
Changes for the Year			
Service Cost	113,463	0	113,463
Interest	590,162	0	590,162
Difference between Expected and Actual Experience	199,839	0	199,839
Changes of assumptions	122,407	0	122,407
Contributions - Employer	0	960,000	(960,000)
Net Investment Income	0	221,531	(221,531)
Benefit Payments - Annuities	(39,275)	(39,275)	0
Administrative Expenses	0	(6,001)	6,001
Net Changes	986,596	1,136,255	(149,659)
Balances at February 29, 2020	<u>\$ 9,032,593</u>	<u>\$ 7,643,220</u>	<u>\$ 1,389,373</u>
For the Fiscal Year Ended February 28, 2019			
Balances at March 1, 2018	\$ 8,358,662	\$ 6,588,245	\$ 1,770,417
Changes for the Year			
Service Cost	128,281	0	128,281
Interest	551,430	0	551,430
Changes in benefit terms	173,087	0	173,087
Difference between Expected and Actual Experience	13,605	0	13,605
Changes of assumptions	60,637	0	60,637
Contributions - Employer	0	960,000	(960,000)
Net Investment Income	0	204,655	(204,655)
Benefit Payments - Annuities	(39,276)	(39,276)	0
Benefit Payments - Lump Sum	(1,200,429)	(1,200,429)	0
Administrative Expenses	0	(6,230)	6,230
Net Changes	(312,665)	(81,280)	(231,385)
Balances at February 28, 2019	<u>\$ 8,045,997</u>	<u>\$ 6,506,965</u>	<u>\$ 1,539,032</u>

NOTE 13 - RETIREMENT PLANS (Continued)

A - Defined Benefit Plan (Continued)

Changes in Net Pension Liability (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the District, as of February 29, 2020 and February 28, 2019, calculated using the discount rate of 6.75% and 7.25%, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75% and 6.25%) or 1-percentage-point higher (7.75% and 8.25%) than the current rate:

<u>Net Pension Liability</u>	<u>1% Decrease (5.75%)</u>	<u>Current Discount Rate (6.75%)</u>	<u>1% Increase (7.75%)</u>
2020	\$ 1,973,530	\$ 1,389,373	\$ 864,282
<u>Net Pension Liability</u>	<u>1% Decrease (6.25%)</u>	<u>Current Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
2019	\$ 2,071,665	\$ 1,539,032	\$ 1,058,886

Pension Expense and Deferred Inflow of Resources Related to Plan

For the fiscal years 2020 and 2019, the District recognized pension expense of \$434,359 and \$541,448, respectively. At February 29, 2020 and February 28, 2019, the District reported deferred outflows of resources related to the Plan from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>For the Fiscal Year Ended February 29, 2020</u>		
Differences Between Expected and Actual Experience	\$ 401,164	\$ 282,409
Change of assumptions	398,970	0
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	<u>286,998</u>	<u>0</u>
Total	<u>\$ 1,087,132</u>	<u>\$ 282,409</u>
<u>For the Fiscal Year Ended February 28, 2019</u>		
Differences Between Expected and Actual Experience	\$ 264,527	\$ 342,624
Change of assumptions	343,651	55,016
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	<u>218,204</u>	<u>0</u>
Total	<u>\$ 826,382</u>	<u>\$ 397,640</u>

Amounts reported as deferred outflows of resources related to the Plan will be recognized in pension expense as follows:

<u>For the Years ended February 28:</u>	
2021	\$ 108,029
2022	156,659
2023	175,970
2024	126,632
2025	82,105
Thereafter	<u>155,328</u>
Total	<u>\$ 804,723</u>

NOTE 13 - RETIREMENT PLANS (Continued)

A - Defined Benefit Plan (Continued)

Payable to Pension Plan

At February 29, 2020 and February 28, 2019, the District did not report a payable for any outstanding amount of contributions to the Plan required for the years ended February 29, 2020 and February 28, 2019 since all contributions were paid prior to year-end.

Trend Information

The schedule of changes in the District's net position liability and related ratios, schedule of the District's pension contributions and schedule of investment returns as presented in required supplementary information (RSI) following the notes to financial statements, will present multiyear trend information in the future about whether the Plan's fiduciary net position is increasing or decreasing over time relative to the total pension liability and net pension liability and whether the District's contributions and investment returns are in accordance with the actuarially determined amounts.

B - Defined Contribution Plan

The District has a defined contribution retirement plan called the *Knox Chapman Utility District Defined Contribution Retirement Plan* that covers all full-time employees eligible for participation after October 7, 2013. This Plan was established under Internal Revenue Code (IRC) section 401(a) and the Plan's investments are held in trust with the John Hancock Life Insurance Company and administered by USI, Inc. The Board has the authority to amend the Plan's provisions and contribution requirements. Employees ("members", or "participants") must be at least 21 years old, complete 90 days of continuous service and are required to participate. During 2020 and 2019, the District's mandatory employer contribution rate was 8% and the employees' mandatory contribution rate was 3%.

Employees are immediately vested in their own contributions and earnings from those contributions. Employer contributions from the District for the participant's vest at 10% per year for each year of credited service and become 100% vested after 10 years of service. Non-vested employer contributions are forfeited upon termination of employment. Funds in this Plan are invested in pooled separate accounts under a group annuity contract, which consists of various mutual funds. During 2020 and 2019, the payroll for employees covered under this Plan was \$906,004 and \$722,889, respectively, and the District made employer contributions of \$60,546 and \$51,742, respectively. The amount of forfeitures used to reduce the employer contributions were \$0 and \$2,557 for 2020 and 2019, respectively. As of year-end 2020 and 2019, there were 21 and 24 active plan members.

C - Deferred Compensation Plan

The District also has an IRC section 457(b) *Deferred Compensation Plan* that is available to all employees and is funded 100% by employee deferral contributions. Employees must be at least 21 years old and complete 90 days of continuous service. The Plan's investments are in trust with the John Hancock Life Insurance Company. There is a discretionary employer matching contribution, based on the employee's elective deferrals to the deferred compensation plan. The formula is dollar for dollar up to 2% of compensation. The discretionary matching contribution is deposited in the participant's account in the defined contribution plan. The employer contributions for 2020 and 2019 was \$18,120 and \$14,458, respectively. As of year-end 2020 and 2019, there were 20 active plan members, respectively.

D - Other

Since the District's Plans are sponsored by a governmental entity, then these Plans are not subject to the statutory provisions of the Employee Retirement and Income Security Act of 1974 (ERISA). In addition, the District's defined benefit plan is not covered by the Pension Benefit Guaranty Corporation (PBGC), a U.S. Government Agency.

NOTE 14 - RISK MANAGEMENT

The District is exposed to various risks of losses related to torts; theft, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries commercial insurance for these risks. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

NOTE 15 - ECONOMIC CONCENTRATION

The majority of the District's customers reside in the southeastern portion of Knox County, Tennessee.

The District's 10 largest customers approximated 11.78% and 13.12% of total water and wastewater revenues during 2020 and 2019, respectively.

NOTE 16 - RISKS AND UNCERTAINTIES/SUBSEQUENT EVENT

The District's Fiduciary Fund – Pension Trust Fund invests in various investments which are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect account balances and the amounts reported in the statement of fiduciary net position.

In March 2020, the World Health Organization declared the coronavirus (COVID-19) outbreak to be a pandemic. COVID-19 continues to spread across the globe and is impacting worldwide economic activity and financial markets. As of the date the financial statements were issued, the District's operations have not been significantly impacted by COVID-19. The continued spread of the disease and the government mandated mitigation programs represent significant risks to the District's operations and revenues. The extent to which COVID-19 impacts the District will depend on future developments, which are highly uncertain and cannot be predicted. As a result, the District has not yet determined the impact this business disruption may have on its financial statements for the year ending February 2021.

REQUIRED SUPPLEMENTARY INFORMATION

KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY

PENSION TRUST FUND

SCHEDULES OF CHANGES IN DISTRICT'S NET PENSION LIABILITY
AND RELATED RATIOS

Last Six Fiscal Years

	2020	2019	2018	2017	2016	2015
Total Pension Liability						
Service Cost	\$ 113,463	\$ 128,281	\$ 136,909	\$ 232,897	\$ 223,939	\$ 215,326
Interest	590,162	551,430	544,960	549,672	504,503	440,273
Changes of benefit terms	0	173,087	0	0	0	0
Differences between Expected and Actual Experience	199,839	13,605	(109,576)	(399,444)	10,708	394,983
Changes of assumptions	122,407	60,637	157,749	7,712	243,566	0
Benefit Payments	(39,275)	(1,239,705)	(38,587)	(674,978)	(28,732)	(152,153)
Net Change in Total Pension Liability	986,596	(312,665)	691,455	(284,141)	953,984	898,429
Total Pension Liability - Beginning	8,045,997	8,358,662	7,667,207	7,951,348	6,997,364	6,098,935
Total Pension Liability - Ending (a)	<u>\$ 9,032,593</u>	<u>\$ 8,045,997</u>	<u>\$ 8,358,662</u>	<u>\$ 7,667,207</u>	<u>\$ 7,951,348</u>	<u>\$ 6,997,364</u>
Plan Fiduciary Net Position						
Contributions - Employer	\$ 960,000	\$ 960,000	\$ 960,000	\$ 960,000	\$ 960,000	\$ 593,800
Net Investment Income (Loss)	221,532	204,655	490,835	557,016	(312,243)	183,356
Benefit Payments	(39,275)	(1,239,705)	(38,587)	(674,978)	(28,732)	(152,153)
Administrative Expense	(6,001)	(6,230)	(7,292)	(4,315)	(1,350)	(1,320)
Net Change in Plan Fiduciary Net Position	1,136,256	(81,280)	1,404,956	837,723	617,675	623,683
Plan Fiduciary Net Position - Beginning	6,506,965	6,588,245	5,183,289	4,345,566	3,727,891	3,104,208
Plan Fiduciary Net Position - Ending (b)	<u>\$ 7,643,221</u>	<u>\$ 6,506,965</u>	<u>\$ 6,588,245</u>	<u>\$ 5,183,289</u>	<u>\$ 4,345,566</u>	<u>\$ 3,727,891</u>
Net Pension Liability - Ending (a) - (b)	<u>\$ 1,389,372</u>	<u>\$ 1,539,032</u>	<u>\$ 1,770,417</u>	<u>\$ 2,483,918</u>	<u>\$ 3,605,782</u>	<u>\$ 3,269,473</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	84.62%	80.87%	78.82%	67.60%	54.65%	53.28%
Covered Payroll	\$ 1,290,041	\$ 1,344,980	\$ 1,357,138	\$ 1,524,062	\$ 1,636,375	\$ 1,510,830
Net Pension Liability as a Percentage of Covered Payroll	107.70%	114.43%	130.45%	162.98%	220.35%	216.40%

Notes: This schedule was first required for the fiscal year ended February 28, 2015. Subsequent years will include additional disclosures until 10 years of information is available.

Changes of Assumptions: In 2016, amounts reported as changes of assumptions consisted of assuming 100% early retirement at age 62, adopting the TCRS Mortality live expectancy tables and that approximately 67% of future retirees will elect lump sum distributions. In 2019, the retirement age criteria was also modified.

Prior to the implementation of GASB 82 in 2017, covered-employee payroll was used instead of covered payroll.

KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY
PENSION TRUST FUND
SCHEDULES OF DISTRICT'S PENSION CONTRIBUTIONS
Last Six Fiscal Years

	2020	2019	2018	2017	2016	2015
Actuarially Determined Contribution	\$ 183,613	\$ 172,067	\$ 282,637	\$ 376,661	\$ 557,402	\$ 500,764
Contributions in Relation to the Actuarially Determined Contribution	960,000	960,000	960,000	960,000	960,000	593,800
Contribution Deficiency (Excess)	\$ <u>(776,387)</u>	\$ <u>(787,933)</u>	\$ <u>(677,363)</u>	\$ <u>(583,339)</u>	\$ <u>(402,598)</u>	\$ <u>(93,036)</u>
Covered Payroll	\$ 1,290,041	\$ 1,344,980	\$ 1,357,138	\$ 1,524,062	\$ 1,636,375	\$ 1,510,830
Contributions as a Percentage of Covered Payroll	74.42%	71.38%	70.74%	62.99%	58.67%	39.30%

Note: This schedule was first required for the fiscal year ended February 28, 2015. Subsequent years will include additional disclosures until 10 years of information is available.

Notes:

Valuation Date: March 1, 2019

Actuarial determined contribution amounts for FY 2020 was calculated as of March 1, 2019.

Methods and Assumptions used to Calculate Actuarially Determined Contribution:

Actuarial Cost Method:	Individual Entry Age Normal
Amortization Method:	Level Percentage of Payroll, Closed
Remaining Amortization Period:	15 Years
Asset Valuation Method:	Actuarial value of plan assets
Salary Increases:	4.0% Average including Inflation
Investment Rate of Return	7.00% (2020 to 2019) and 7.25% (2018 to 2015), Net of Pension Plan Investment Expenses, Including Inflation
Retirement Age	100% at Age 65
Mortality	RP-2014 Blue Collar with Scale MP-2019 (2018 to 2019), TCRS Mortality Assumptions (2018 to 2015)
Distribution	67% Lump Sum with 4.25% (2019) and 4.50% (2018 to 2015) Present Value Rate, 33% Annuity

KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY

PENSION TRUST FUND

SCHEDULES OF INVESTMENT RETURNS (LOSSES)

Last Six Fiscal Years

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Annual Money-Weighed Rate of Return (Loss), Net of Investment Expense	<u>3.20</u> %	<u>3.11</u> %	<u>8.76</u> %	<u>12.86</u> %	<u>(7.56)</u> %	<u>5.44</u> %

Note: This schedule was first required for the fiscal year ended February 28, 2015. Subsequent years will include additional disclosures until 10 years of information is available.

OTHER SUPPLEMENTARY INFORMATION

KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY

SCHEDULE OF DEBT SERVICE REQUIREMENTS

February 29, 2020

Year	Series 2005 Bonds		Series 2011 Bonds		Series 2012 Bonds		Series 2015 Bonds		Series 2017 Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2021	\$ 44,120	\$ 70,420	\$ 415,000	\$ 16,600	\$ 275,000	\$ 567,350	\$ 690,000	\$ 525,638	\$ 220,000	\$ 582,263
2022	46,177	68,363	0	0	290,000	559,100	710,000	511,838	655,000	575,663
2023	48,119	66,421	0	0	300,000	551,850	710,000	490,538	695,000	556,013
2024	50,142	64,398	0	0	450,000	542,850	610,000	469,238	685,000	528,213
2025	52,069	62,471	0	0	470,000	522,600	635,000	450,938	700,000	507,663
2026	54,438	60,102	0	0	495,000	501,450	655,000	435,063	720,000	486,663
2027	56,727	57,813	0	0	515,000	479,175	660,000	408,863	760,000	465,063
2028	59,112	55,428	0	0	530,000	456,000	690,000	382,463	780,000	442,263
2029	61,443	53,097	0	0	200,000	434,800	730,000	347,963	1,145,000	418,863
2030	64,180	50,360	0	0	205,000	426,800	760,000	311,463	1,180,000	384,513
2031	66,878	47,662	0	0	210,000	418,600	805,000	273,463	1,215,000	349,113
2032	69,688	44,851	0	0	225,000	410,200	840,000	233,213	1,260,000	300,513
2033	72,496	42,044	0	0	235,000	401,200	880,000	191,213	1,310,000	250,113
2034	75,666	38,874	0	0	250,000	391,800	920,000	147,213	1,350,000	207,538
2035	78,847	35,693	0	0	255,000	381,800	945,000	119,613	1,415,000	153,538
2036	82,162	32,378	0	0	270,000	371,600	990,000	91,263	1,450,000	96,938
2037	85,529	29,011	0	0	1,620,000	360,800	1,010,000	60,326	220,000	48,000
2038	89,212	25,328	0	0	2,370,000	296,000	285,000	28,763	230,000	39,200
2039	92,962	21,578	0	0	2,465,000	201,200	295,000	19,500	240,000	30,000
2040	96,870	17,670	0	0	2,565,000	102,600	305,000	9,913	250,000	20,400
2041	100,898	13,642	0	0	0	0	0	0	260,000	10,400
2042	105,184	9,356	0	0	0	0	0	0	0	0
2043	109,606	4,934	0	0	0	0	0	0	0	0
2044	60,311	760	0	0	0	0	0	0	0	0
Total	\$ 1,722,836	\$ 972,654	\$ 415,000	\$ 16,600	\$ 14,195,000	\$ 8,377,775	\$ 14,125,000	\$ 5,508,485	\$ 16,740,000	\$ 6,452,933

KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY
SCHEDULE OF DEBT SERVICE REQUIREMENTS (Continued)

February 29, 2020

Year	Total Revenue Bonds		City of Maryville N/P #1		Total Notes from Direct Borrowings		Total Debt Service
	Principal	Interest	Principal	Interest	Principal	Interest	
2021	\$ 1,644,120	\$ 1,762,271	\$ 62,634	\$ 17,076	\$ 62,634	\$ 17,076	\$ 3,486,101
2022	1,701,177	1,714,964	65,202	14,509	65,202	14,509	3,495,852
2023	1,753,119	1,664,822	67,875	11,835	67,875	11,835	3,497,651
2024	1,795,142	1,604,699	70,658	9,052	70,658	9,052	3,479,551
2025	1,857,069	1,543,672	73,555	6,155	73,555	6,155	3,480,451
2026	1,924,438	1,483,278	76,570	3,139	76,570	3,139	3,487,425
2027	1,991,727	1,410,914	0	0	0	0	3,402,641
2028	2,059,112	1,336,154	0	0	0	0	3,395,266
2029	2,136,443	1,254,723	0	0	0	0	3,391,166
2030	2,209,180	1,173,136	0	0	0	0	3,382,316
2031	2,296,878	1,088,838	0	0	0	0	3,385,716
2032	2,394,688	988,777	0	0	0	0	3,383,465
2033	2,497,496	884,570	0	0	0	0	3,382,066
2034	2,595,666	785,425	0	0	0	0	3,381,091
2035	2,693,847	690,644	0	0	0	0	3,384,491
2036	2,792,162	592,179	0	0	0	0	3,384,341
2037	2,935,529	498,137	0	0	0	0	3,433,666
2038	2,974,212	389,291	0	0	0	0	3,363,503
2039	3,092,962	272,278	0	0	0	0	3,365,240
2040	3,216,870	150,583	0	0	0	0	3,367,453
2041	360,898	24,042	0	0	0	0	384,940
2042	105,184	9,356	0	0	0	0	114,540
2043	109,606	4,934	0	0	0	0	114,540
2044	60,311	760	0	0	0	0	61,071
Total	\$ 47,197,836	\$ 21,328,447	\$ 416,494	\$ 61,766	\$ 416,494	\$ 61,766	\$ 69,004,543

KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY

SCHEDULE OF CHANGES IN LONG-TERM DEBT BY INDIVIDUAL ISSUE

February 29, 2020

<u>Description of Indebtedness</u>	<u>Original Amount of Issue</u>	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Last Maturity Date</u>	<u>Outstanding March 1, 2019</u>	<u>Paid and/or Matured During Period</u>	<u>Outstanding February 29, 2020</u>
Bonds Payable							
Series 2005	\$ 2,194,100	\$ 4.125%	9/28/2005	9/28/2043	\$ 1,765,370	\$ (42,534)	\$ 1,722,836
Series 2011	14,890,000	3.50%	3/31/2011	1/1/2036	815,000	(400,000)	415,000
Series 2012	18,095,000	3.00%	10/18/2012	1/1/2040	14,470,000	(275,000)	14,195,000
Series 2015	15,505,000	5.00%	4/16/2015	1/1/2040	14,780,000	(655,000)	14,125,000
Series 2017	17,310,000	3.00%	2/23/2017	1/1/2041	16,955,000	(215,000)	16,740,000
Total Bonds Payable					<u>\$ 48,785,370</u>	<u>\$ (1,587,534)</u>	<u>\$ 47,197,836</u>
Notes Payable							
City of Maryville Capacity - NP #1	1,429,332	4.10%	3/31/2006	7/1/2025	\$ 476,661	\$ (60,167)	\$ 416,494
City of Maryville Expansion - NP #2	1,589,021	2.09%	6/13/2011	6/30/2031	1,309,525	(1,309,525)	0
Total Notes Payable					<u>\$ 1,786,186</u>	<u>\$ (1,369,692)</u>	<u>\$ 416,494</u>

KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY

SCHEDULE OF INSURANCE COVERAGE

February 29, 2020

Standard Workers' Compensation	Coverage
Accident Fund Insurance Company of America	Meets All State Requirements
Policy #WCV 6098993	\$500,000 Each Accident
Policy Period – 3/11/19 – 3/11/20	\$500,000 Policy Limit-Disease
	\$500,000 Each Employee-Disease
<u>Comprehensive and Blanket Crimes Bond</u>	
<u>Occurrence</u>	
Berkley Southeast Insurance Group	
Policy # CPA 4307066	
Policy Period – 3/11/19 – 3/11/20	
Employee Dishonesty	\$ 200,000
Employee Benefits Liability	\$ 1,000,000
<u>General Liability</u>	
Berkley Southeast Insurance Group	
Policy Period – 3/11/19 – 3/11/20	
Policy # CPA 4307066	
General Aggregate Limit	\$ 2,000,000
Products/Completed Operations Aggregate	\$ 2,000,000
Personal and Advertising Injury Limit	\$ 1,000,000
Each Occurrence Limit	\$ 1,000,000
Fire Damage Limit	\$ 500,000
Medical Payments	\$ 10,000
<u>Business Automobile Policy</u>	
Berkley Southeast Insurance Group	
Policy # CPA 4307066	
Policy Period – 3/11/19 – 3/11/20	
Bodily Injury and Property Damage	\$ 1,000,000
Auto Medical Payments	\$ 5,000
Comprehensive – Actual Cash Value Less	
\$500 Deductible	
Collision - \$500 Deductible	
<u>Commercial Inland Marine (Work Equipment)</u>	
Berkley Southeast Insurance Group	
Policy # CPA 4307066	
Policy Period – 3/11/19 – 3/11/20	
Total of Equipment Described on Policy -	\$ 433,442

KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY

SCHEDULE OF INSURANCE COVERAGE (Continued)

February 29, 2020

Commercial Property Insurance

Berkley Southeast Insurance Group

Policy # CPA 4307066

Policy Period – 3/11/19 – 3/11/20

Special Causes of Loss

\$1,000.00 Deductible

Schedule of Locations on Commercial Property Insurance Policy:

1. Building #1			
R-1905 John Sevier Highway	\$ 10,808,291	Building	
Filtration Plant and Warehouse	688,708	Contents	
2. 1905 John Sevier Highway	\$ 474,642	Building	
Office and Warehouse	95,566	Contents	
3. French Road/John Sevier Highway	\$ 12,211	Building	
Pump House and Water Pumps	19,113	Contents	
4. Porterfield Gap Road	\$ 20,037	Building	
Pump House /Pumps and Fittings	10,830	Contents	
5. Chapman Highway at Sevier County Line	\$ 23,287	Building	
Pump House /Pumps/Fittings	15,928	Contents	
6. Pump Stations at Twenty-Three Locations			
Insured for \$22,830 to \$91,318 Each	\$ 694,980	Building	
7. South Point Pump Station	\$ 114,264	Contents	
8. Water Reservoir Tanks at Eight Locations	\$ 3,356,476	Structure	

Note: Required information for Bond Covenants.

KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY

SCHEDULE OF WATER RATES AND STATISTICS

February 29, 2020 and February 28, 2019

1. As of fiscal year-end 2020 and 2019, the District serviced water and wastewater customers as shown below. Hotels, motels, apartments and mobile home parks are billed on a commercial unit basis. The District had 2,720 and 2,644 sewer customers for the fiscal years ended 2020 and 2019, respectively.

Billing Units	2020	2019
Residential and Commercial	14,583	14,286
Industrial	34	32
Total	<u>14,617</u>	<u>14,318</u>

2. Monthly Water Rate Schedule per 1,000 Gallons – (In effect as of February 29, 2020 and February 28, 2019.)

(A) Water Rates – Residential and Commercial:

	2020	2019
Minimum Bill	\$ 17.64	\$ 16.64
Per 1,000 gallons	\$ 6.30	\$ 6.30

(B) Water Rates – Industrial (per 1,000 gallons):

	2020	2019
Minimum Bill	\$ 18.91	\$ 17.91
0 – 10,000	\$ 6.40	\$ 6.40
10,000	\$ 5.01	\$ 5.01
25,000 to 60,000	\$ 4.86	\$ 4.86
Over 60,000	\$ 4.53	\$ 4.53

(C) Sewer Rates – Residential – Arrowhead Subdivision to Alcoa Highway:

	2020	2019
Minimum Bill	\$ 22.79	\$ 21.91
Per 1,000 gallons	\$ 6.22	\$ 5.98

(D) Sewer Rates – Residential – Stock Creek Development:

	2020	2019
Minimum Bill	\$ 25.37	\$ 24.39
Per 1,000 gallons	\$ 6.22	\$ 5.98

KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY
SCHEDULE OF WATER RATES AND STATISTICS (Continued)
February 29, 2020 and February 28, 2019

(E) Sewer Rates – Commercial and Contract Subdivisions:

	2020	2019
Minimum Bill	\$ 28.96	\$ 27.85
Per 1,000 gallons	\$ 6.47	\$ 6.22

(F) Sewer Rates – Industrial:

	2020	2019
Minimum Bill	\$ 30.88	\$ 29.69
Per 1,000 gallons	\$ 8.17	\$ 7.86

3. Water Tap Fees

	2020	2019
¾"	\$ 1,050	\$ 950
1"	\$ 2,475	\$ 2,375
2"	\$ 3,600	\$ 3,600
3"	\$ 5,600	\$ 5,600
4"	\$ 7,000	\$ 7,000
6"	\$ 10,000	\$ 10,000

4. Sewer Tap Fees

	2020	2019
Includes Inspection	\$ 1,400	\$ 1,300

5. Fireline Tap Fees

	2020	2019
Tap (Per Inch, Plus Cost of Meter)	\$ 1,000	\$ 1,000
Fire Hydrant	\$ 4,500	\$ 4,500
Private Fire Hydrant (Per Month)	\$ 10	\$ 10
Sprinkler Heads (Per Month)	\$.30	\$.30

6. Service Charge	\$ 40.00	\$ 40.00
-------------------	----------	----------

7. Returned Check Charge	\$ 25.00	\$ 25.00
--------------------------	----------	----------

8. Renter's Deposit	\$ 60.00	\$ 60.00
---------------------	----------	----------

KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY

AWWA WATER SCHEDULE

February 29, 2020

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

**AWWA Free Water Audit Software:
Reporting Worksheet**

Water Audit Report for: **KNOX-CHAPMAN UTILITY DISTRICT (00000367)**
Reporting Year: **2020** **3/2019 - 2/2020**

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

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

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

WATER SUPPLIED

<----- Enter grading in column 'E' and 'J' ----->

Volume from own sources:	<input type="text"/> 9	1,492.398	MG/Yr	<input type="text"/> 7	0.00%	<input type="text"/>	MG/Yr
Water imported:	<input type="text"/> 10	0.000	MG/Yr	<input type="text"/> 7	0.00%	<input type="text"/>	MG/Yr
Water exported:	<input type="text"/> 8	92.612	MG/Yr	<input type="text"/> 7	0.00%	<input type="text"/>	MG/Yr

Master Meter and Supply Error Adjustments
Enter negative % or value for under-registration
Enter positive % or value for over-registration

WATER SUPPLIED: **1,399.786** MG/Yr

AUTHORIZED CONSUMPTION

Billed metered:	<input type="text"/> 9	843.536	MG/Yr
Billed unmetered:	<input type="text"/> 10	0.000	MG/Yr
Unbilled metered:	<input type="text"/> 9	90.120	MG/Yr
Unbilled unmetered:	<input type="text"/>	17.497	MG/Yr

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

AUTHORIZED CONSUMPTION: **951.153** MG/Yr

WATER LOSSES (Water Supplied - Authorized Consumption) **448.633** MG/Yr

Apparent Losses

Unauthorized consumption: 3.499 MG/Yr

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

Customer metering inaccuracies:	<input type="text"/> 9	28.876	MG/Yr
Systematic data handling errors:	<input type="text"/> 10	2.109	MG/Yr

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

Apparent Losses: **34.484** MG/Yr

Real Losses (Current Annual Real Losses or CARL)

Real Losses = Water Losses - Apparent Losses: **414.148** MG/Yr

WATER LOSSES: **448.633** MG/Yr

NON-REVENUE WATER

NON-REVENUE WATER: **556.250** MG/Yr

= Water Losses + Unbilled Metered + Unbilled Unmetered

SYSTEM DATA

Length of mains: 9 **392.0** miles

Number of active AND inactive service connections: 9 **15,950**

Service connection density: **41** conn./mile main

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

Average length of customer service line: 10 **0.0** ft (length of service line, beyond the property boundary, that is the responsibility of the utility)

Average operating pressure: 8 **135.0** psi

COST DATA

Total annual cost of operating water system: 9 **\$8,760,000** \$/Year

Customer retail unit cost (applied to Apparent Losses): 9 **\$9.23** \$/1000 gallons (US)

Variable production cost (applied to Real Losses): 9 **\$842.34** \$/Million gallons ☐ Use Customer Retail Unit Cost to value real losses

WATER AUDIT DATA VALIDITY SCORE:

***** YOUR SCORE IS: 85 out of 100 *****

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

PRIORITY AREAS FOR ATTENTION:

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

- 1: Volume from own sources
- 2: Unauthorized consumption
- 3: Systematic data handling errors

KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY
AWWA WATER PERFORMANCE INDICATORS (Continued)
February 29, 2020

AWWA Free Water Audit Software:
System Attributes and Performance Indicators

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

Water Audit Report for: KNOX-CHAPMAN UTILITY DISTRICT (00000367)

Reporting Year: 2020 3/2019 - 2/2020

*** YOUR WATER AUDIT DATA VALIDITY SCORE IS: 85 out of 100 ***

System Attributes:

	Apparent Losses:	34.484	MG/Yr
	+ Real Losses:	414.148	MG/Yr
	= Water Losses:	448.633	MG/Yr
<div style="display: flex; align-items: center;"> ? Unavoidable Annual Real Losses (UARL): 222.39 MG/Yr </div>			
	Annual cost of Apparent Losses:	\$318,290	
	Annual cost of Real Losses:	\$348,854	Valued at Variable Production Cost
			Return to Reporting Worksheet to change this assumption

Performance Indicators:

Financial:	{	<div style="display: flex; justify-content: space-between; align-items: center;"> Non-revenue water as percent by volume of Water Supplied: 39.7% </div> <div style="display: flex; justify-content: space-between; align-items: center;"> Non-revenue water as percent by cost of operating system: 8.7% </div>	Real Losses valued at Variable Production Cost
Operational Efficiency:	{	<div style="display: flex; justify-content: space-between; align-items: center;"> Apparent Losses per service connection per day: 5.92 gallons/connection/day </div> <div style="display: flex; justify-content: space-between; align-items: center;"> Real Losses per service connection per day: 71.14 gallons/connection/day </div> <div style="display: flex; justify-content: space-between; align-items: center;"> Real Losses per length of main per day*: N/A </div> <div style="display: flex; justify-content: space-between; align-items: center;"> Real Losses per service connection per day per psi pressure: 0.53 gallons/connection/day/psi </div>	
		From Above, Real Losses = Current Annual Real Losses (CARL): 414.15 million gallons/year	
		? Infrastructure Leakage Index (ILI) [CARL/UARL]: 1.86	

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

KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY

AWWA WATER SCHEDULE (Continued)


February 28, 2019

AWWA Free Water Audit Software: Reporting Worksheet										WAS v5.0 American Water Works Association. Copyright © 2014. All Rights Reserved.																																											
<div style="display: flex; justify-content: space-around;"> Click to access definition Click to add a comment </div>		Water Audit Report for: Knox-Chapman Utility District (00000367)																																																			
		Reporting Year: 2018		3/2018 - 2/2019																																																	
<small>Please enter data in the white cells below. Where available, metered values should be used; if metered values are unavailable please estimate a value. Indicate your confidence in the accuracy of the input data by grading each component (n/a or 1-10) using the drop-down list to the left of the input cell. Hover the mouse over the cell to obtain a description of the grades</small>																																																					
All volumes to be entered as: MILLION GALLONS (US) PER YEAR																																																					
<div style="display: flex; justify-content: space-between;"> <div> <p>WATER SUPPLIED</p> <p style="font-size: small;">To select the correct data grading for each input, determine the highest grade where the utility meets or exceeds all criteria for that grade and all grades below it.</p> <p style="text-align: center; font-size: small;"><----- Enter grading in column 'E' and 'J' -----></p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;">Volume from own sources:</td> <td style="width: 5%; text-align: center;">+</td> <td style="width: 5%; text-align: center;">?</td> <td style="width: 5%; text-align: center;">9</td> <td style="width: 20%; border: 1px solid black; padding: 2px;">1,388.078</td> <td style="width: 10%; text-align: right;">MG/Yr</td> </tr> <tr> <td>Water imported:</td> <td style="text-align: center;">+</td> <td style="text-align: center;">?</td> <td style="text-align: center;">8</td> <td style="border: 1px solid black; padding: 2px;">0.000</td> <td style="text-align: right;">MG/Yr</td> </tr> <tr> <td>Water exported:</td> <td style="text-align: center;">+</td> <td style="text-align: center;">?</td> <td style="text-align: center;">8</td> <td style="border: 1px solid black; padding: 2px;">96.821</td> <td style="text-align: right;">MG/Yr</td> </tr> </table> </div> <div> <p>Master Meter and Supply Error Adjustments</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 15%; text-align: center;">Pcnt:</td> <td style="width: 15%; text-align: center;">Value:</td> <td style="width: 15%;"></td> <td style="width: 15%;"></td> <td style="width: 15%;"></td> <td style="width: 15%;"></td> </tr> <tr> <td style="text-align: center;">+</td> <td style="text-align: center;">?</td> <td style="text-align: center;">9</td> <td style="border: 1px solid black; padding: 2px;">1.25%</td> <td style="border: 1px solid black; padding: 2px;">0.00%</td> <td style="text-align: right;">MG/Yr</td> </tr> <tr> <td style="text-align: center;">+</td> <td style="text-align: center;">?</td> <td style="text-align: center;">8</td> <td style="border: 1px solid black; padding: 2px;">0.00%</td> <td style="border: 1px solid black; padding: 2px;">0.00%</td> <td style="text-align: right;">MG/Yr</td> </tr> <tr> <td style="text-align: center;">+</td> <td style="text-align: center;">?</td> <td style="text-align: center;">8</td> <td style="border: 1px solid black; padding: 2px;">0.00%</td> <td style="border: 1px solid black; padding: 2px;">0.00%</td> <td style="text-align: right;">MG/Yr</td> </tr> </table> <p style="font-size: small;">Enter negative % or value for under-registration Enter positive % or value for over-registration</p> </div> </div>												Volume from own sources:	+	?	9	1,388.078	MG/Yr	Water imported:	+	?	8	0.000	MG/Yr	Water exported:	+	?	8	96.821	MG/Yr	Pcnt:	Value:					+	?	9	1.25%	0.00%	MG/Yr	+	?	8	0.00%	0.00%	MG/Yr	+	?	8	0.00%	0.00%	MG/Yr
Volume from own sources:	+	?	9	1,388.078	MG/Yr																																																
Water imported:	+	?	8	0.000	MG/Yr																																																
Water exported:	+	?	8	96.821	MG/Yr																																																
Pcnt:	Value:																																																				
+	?	9	1.25%	0.00%	MG/Yr																																																
+	?	8	0.00%	0.00%	MG/Yr																																																
+	?	8	0.00%	0.00%	MG/Yr																																																
WATER SUPPLIED:				1,291.257		MG/Yr																																															
<p>AUTHORIZED CONSUMPTION</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;">Billed metered:</td> <td style="width: 5%; text-align: center;">+</td> <td style="width: 5%; text-align: center;">?</td> <td style="width: 5%; text-align: center;">9</td> <td style="width: 20%; border: 1px solid black; padding: 2px;">922.921</td> <td style="width: 10%; text-align: right;">MG/Yr</td> </tr> <tr> <td>Billed unmetered:</td> <td style="text-align: center;">+</td> <td style="text-align: center;">?</td> <td style="text-align: center;">9</td> <td style="border: 1px solid black; padding: 2px;">0.000</td> <td style="text-align: right;">MG/Yr</td> </tr> <tr> <td>Unbilled metered:</td> <td style="text-align: center;">+</td> <td style="text-align: center;">?</td> <td style="text-align: center;">9</td> <td style="border: 1px solid black; padding: 2px;">4.125</td> <td style="text-align: right;">MG/Yr</td> </tr> <tr> <td>Unbilled unmetered:</td> <td style="text-align: center;">+</td> <td style="text-align: center;">?</td> <td style="text-align: center;">8</td> <td style="border: 1px solid black; padding: 2px;">16.141</td> <td style="text-align: right;">MG/Yr</td> </tr> </table> <p style="font-size: small; color: blue;">Default option selected for Unbilled unmetered - a grading of 5 is applied but not displayed</p> <p>AUTHORIZED CONSUMPTION: 943.187 MG/Yr</p>												Billed metered:	+	?	9	922.921	MG/Yr	Billed unmetered:	+	?	9	0.000	MG/Yr	Unbilled metered:	+	?	9	4.125	MG/Yr	Unbilled unmetered:	+	?	8	16.141	MG/Yr																		
Billed metered:	+	?	9	922.921	MG/Yr																																																
Billed unmetered:	+	?	9	0.000	MG/Yr																																																
Unbilled metered:	+	?	9	4.125	MG/Yr																																																
Unbilled unmetered:	+	?	8	16.141	MG/Yr																																																
WATER LOSSES (Water Supplied - Authorized Consumption)				348.070		MG/Yr																																															
<p>Apparent Losses</p> <p>Unauthorized consumption: 3.228 MG/Yr</p> <p style="font-size: small; color: blue;">Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed</p> <p>Customer metering inaccuracies: 38.627 MG/Yr</p> <p>Systematic data handling errors: 2.307 MG/Yr</p> <p style="font-size: small; color: blue;">Default option selected for Systematic data handling errors - a grading of 5 is applied but not displayed</p> <p>Apparent Losses: 44.162 MG/Yr</p>																																																					
<p>Real Losses (Current Annual Real Losses or CARL)</p> <p>Real Losses = Water Losses - Apparent Losses: 303.908 MG/Yr</p> <p>WATER LOSSES: 348.070 MG/Yr</p>																																																					
<p>NON-REVENUE WATER</p> <p>NON-REVENUE WATER: 368.336 MG/Yr</p> <p style="font-size: small;">= Water Losses + Unbilled Metered + Unbilled Unmetered</p>																																																					
<p>SYSTEM DATA</p> <p>Length of mains: 394.0 miles</p> <p>Number of <u>active AND inactive</u> service connections: 16,520</p> <p>Service connection density: 42 conn./mile main</p> <p>Are customer meters typically located at the curbside or property line?</p> <p>Average length of customer service line: 0.0 ft (length of service line, beyond the property boundary, that is the responsibility of the utility)</p> <p>Average operating pressure: 135.0 psi</p>																																																					
<p>COST DATA</p> <p>Total annual cost of operating water system: \$8,242,000 \$/Year</p> <p>Customer retail unit cost (applied to Apparent Losses): \$8.97 \$/1000 gallons (US)</p> <p>Variable production cost (applied to Real Losses): \$858.42 \$/Million gallons <input type="checkbox"/> Use Customer Retail Unit Cost to value real losses</p>																																																					
<p>WATER AUDIT DATA VALIDITY SCORE:</p> <div style="border: 2px solid red; padding: 10px; text-align: center; color: red; font-weight: bold;"> *** YOUR SCORE IS: 83 out of 100 *** </div> <p style="font-size: small;">A weighted scale for the components of consumption and water loss is included in the calculation of the Water Audit Data Validity Score</p>																																																					
<p>PRIORITY AREAS FOR ATTENTION:</p> <p>Based on the information provided, audit accuracy can be improved by addressing the following components:</p> <div style="border: 1px solid red; padding: 2px; margin-bottom: 2px;">1: Volume from own sources</div> <div style="border: 1px solid red; padding: 2px; margin-bottom: 2px;">2: Unauthorized consumption</div> <div style="border: 1px solid red; padding: 2px;">3: Systematic data handling errors</div>																																																					

KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY

AWWA WATER PERFORMANCE INDICATORS (Continued)

February 28, 2019



AWWA Free Water Audit Software:
System Attributes and Performance Indicators

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

Water Audit Report for: Knox-Chapman Utility District (00000367)

Reporting Year: 2018 3/2018 - 2/2019

*** YOUR WATER AUDIT DATA VALIDITY SCORE IS: 83 out of 100 ***

System Attributes:

	Apparent Losses:	44.162	MG/Yr
	+	Real Losses:	303.908 MG/Yr
	=	Water Losses:	348.070 MG/Yr
<div style="display: flex; align-items: center;"> ? Unavoidable Annual Real Losses (UARL): 227.14 MG/Yr </div>			
		Annual cost of Apparent Losses:	\$396,136
		Annual cost of Real Losses:	\$260,881 Valued at Variable Production Cost
Return to Reporting Worksheet to change this assumption			

Performance Indicators:

Financial:

{

Non-revenue water as percent by volume of Water Supplied:	28.5%	
Non-revenue water as percent by cost of operating system:	8.2%	Real Losses valued at Variable Production Cost

Operational Efficiency:

{

Apparent Losses per service connection per day:	7.32	gallons/connection/day
Real Losses per service connection per day:	50.40	gallons/connection/day
Real Losses per length of main per day*:	N/A	
Real Losses per service connection per day per psi pressure:	0.37	gallons/connection/day/psi

From Above, Real Losses = Current Annual Real Losses (CARL):	303.91	million gallons/year
? Infrastructure Leakage Index (ILI) [CARL/UARL]:	1.34	

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

STATISTICAL SECTION

This part of the District's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the District's overall financial health.

<u>Contents</u>	<u>Pages</u>
Financial Trends	
<i>These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.</i>	55-56
Revenue Capacity	
<i>These schedules contain information to help the reader assess the District's operating revenues and customer statistics.</i>	57-62
Debt Capacity	
<i>These schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt in the future.</i>	63-64
Demographic and Economic Information	
<i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place.</i>	65-66
Operating Information	
<i>These schedules contain service data to help the reader understand how the information in the District's financial report relates to the water and wastewater services provided by the District.</i>	67-68

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year.

KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY

NET POSITION BY COMPONENT

Last Ten Fiscal Years

Fiscal Year	Net Investment in Capital Assets	Restricted Capital Activity	Debt Service	Unrestricted	Total
2011	\$ 13,463,020	\$ 0	\$ 962,567	\$ 6,191,329	\$ 20,616,916
2012	11,906,062	0	2,567,783	6,815,260	21,289,105
2013	11,574,362	0	3,314,746	6,923,159	21,812,267
2014	12,487,273	0	3,333,387	7,641,904	23,462,564
2015 (A)	15,112,130	0	2,775,018	2,762,825	20,649,973
2016	14,041,499	0	2,981,409	3,502,469	20,525,377
2017	13,291,075	0	3,099,987	4,891,978	21,283,040
2018	12,887,074	0	3,230,036	6,133,090	22,250,200
2019	13,108,652	0	3,249,506	7,428,217	23,786,375
2020	15,607,917	0	3,335,430	7,000,695	25,944,042

Note: (A) During FY 2015 the District adopted GASB Statements No. 67 & 68 which decreased unrestricted net position by \$3,449,178 as of March 1, 2015.

KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY

CHANGES IN NET POSITION

Last Ten Fiscal Years

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Operating Revenues										
Water – Net	\$ 5,541,484	\$ 5,848,269	\$ 6,190,714	\$ 6,915,095	\$ 7,175,591	\$ 7,495,074	\$ 7,995,487	\$ 8,124,340	\$ 8,512,931	\$ 8,627,947
Wastewater – Net	1,160,582	1,282,910	1,315,137	1,401,806	1,522,689	1,602,686	1,844,280	1,916,216	1,931,485	2,218,585
Connection Fees	201,400	170,800	165,550	240,960	329,875	279,525	383,000	367,929	703,426	601,035
Service Fees	48,038	59,002	52,711	54,243	71,149	49,030	45,755	97,715	97,803	95,948
Miscellaneous	1,387	7,902	2,561	31,559	29,504	20,293	30,448	44,125	96,686	40,129
Total Operating Revenues	<u>6,952,891</u>	<u>7,368,883</u>	<u>7,726,673</u>	<u>8,643,663</u>	<u>9,128,808</u>	<u>9,446,608</u>	<u>10,298,970</u>	<u>10,550,325</u>	<u>11,342,331</u>	<u>11,583,644</u>
Operating Expenses										
Water Purification and Supply	1,152,397	1,182,791	1,243,406	1,331,085	1,112,950	1,296,053	1,240,163	1,101,190	1,240,495	1,307,119
Water Transmission and Distribution	1,423,243	1,717,326	1,826,481	1,821,801	1,485,543	1,800,885	1,839,616	1,933,641	2,087,651	2,430,258
Wastewater Collection	634,798	695,392	658,612	676,826	929,344	759,714	713,113	719,035	862,186	920,083
Customer Accounting and Collections	339,774	380,659	442,120	444,875	683,778	717,014	688,653	655,528	681,757	682,193
Administrative and General	626,703	573,034	655,904	651,872	714,428	818,001	980,827	1,111,647	1,024,951	997,756
Depreciation and Amortization	1,134,627	1,165,129	1,280,390	1,417,128	1,990,860	2,129,712	2,200,653	2,243,511	2,310,892	2,364,519
Total Operating Expenses	<u>5,311,542</u>	<u>5,714,331</u>	<u>6,106,913</u>	<u>6,343,587</u>	<u>6,916,903</u>	<u>7,521,379</u>	<u>7,663,025</u>	<u>7,764,552</u>	<u>8,207,932</u>	<u>8,701,928</u>
Operating Income	<u>1,641,349</u>	<u>1,654,552</u>	<u>1,619,760</u>	<u>2,300,076</u>	<u>2,211,905</u>	<u>1,925,229</u>	<u>2,635,945</u>	<u>2,785,773</u>	<u>3,134,399</u>	<u>2,881,716</u>
Non-Operating Revenues (Expenses)										
Investment Income	66,925	79,904	74,712	79,187	44,009	41,580	47,765	31,202	135,870	266,459
Interest & Issuance Expense	(1,061,250)	(973,432)	(1,196,276)	(864,661)	(1,554,018)	(2,102,641)	(2,038,436)	(1,983,090)	(1,940,882)	(1,896,469)
Gain (Loss) on Disposal and Impairment of Capital Assets	<u>0</u>	<u>0</u>	<u>0</u>	<u>(2,933)</u>	<u>(65,309)</u>	<u>3,896</u>	<u>5,501</u>	<u>0</u>	<u>12,158</u>	<u>0</u>
Total Non-Operating Revenues (Expenses) - Net	<u>(994,325)</u>	<u>(893,528)</u>	<u>(1,121,564)</u>	<u>(788,407)</u>	<u>(1,575,318)</u>	<u>(2,057,165)</u>	<u>(1,985,170)</u>	<u>(1,951,888)</u>	<u>(1,792,854)</u>	<u>(1,630,010)</u>
Increase in Net Position Before Capital Contributions	<u>647,024</u>	<u>761,024</u>	<u>498,196</u>	<u>1,511,669</u>	<u>636,587</u>	<u>(131,936)</u>	<u>650,775</u>	<u>833,885</u>	<u>1,341,545</u>	<u>1,251,706</u>
Capital Contributions										
Cash Contributions	335,583	9,130	12,960	14,500	0	0	23,101	45,244	0	784,587
Developers Contributions of Capital Assets	<u>0</u>	<u>0</u>	<u>12,006</u>	<u>124,128</u>	<u>0</u>	<u>7,340</u>	<u>83,787</u>	<u>88,030</u>	<u>194,631</u>	<u>121,374</u>
Total Capital Contributions	<u>335,583</u>	<u>9,130</u>	<u>24,966</u>	<u>138,628</u>	<u>0</u>	<u>7,340</u>	<u>106,888</u>	<u>133,274</u>	<u>194,631</u>	<u>905,961</u>
Change in Net Position	<u>\$ 982,607</u>	<u>\$ 770,154</u>	<u>\$ 523,162</u>	<u>\$ 1,650,297</u>	<u>\$ 636,587</u>	<u>\$ (124,596)</u>	<u>\$ 757,663</u>	<u>\$ 967,159</u>	<u>\$ 1,536,176</u>	<u>\$ 2,157,667</u>

KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY

WATER PRODUCED, SOLD AND CONSUMED

Last Ten Fiscal Years

Fiscal Year	Per 1,000 Gallons				Direct Rates			
	Produced	Sold and Consumed	Unbilled		Water		Wastewater	
			Gallons	Percentage	Minimum Bill	Usage Rate	Minimum Bill	Usage Rate
2011	1,412,966	902,823	510,143	36.10	\$ 13.28	\$ 5.71	\$ 7.57	\$ 3.76
2012	1,308,653	887,496	421,157	32.18	13.28	5.71	7.57	4.36
2013	1,344,744	892,343	494,251	36.75	14.21	6.11	8.10	4.67
2014	1,364,786	872,085	492,701	36.10	14.21	6.11	17.70	4.83
2015	1,318,830	869,595	449,235	34.06	14.21	6.11	17.70	4.83
2016	1,349,539	883,952	456,752	33.85	14.64	6.30	18.24	4.98
2017	1,506,244	934,550	571,694	37.95	15.64	6.30	19.70	5.38
2018	1,343,981	948,013	349,696	26.02	16.64	6.30	21.27	5.81
2019	1,388,078	1,007,389	383,328	27.62	16.64	6.30	21.91	5.98
2020	1,528,699	1,030,605	461,793	30.21	17.64	6.30	22.79	6.22

Notes: Information compiled from internally generated statistical records.

(a) Gallons are measured per 1,000 gallons.

(b) Monthly minimum bill is based upon the first 2,000 gallons of water purchased and treated (decreased to 1,500 in 2011), (decreased to 1,000 in 2012, decreased to 500 in 2013 and decreased to 0 in 2015).

(c) Minimum bill rates are for residential customers only. The District has two categories for wastewater rates, the largest customer base category is presented.

(d) Usage rate is per thousand gallons of water purchased or treated in excess of the first 2,000 gallons on a monthly basis (decreased to 1,500 in 2011), (decreased to 1,000 in 2012, decreased to 500 in 2013 and decreased to 0 in 2015).

KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY

ANNUAL TAPS SOLD

Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Water Meter Taps Sold</u>	<u>Wastewater Taps Sold</u>	<u>Total Taps Sold</u>
2011	92	20	112
2012	80	15	95
2013	61	18	79
2014	156	30	186
2015	152	58	210
2016	145	51	196
2017	243	44	287
2018	175	47	222
2019	246	102	348
2020	291	64	355

Note: Information compiled from internally generated statistical records.

KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY
NUMBER OF WATER AND WASTEWATER CUSTOMERS BY TYPE

Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Residential</u>	<u>Commercial</u>	<u>Industrial</u>	<u>Other</u>	<u>Total</u>
Water					
2011	12,551	450	25	9	13,035
2012	12,564	458	25	9	13,056
2013	12,618	464	25	8	13,115
2014	12,763	482	25	6	13,276
2015	12,860	489	26	5	13,380
2016	13,063	487	26	4	13,580
2017	13,316	491	27	4	13,838
2018	13,635	398	32	7	14,072
2019	13,860	419	32	7	14,318
2020	14,149	427	34	7	14,617
Wastewater					
2011	2,149	141	20	1	2,311
2012	2,167	150	20	1	2,338
2013	2,160	146	20	1	2,327
2014	2,190	147	20	2	2,359
2015	2,230	144	20	1	2,395
2016	2,271	143	20	1	2,435
2017	2,328	146	21	0	2,495
2018	2,392	162	23	0	2,577
2019	2,471	170	26	0	2,667
2020	2,542	158	20	0	2,720

Note: Information is from customer billing records from the last day of February of every year. "Commercial" includes apartments and multiple business malls. "Other" includes government buildings, schools, and churches.

KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY

WATER AND WASTEWATER RATES

Last Ten Fiscal Years

Water Rates Base Rate Meter Size	Fiscal Year									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
(b) (c) (d) (e)										
3/4"	\$ 13.28	\$ 13.28	\$ 14.21	\$ 14.21	\$ 14.21	\$ 14.64	\$ 15.64	\$ 16.64	\$ 16.64	\$ 17.64
1"	14.43	14.43	15.44	15.44	15.44	15.91	16.91	17.91	17.91	18.91
2"	14.43	14.43	15.44	15.44	15.44	15.91	16.91	17.91	17.91	18.91
6"	14.43	14.43	15.44	15.44	15.44	15.91	16.91	17.91	17.91	18.91
8"	14.43	14.43	15.44	15.44	15.44	15.91	16.91	17.91	17.91	18.91
Usage Rates										
(Per 1,000 Gallons)										
Over Minimum										
Over 1,000 Gallons	\$ 5.71	\$ 5.71	\$ 6.11	\$ 6.11	\$ 6.11	\$ 6.30	\$ 6.30	\$ 6.30	\$ 6.30	\$ 6.30

Notes: Information compiled from internal records

(a) Increases in water and wastewater rates must be approved by the Board of Commissioners.

(b) During FY 2011, the minimum monthly usage decreased from 2,000 to 1,500 gallons.

(c) During FY 2012, the minimum monthly usage decreased from 1,500 to 1,000 gallons.

(d) During FY 2013, the minimum monthly usage decreased from 1,000 to 500 gallons.

(e) During FY 2015, the minimum monthly usage decreased from 500 to 0 gallons.

KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY

WATER AND WASTEWATER RATES (Continued)

Last Ten Fiscal Years

Wastewater Rates Base Rate Meter Size	Fiscal Year									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
(b) (c) (d) (e)										
3/4" Residential	\$ 7.57	\$ 7.57	\$ 8.10	\$ 17.70	\$ 17.70	\$ 18.24	\$ 21.93	\$ 23.68	\$ 24.39	\$ 25.37
3/4" Commercial	7.94	7.94	8.50	22.50	22.50	23.18	25.04	27.04	27.85	28.96
Industrial	24.00	24.00	24.00	24.00	24.00	24.72	26.70	28.83	37.55	39.05
1"	5.18	5.78	6.19	6.35	6.35	6.54	7.07	7.63	7.86	8.17
2"	5.18	5.78	6.19	6.35	6.35	6.54	7.07	7.63	7.86	8.17
6"	5.18	5.78	6.19	6.35	6.35	6.54	7.07	7.63	7.86	8.17
8"	5.18	5.78	6.19	6.35	6.35	6.54	7.07	7.63	7.86	8.17
Usage Rates										
(Per 1,000 Gallons)										
Over 1,000 Gallons										
Residential	\$ 3.76	\$ 4.36	\$ 4.67	\$ 4.83	\$ 4.83	\$ 4.98	\$ 5.38	\$ 5.81	\$ 5.98	\$ 6.22
Commercial	3.95	4.55	4.87	5.03	5.03	5.18	5.60	6.04	6.22	6.47
Industrial	5.18	5.78	6.19	6.35	6.35	6.54	7.07	7.63	7.86	8.17

Notes: Information compiled from internal records

(a) Increases in water and wastewater rates must be approved by the Board of Commissioners.

(b) During FY 2011, the minimum monthly usage decreased from 2,000 to 1,500 gallons.

(c) During FY 2012, the minimum monthly usage decreased from 1,500 to 1,000 gallons.

(d) During FY 2013, the minimum monthly usage decreased from 1,000 to 500 gallons.

(e) During FY 2015, the minimum monthly usage decreased from 500 to 0 gallons.

KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY

TEN LARGEST CUSTOMERS

Current Fiscal Year and Nine Years Ago

Customer	Type of Business	FY 2020			FY 2011	
		Total Annual Sales	Percentage of Total Sales		Total Annual Sales	Percentage of Total Sales
Cintas Corporation	Uniform Laundry Service	\$ 284,599	2.62 %	\$	171,616	2.56 %
Johnson University	Higher Education	257,768	2.38		117,775	1.76
Tuckaleeche Utility District	Utility	232,654	2.14		69,966	1.04
Evoqua Water Technologies	Retail Store	61,677	0.57		N/A	N/A
Sevier County Schools	Education	70,284	0.65		77,154	1.15
Knox County Schools	Education	78,869	0.73		67,578	1.01
Harrison Chilhowee School	Education	74,296	0.68		30,466	0.45
Williamsburg Villas	Residential	66,174	0.61		N/A	N/A
Trinity Home	Residential	46,423	0.54		N/A	N/A
Fastop Market	Retail Store	N/A	N/A		138,361	2.06
Zips Car Wash	Car Wash	92,657	0.85		N/A	N/A
Siemens Medical Solutions USA	Healthcare	N/A	N/A		60,134	0.90
Southlake RV Park	Residential	N/A	N/A		23,542	0.35
Walmart Super Center	Retail Store	N/A	N/A		23,083	0.34
Total		<u>\$ 1,265,401</u>	<u>11.78 %</u>	\$	<u>779,675</u>	<u>11.62 %</u>

Notes: (a) Information compiled from internal records.

(b) Total annual sales include net water and wastewater revenues only.

KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY

OUTSTANDING DEBT PER CUSTOMER

Last Ten Fiscal Years

Fiscal Year	Principal		Unamortized Bond Premiums and Discounts	Total (a)	Number of Customers (b)	Outstanding Debt Per Customer
	Revenue Bonds	Notes Payable				
2011	\$ 19,358,707	\$ 3,650,670	\$ (386,591)	\$ 22,622,786	13,035	\$ 1,750
2012	33,503,314	3,596,749	50,065	37,150,128	13,056	2,842
2013	45,911,651	3,541,040	847,541	50,300,232	13,115	3,771
2014	44,933,420	3,483,468	805,451	49,222,339	13,276	3,647
2015	43,923,824	2,073,958	760,391	46,758,173	13,380	3,495
2016	47,627,740	2,012,431	2,066,841	51,707,012	13,580	3,808
2017	51,750,361	1,948,803	2,295,922	55,995,086	13,838	4,046
2018	50,326,189	1,854,277	2,120,476	54,300,942	14,072	3,859
2019	48,785,370	1,786,186	1,943,622	52,515,178	14,318	3,668
2020	47,197,836	416,494	1,773,023	49,387,353	14,617	3,379

Notes: (a) Outstanding debt is net unamortized bond premium and discounts.

(b) Number of customers is based upon water customers.

No debt to personal income ratio is shown because personal income for the District's service area is not available.
The District's service area covers parts of three counties in east Tennessee.

KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY

PLEDGED REVENUE COVERAGE

Last Ten Fiscal Years

Fiscal Year	(a) Gross Revenues	(b) Operating Expenses	Net Revenues Available for Debt Service	Debt Service Requirements			Coverage Ratio (d)
				(c) Principal	Interest Paid (c)	Total	
2011	\$ 7,019,816	\$ 4,176,915	\$ 2,842,901	\$ 761,286	\$ 947,056	\$ 1,708,342	\$ 1.44
2012	7,468,551	4,549,202	2,919,349	799,314	1,366,009	2,165,323	1.35
2013	7,801,385	4,826,523	2,974,862	951,663	1,609,613	2,561,276	1.16
2014	8,722,851	4,926,459	3,796,392	978,231	1,917,413	2,895,644	1.31
2015	9,172,817	4,926,043	4,246,774	1,009,596	1,887,916	2,897,512	1.47
2016	9,488,188	5,391,667	4,096,521	1,061,084	1,857,460	2,918,544	1.40
2017	10,346,735	5,462,372	4,884,363	1,247,379	1,934,737	3,182,116	1.53
2018	10,581,527	5,521,041	5,060,486	1,424,172	1,824,032	3,248,204	1.56
2019	11,478,201	5,897,040	5,581,161	1,540,819	1,870,060	3,410,879	1.64
2020	11,850,103	6,337,409	5,512,694	1,587,535	1,825,306	3,412,841	1.62

Notes: (a) Includes operating revenues and investment income.

(b) Does not include depreciation and amortization expense.

(c) Principal and Interest paid on revenue bond debt.

(d) According to the Series 2005, 2012, 2015 and 2017 Bond covenants, the District is required to maintain a minimum service coverage ratio (net revenues/debt service) of 1.20.

KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY

DEMOGRAPHIC AND ECONOMIC STATISTICS

Last Ten Calendar Years

Calendar Year	Population	Personal Income (Thousands of Dollars)	Per Capita Personal Income	Unemployment Rate	
				County	State
2010	432,226	\$ 15,222,567	\$ 35,219	7.0	9.5
2011	436,104	16,961,829	38,894	6.9	9.2
2012	440,725	18,149,825	41,182	6.3	8.0
2013	441,311	18,466,333	41,844	5.6	7.9
2014	448,664	19,297,297	43,011	5.7	6.6
2015	451,324	20,241,530	44,849	4.8	5.6
2016	456,132	21,121,133	46,305	4.7	5.1
2017	459,396	22,243,142	48,160	2.9	3.3
2018	464,819	23,142,739	49,738	2.8	3.3
2019	469,363	N/A	N/A	2.9	3.3

Notes: (a) N/A = Data not available.

(b) Only Knox County is presented.

(c) Population – U.S. Bureau of the Census.

(d) Income - Bureau of Economic Analysis, U.S. Department of Commerce.

(e) Unemployment Rates - Bureau of Economic Analysis, U.S. Department of Commerce.

KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY

PRINCIPAL EMPLOYERS

Current Calendar Year and Nine Years Ago

Employer	Industry	2019		2010	
		Number of Employees	% of Total Knox County Workforce	Number of Employees	% of Total Knox County Workforce
Covenant Health	Health Care	9,792	3.98 %	9,000	3.92 %
Knox County Schools	Education	7,949	3.23	6,945	3.02
The University of Tennessee	Education	9,384	3.81	9,326	4.06
Walmart	Retail	6,863	2.79	4,336	1.89
University Health Systems	Health Care	5,458	2.22	3,802	1.65
Tennova Healthcare	Health Care	2,900	1.18	N/A	N/A
Mercy Health Partners	Health Care	N/A	N/A	5,700	2.48
State of Tennessee	Government	3,286	1.33	3,750	1.63
K-VA-T Food Stores	Retail Grocery	3,104	1.26	3,983	1.73
Knox County	Government	N/A	N/A	3,037	1.32
The Kroger Co.	Retail Store	2,651	1.08	2,544	1.11
McDonalds	Fast Food	3,113	1.26	N/A	N/A
Total		<u>54,500</u>	<u>22.13 %</u>	<u>52,423</u>	<u>22.81 %</u>

Notes: (a) Only Knox County presented.

Source: Knoxville Area Chamber Partnership.

KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY

NUMBER OF EMPLOYEES BY ACTIVITY

Last Ten Fiscal Years

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
WATER AND WASTEWATER										
Water Purification	5	5	5	5	5	6	6	6	6	7
Water Treatment	10	9	10	11	10	11	13	14	14	17
Waste Water Collection	3	3	3	3	4	3	3	3	3	3
Customer Accounting and Collection	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>4</u>	<u>5</u>
	<u>21</u>	<u>20</u>	<u>21</u>	<u>22</u>	<u>22</u>	<u>22</u>	<u>25</u>	<u>27</u>	<u>27</u>	<u>32</u>
ADMINISTRATION										
Billing and Customer Service	4	4	4	5	5	5	6	6	5	5
Finance and Accounting	2	2	2	2	2	3	3	3	2	2
Administrative	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>
	<u>8</u>	<u>8</u>	<u>8</u>	<u>9</u>	<u>9</u>	<u>10</u>	<u>11</u>	<u>11</u>	<u>9</u>	<u>9</u>
TOTAL EMPLOYEES	<u>29</u>	<u>28</u>	<u>29</u>	<u>31</u>	<u>31</u>	<u>32</u>	<u>36</u>	<u>38</u>	<u>36</u>	<u>41</u>

Note: Information compiled from internal records.

KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY

OPERATING AND CAPITAL INDICATORS

Last Ten Fiscal Years

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Area in Square Miles (c)	84	84	84	84	84	84	84	84	84	84
Water System:										
Miles of Water Mains	393	395	395	392	392	392	392	392	397	403
Number of Treatment Plants	1	1	1	1	1	1	1	1	1	1
Number of Service Connections	13,035	13,056	13,115	13,286	13,379	13,522	13,883	13,883	15,828	16,118
Number of Fire Hydrants	669	676	683	691	692	694	694	694	731	738
Daily Average Consumption in Gallons (MGD)	4	4	4	4	4	4	4	4	4	4
Maximum Daily Capacity of Plant in Gallons (MGD)	6	6	7	8	8	8	8	8	8	8
Water Storage Capacity (MGD)	5	5	7	7	7	7	7	7	7	7
Number of Pumping Stations	23	23	23	24	24	24	24	24	24	24
Number of Reservoirs	8	8	9	9	9	9	9	9	9	9
Wastewater System:										
Miles of Sanitary Sewers	74	83	83	85	85	85	85	85	87	92
Number of Service Connections	2,311	2,338	2,338	2,359	2,395	2,446	2,528	2,528	2,647	2,720

Notes: Information compiled from internal records.

(a) MGD = Millions of gallons per day.

(b) 2010 was the first year the District implemented a new mapping system.

(c) In 2012, the District re-evaluated the size of the area in square miles from 60 to 84 using the new mapping system.

**INTERNAL CONTROL
AND
COMPLIANCE SECTION**



PUGH & COMPANY, P.C.
315 NORTH CEDAR BLUFF ROAD, SUITE 200
KNOXVILLE, TENNESSEE 37923
TELEPHONE 865-769-0660
FAX 865-769-1660
www.pughcpas.com

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
Knox Chapman Utility District of Knox County
Knoxville, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Knox Chapman Utility District of Knox County (the "District") which comprise the proprietary fund balance sheets and statements of fiduciary net position – pension trust fund as of February 29, 2020 and February 28, 2019, and the related proprietary fund financial statements of revenues, expenses, and changes in net position and cash flows and the statements of changes in fiduciary net position – pension trust fund for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated August 28, 2020.

Internal Control Over Financial Reporting

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

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

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



An independently owned member
RSM US Alliance



TSCPA
Members of the Tennessee Society
Of Certified Public Accountants

RSM US Alliance member firms are separate and independent businesses and legal entities that are responsible for their own acts and omissions, and each are separate and independent from RSM US LLP. RSM US LLP is the U.S. member firm of RSM International, a global network of independent audit, tax, and consulting firms. Members of RSM US Alliance have access to RSM International resources through RSM US LLP but are not member firms of RSM International.

Compliance and Other Matters

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

Purpose of this Report

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

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
August 28, 2020

KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY
SCHEDULE OF DISPOSITION OF PRIOR YEAR FINDINGS
For the Year Ended February 29, 2020

Financial Statement Findings

There were none reported.

Federal Award Findings and Questioned Costs

There were none reported.