

**KNOX CHAPMAN UTILITY DISTRICT
OF KNOX COUNTY**

Knoxville, Tennessee

ANNUAL COMPREHENSIVE FINANCIAL REPORT

**For the Years Ended
February 29, 2024 and February 28, 2023**

PREPARED BY:

Meredith Cooper, Finance Director

KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY

February 29, 2024 and February 28, 2023

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KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY

February 29, 2024 and February 28, 2023

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INTRODUCTORY SECTION



Knox Chapman Utility District

Letter of Transmittal

August 12, 2024

Board of Commissioners and Citizens 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 Annual Comprehensive Financial Report (the "Report") of the Knox Chapman Utility District of Knox County (the District) is published to fulfill these requirements for the fiscal years ended February 29, 2024 and February 28, 2023.

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, 2024 and February 28, 2023. 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 15,423 water and 3,114 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 2023, the unemployment rates according to the U.S. Bureau of Labor Statistics for Knox County, State of Tennessee, and the Nation were 2.8%, 3.4% and 3.7%, respectively.

Per capita income in 2022 for Knox County, State of Tennessee, and the Nation was \$63,494, \$58,292 and \$65,470, respectively.

The Knoxville MSA has several large employers including the Tennessee Valley Authority, U.S. Department of Energy, Arconic, 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 and began 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 Report for the fiscal year ended February 28, 2023. This was the Nineteenth 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 report. 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 annual comprehensive 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 report 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,

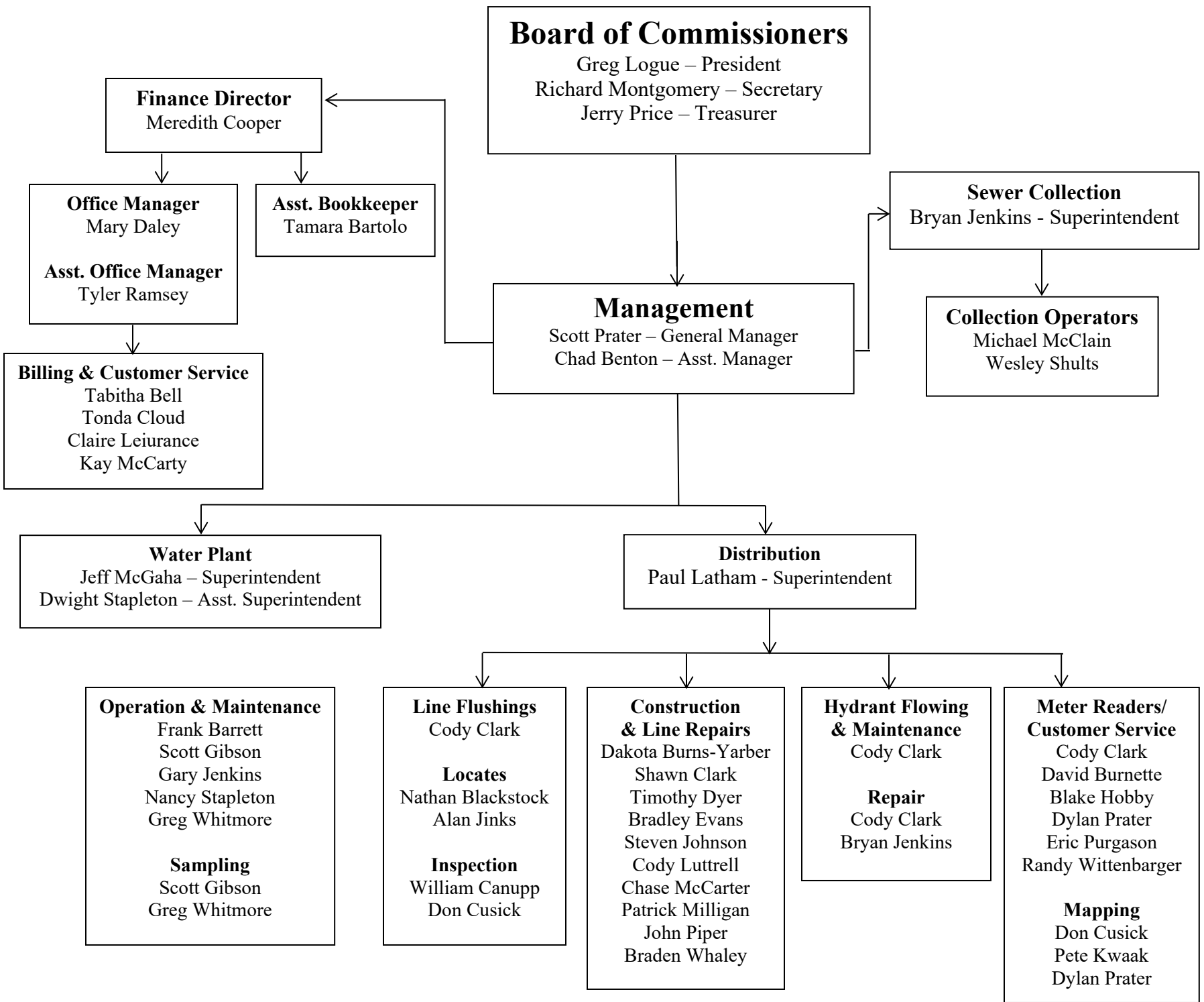


Scott Prater
General Manager



Meredith Cooper
Finance Director

KNOX CHAPMAN UTILITY DISTRICT
Organizational Chart
 February 29, 2024



KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY

ROSTER OF DISTRICT OFFICIALS AND OTHERS

February 29, 2024

Board of Commissioners

Gregory Logue, President

Richard Montgomery, Treasurer

Jerry Price, Secretary

Expiration of Term

June 15, 2027

October 6, 2024

April 22, 2026

Management

Scott Prater

Chad Benton

Meredith Cooper

Title

General Manager

Assistant Manager

Finance Director

Independent Auditors

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

General Counsel

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
Tennessee**

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

February 28, 2023

Christopher P. Morill

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

INDEPENDENT AUDITOR'S REPORT

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

Opinions

We have audited the 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 as of February 29, 2024 and February 28, 2023, 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 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.

In our opinion, the accompanying 2024 financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of February 29, 2024 and February 28, 2023, and the respective changes in their financial position, and their cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 11 and the schedules of changes in district's net pension liability and related ratios, schedules of district's pension contributions, schedules of investment returns (losses), and schedules of changes in the OPEB liability and related ratios on pages 44 through 47 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other supplementary information such as the schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* on page 71 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information 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 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 accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory and statistical sections but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 12, 2024 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 the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
August 12, 2024

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents management's analysis of Knox Chapman Utility District of Knox County's (the "District") financial condition and results of operations for the years ending February 29, 2024, February 28, 2023 and February 28, 2022. 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 1.54, 1.51, and 1.44 billion gallons of water for 2024, 2023, and 2022, representing an increase of 2.0% and an increase of 4.9% from the previous year.
- Total assets and deferred outflows of resources at year-end 2024 and 2023 were \$82.8 and \$82.7 million and exceeded liabilities and deferred outflows by \$36.1 million for 2024 and \$33.4 million for 2023, (net position).
- Unrestricted net position at year-end for 2024 and 2023 was \$5.6 million and \$5.8 million and was available to support short-term operations. Unrestricted net position decreased by approximately \$230k during 2024 and \$628k during 2023.
- Operating revenues in 2024 and 2023 were \$13.5 million and \$13.2 million, an increase of approximately \$220k (1.7%) and an increase of \$900k (7.3%) when compared to 2023 and 2022, respectively. The increase in 2024 and 2023 was due to an increase in the water and wastewater rate schedules, along with an increase in customers.
- Operating expenses in 2024 and 2023 were \$10.1 million and \$10.2 million, a decrease of \$57,798 (-0.6%) and an increase of \$1,467,337 (16.7%) when compared to 2023 and 2022, respectively.
- Operating income for 2024 and 2023 was \$3.4 million and \$3.1 million, representing an increase of 9.2% from 2023 to 2024 and a decrease of 13.8% from 2022 to 2023. Net position, before capital contributions for 2024 and 2023, increased by \$855,000 and decreased by \$550,000 when compared to 2023 and 2022, respectively.
- Operating income to total operating revenues were 24.8% for 2024 and 23.1% for 2023.
- Debt service coverage was 182% for 2024, 161% for 2023, and 176% for 2022.
- Capital contributions were \$639,514, \$1,838,000, and \$35,000 for 2024, 2023, and 2022, 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 12–43.

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

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, 2024, February 28, 2023 and February 28, 2022

	2024	2023	2022
ASSETS			
Current Assets	\$ 9,202	\$ 9,590	\$ 9,245
Capital Assets:			
Producing – Net	62,925	62,264	64,252
Construction in Progress	4,830	4,616	526
Other Assets – Net	3,520	3,415	3,560
Total Assets	80,477	79,885	77,583
 Deferred Outflows			
Deferred Cost of Deceased Bonds	1,087	1,236	1,395
Deferred Outflows - OPEB	67	77	90
Deferred Cost of Pension	1,200	1,521	815
Total Deferred Outflows of Resources	2,354	2,834	2,300
 TOTAL ASSETS AND DEFERRED OUTFLOWS	\$ 82,831	\$ 82,719	\$ 79,883
 LIABILITIES			
Current Liabilities	\$ 3,276	\$ 3,967	\$ 3,372
Non-Current Liabilities	42,846	44,736	45,627
Total Liabilities	46,122	48,703	48,999
 Deferred Inflows	587	606	529
 TOTAL LIABILITIES AND DEFERRED INFLOWS	46,709	49,309	49,528
 NET POSITION			
Net Investment in Capital Assets	27,208	24,383	20,568
Restricted:			
Debt Service	3,269	3,152	3,286
Unrestricted	5,645	5,875	6,501
Total Net Position	36,122	33,410	30,355
 TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION	\$ 82,831	\$ 82,719	\$ 79,883

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, 2024, February 28, 2023 and February 28, 2022

	<u>2024</u>	<u>2023</u>	<u>2022</u>
Operating Revenues			
Water – Net	\$ 9,924	\$ 9,483	\$ 9,035
Wastewater - Net	2,843	2,950	2,604
Connection Fees	511	661	538
Service Fees	198	150	102
Miscellaneous	<u>45</u>	<u>53</u>	<u>32</u>
Total Operating Revenues	<u>13,521</u>	<u>13,297</u>	<u>12,311</u>
Operating Expenses			
Water Purification and Supply	1,943	1,662	1,026
Water Transmission and Distribution	2,708	3,054	2,692
Wastewater Collection	897	1,113	832
Customer Accounting and Collection	813	706	690
Administrative and General	1,165	1,095	996
Depreciation and Amortization	<u>2,644</u>	<u>2,597</u>	<u>2,524</u>
Total Operating Expenses	<u>10,170</u>	<u>10,227</u>	<u>8,760</u>
Operating Income	<u>3,351</u>	<u>3,070</u>	<u>3,551</u>
Non-Operating Revenues (Expenses)			
Investment Income (Loss)	336	(179)	(46)
Interest Expense	(1,615)	(1,682)	(1,740)
Gain (Loss) on Disposal of Capital Assets	<u>0</u>	<u>8</u>	<u>2</u>
Total Non-Operating Revenues (Expenses) – Net	<u>(1,279)</u>	<u>(1,853)</u>	<u>(1,784)</u>
Increase (Decrease) in Net Position Before Capital Contributions	<u>2,072</u>	<u>1,217</u>	<u>1,767</u>
Capital Contributions			
Cash	0	1	14
Federal Grants	640	1,806	0
Donated Lines	<u>0</u>	<u>31</u>	<u>21</u>
Total Capital Contributions	<u>640</u>	<u>1,838</u>	<u>35</u>
Change in Net Position	2,712	3,055	1,802
Net Position, Beginning of Year	<u>33,410</u>	<u>30,355</u>	<u>28,553</u>
Net Position, End of Year	<u>\$ 36,122</u>	<u>\$ 33,410</u>	<u>\$ 30,355</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

OTHER SELECTED INFORMATION

	<u>2024</u>	<u>2023</u>	<u>2022</u>
Employees at Year-End	41	41	39
Average Employees	40	40	39
Customers (Billing Units) at Year-End:			
Water	15,423	15,236	15,015
Wastewater	3,114	2,933	2,868
Water (Millions of Gallons)			
Treated	1,541	1,512	1,435
Sold:			
Retail	976.0	963.0	957.0
Wholesale	105.5	91.9	92.5
Per Average Employee:			
Operating Revenues	\$ 335,925	\$ 330,360	\$ 315,667
Operating Expenses	\$ 252,671	\$ 254,087	\$ 224,615
Residential Rates Per 1,000 Gallons of			
Water Consumed:			
Water	\$ 6.56	\$ 6.30	\$ 6.30
Wastewater	\$ 6.92	\$ 6.65	\$ 6.65
Ratio of Operating Revenues to:			
Operating Expenses	1.33	1.30	1.41
Operating Expenses – Net of			
Depreciation and Amortization	1.80	1.74	1.97
Total Assets	0.16	0.16	0.15
Net Position	0.37	0.40	0.41
Debt Related Ratios:			
Long-Term Debt to Net Position	1.10	1.25	1.44
Long-Term Debt to Total Assets	0.52	0.54	0.57
Operating Coverage	1.81	1.61	1.76

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 in 2024 by 1.2%, in 2023 by 1.5% and in 2022 by 1.4%.

MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)

PROPRIETARY FUND FINANCIAL CONDITION

The District's financial condition remained strong at year-end 2024 and 2023 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 increased by \$591,945 and increased by \$2,302,485 or 0.7% and 3.0% during 2024 and 2023, respectively. The increase during 2024 is largely a result of several capital projects.

Customer accounts receivable, net of allowance, at year-end 2024 was \$1,897,342 and for year-end 2023 was \$1,800,629 which includes unbilled revenues. At 2024 and 2023 years-end, 95% of accounts receivable were current within 30 days. The District's bad debt expense was \$44,350, \$34,814, \$39,852 during 2024, 2023, and 2022, 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. Rates remained consistent from 2023 to 2024.

The average realized rate from water sales per thousand gallons during 2024, 2023, and 2022:

	<u>2024</u>	<u>2023</u>	<u>2022</u>
Residential	\$ 0.85	\$ 0.88	\$ 0.89
Retail	1.47	1.61	1.62
Wholesale	3.98	3.98	3.98

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. The decrease during 2024 is largely a result of a \$1,806,000 federal grant due from Knox County Government, Tennessee related to a water infrastructure project under the American Rescue Plan Act (ARPA) in the prior year.

Capital contributions during 2024, 2023, and 2022 consisted of the following:

	<u>2024</u>	<u>2023</u>	<u>2022</u>
Cash:			
Developers	\$ 0	\$ 951	\$ 13,502
Federal Grant	639,514	1,806,370	
Noncash:			
Capital Assets Donated by Developers	<u>0</u>	<u>30,542</u>	<u>21,220</u>
Total	<u>\$ 639,514</u>	<u>\$ 1,837,863</u>	<u>\$ 34,722</u>

MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)

PROPRIETARY FUND RESULTS OF OPERATIONS (Continued)

Expenses

Operating expenses, excluding depreciation and amortization, decreased by \$104,709 (-1.4%) in 2024, increased by \$1,467,337 (3.6%) in 2023 and increased by \$300,938 (3.6%) in 2022, respectively. This was a result of increases (decreases) in:

	2024	2023	2022
Salaries and Benefits	\$ 249,392	\$ 575,251	\$ 11,611
Repairs and Maintenance	(259,662)	71,389	(43,674)
Wastewater Treatment Fees	(262,640)	247,189	(37,215)
Power Purchased	(37,361)	82,928	14,632
Vehicle Expenses	16,243	(3,735)	50,314
Engineering Fees	16,263	9,530	30,810
Retirement Plan	131,876	291,401	67,829
Other	41,180	193,384	206,631
Total	\$ (104,709)	\$ 1,467,337	\$ 300,938

During 2024, Salaries and benefits continue to increase with ongoing efforts to improve indirect cost allocations from certain jobs to payroll along with inflationary increases. Retirement plan increased due to changes in actuarial assumptions related to the net pension liability.

During 2023, Salaries and benefits increased largely due to efforts to improve indirect cost allocations from certain jobs to payroll. Retirement plan increased due to changes in actuarial assumptions related to the net pension liability. Increases in Wastewater treatment fees due industry wide increases in material costs.

During 2022, the decrease in the repairs and maintenance was due to the new meters being installed, which helped to alleviate some of that stress. Other increase is largely a function of depreciation expense which increased over \$100k during the year.

PROPRIETARY FUND CAPITAL ASSETS

During 2024, 2023, and 2022, the District increased its producing capital assets (including construction costs) by \$6,362,168, \$5,113,892 and \$9,085,882, respectively. These increases were due to the following:

	2024	2023	2022
Vehicles	\$ 287,126	\$ 0	\$ 100,626
Water and Wastewater Lines	2,843,478	385,436	6,774,888
Machinery and Equipment	166,181	220,248	551,039
Land and Easements	7,578	2,266	1,947
Construction in Progress	3,057,805	4,505,942	1,657,382
Total	\$ 6,362,168	\$ 5,113,892	\$ 9,085,882

The District's capital asset activity for 2024 and 2023 is described in Notes 5, 6 and 7 to the financial statements.

MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)

PROPRIETARY FUND DEBT

At year-end 2024, 2023, and 2022, the District had \$41.6 million, \$43.6 million and \$45.6 million, respectively, in long and short-term debt, a decrease of \$(2,005,124), \$(1,965,965) and \$(1,916,406) in 2024, 2023, and 2022, respectively. During 2024, 2023, and 2022, the District paid \$1,865,799, \$1,820,994, and \$1,706,755, respectively in debt principal payments.

The long-term debt to total asset ratio was 0.57 in 2024, 0.52 in 2023 and 0.56 in 2022.

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

ECONOMIC FACTORS AND FISCAL YEAR 2024

- Water rates will increase during FY 2024 by increasing the minimum bill by \$1.
- Wastewater rates will be increased by 4% in FY 2024.
- Number of customers is projected to increase during 2024.
- Salary rate increase of 6.0% projected for employees for 2024.
- FY 2025 Operating Budget:

Revenues	\$ 14,089,925
Expenses	<u>(11,509,300)</u>
Increase in Net Position Before Capital Contributions	<u>\$ 2,580,625</u>

CONTACTING THE DISTRICT

This annual comprehensive 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, <u>2024</u>	February 28, <u>2023</u>
ASSETS AND DEFERRED OUTFLOWS			
CURRENT ASSETS			
Cash and Cash Equivalents	\$	3,004,642	\$ 2,480,612
Investments		3,164,627	2,853,251
Accounts Receivable - Customers (Net of Allowance for Uncollectible Accounts of \$57,000 in 2024 and 2023)		1,897,342	1,800,629
Due from Other Governments		326,384	1,806,370
Inventory - Materials		776,044	612,184
Prepaid Expenses		33,745	37,340
Total Current Assets		<u>9,202,784</u>	<u>9,590,386</u>
NON-CURRENT ASSETS			
Capital Assets – Net of Accumulated Depreciation/Amortization:			
Land		556,853	549,275
Plant, Equipment and Intangible Assets		62,367,588	61,714,482
Construction in Progress		4,830,453	4,616,126
Total Capital Assets		<u>67,754,894</u>	<u>66,879,883</u>
Other Assets			
Investments - Restricted		3,519,557	3,415,021
Deposits		25	25
Total Other Assets		<u>3,519,582</u>	<u>3,415,046</u>
Total Non-Current Assets		<u>71,274,476</u>	<u>70,294,929</u>
TOTAL ASSETS		<u>80,477,260</u>	<u>79,885,315</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Cost of Defeased Bonds		1,087,016	1,236,008
Other Post Employment Benefits		67,273	76,820
Deferred Cost of Pension		1,199,826	1,521,399
Total Deferred Outflows of Resources		<u>2,354,115</u>	<u>2,834,227</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$	<u><u>82,831,375</u></u>	\$ <u><u>82,719,542</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, <u>2024</u>	February 28, <u>2023</u>
LIABILITIES, DEFERRED INFLOWS AND NET POSITION			
CURRENT LIABILITIES			
Accounts Payable	\$	255,474	\$ 959,676
Construction and Retainage Payable		0	93,620
Accrued Liabilities		841,036	786,124
Accrued Notes Payable Interest		4,103	6,035
Accrued Revenue Bond Interest		246,867	256,717
Revenue Bonds and Notes Payable – Current Portion		<u>1,930,624</u>	<u>1,865,800</u>
Total Current Liabilities		<u>3,278,104</u>	<u>3,967,972</u>
NON-CURRENT LIABILITIES			
Net Pension Liability		2,432,311	2,191,456
Total OPEB Liability		483,000	455,449
Revenue Bonds and Notes Payable – Net of Current Portion		39,703,225	41,773,173
Other Non-Current Liabilities		<u>372,469</u>	<u>316,726</u>
Total Non-Current Liabilities		<u>42,991,005</u>	<u>44,736,804</u>
Total Liabilities		<u>46,269,109</u>	<u>48,704,776</u>
DEFERRED INFLOWS OF RESOURCES			
Other Post Employment Benefits		108,548	127,575
Deferred Cost of Pension		<u>333,662</u>	<u>478,032</u>
Total Deferred Inflows of Resources		<u>442,210</u>	<u>605,607</u>
NET POSITION			
Net Investment in Capital Assets		27,208,061	24,383,297
Restricted:			
Debt Service		3,268,587	3,152,269
Unrestricted		<u>5,643,408</u>	<u>5,873,593</u>
Total Net Position		<u>36,120,056</u>	<u>33,409,159</u>
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	\$	<u>82,831,375</u>	\$ <u>82,719,542</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, 2024	February 28, 2023
OPERATING REVENUES			
Water – Net		\$ 9,922,962	\$ 9,483,405
Wastewater – Net		2,842,509	2,950,028
Connection Fees		511,342	661,098
Service Fees		198,067	149,573
Miscellaneous		45,322	52,502
		<u>13,520,202</u>	<u>13,296,606</u>
OPERATING EXPENSES			
Water Purification and Supply		1,943,326	1,662,368
Water Transmission and Distribution		2,708,468	3,054,237
Wastewater Collection		897,120	1,113,268
Customer Accounting and Collections		812,522	705,957
Administrative and General		1,165,077	1,095,392
Depreciation and Amortization		2,643,679	2,596,768
		<u>10,170,192</u>	<u>10,227,990</u>
		<u>3,350,010</u>	<u>3,068,616</u>
OPERATING INCOME			
NON-OPERATING REVENUES (EXPENSES)			
Investment Income (Loss)		336,479	(178,993)
Interest Expense		(1,615,106)	(1,681,654)
Gain (Loss) on Disposal of Capital Assets		0	8,150
		<u>(1,278,627)</u>	<u>(1,852,497)</u>
INCREASE (DECREASE) IN NET POSITION BEFORE CAPITAL CONTRIBUTIONS			
		<u>2,071,383</u>	<u>1,216,119</u>
CAPITAL CONTRIBUTIONS			
Cash Contributions		0	951
Federal Grants		639,514	1,806,370
Developers Contributions of Capital Assets		0	30,542
		<u>639,514</u>	<u>1,837,863</u>
CHANGE IN NET POSITION			
		2,710,897	3,053,982
NET POSITION, BEGINNING OF YEAR			
		<u>33,409,159</u>	<u>30,355,177</u>
NET POSITION, END OF YEAR			
		<u>\$ 36,120,056</u>	<u>\$ 33,409,159</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

	February 29, 2024	February 28, 2023
	For the Fiscal Years Ended	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from Customers and Users	\$ 14,936,359	\$ 11,277,876
Payments to Employees	(3,423,612)	(3,063,478)
Payments to Suppliers	(4,547,088)	(3,650,351)
	<u>6,965,659</u>	<u>4,564,047</u>
Net Cash Provided by Operating Activities		
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and Construction of Capital Assets	(3,518,690)	(4,667,997)
Interest Paid on Long-Term Debt	(1,617,221)	(1,679,206)
Principal Paid on Long-Term Debt	(1,865,799)	(1,820,993)
Capital Contributions	639,514	1,807,320
Proceeds from Sale of Capital Assets	0	8,150
	<u>(6,362,196)</u>	<u>(6,352,726)</u>
Net Cash Used In Capital and Related Financing Activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received on Investments	293,425	217,640
Purchase of Investments	(5,597,123)	(3,911,691)
Sales of Investments	5,224,265	4,026,401
	<u>(79,433)</u>	<u>332,350</u>
Net Cash Provided by (Used in) Investing Activities		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	524,030	(1,456,329)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,480,612</u>	<u>3,936,941</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 3,004,642</u>	<u>\$ 2,480,612</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, <u>2024</u>	February 28, <u>2023</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR			
CONSIST OF:			
Unrestricted Cash and Cash Equivalents		\$ <u>3,004,642</u>	\$ <u>2,480,612</u>
Total		\$ <u><u>3,004,642</u></u>	\$ <u><u>2,480,612</u></u>
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating Income		\$ 3,350,010	\$ 3,068,616
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation and Amortization		2,643,679	2,596,768
Provision for Uncollectible Receivables		34,814	39,852
Changes in:			
Accounts Receivable		(131,527)	(254,881)
Due from Other Governments		1,479,986	(1,806,370)
Materials and Supplies Inventory		(163,860)	(150,236)
Prepaid Expenses		3,595	3,250
Accounts Payable		(797,822)	774,588
Accrued Pension		436,129	474,171
Accrued Liabilities		<u>110,655</u>	<u>(181,711)</u>
Net Cash Provided by Operating Activities		\$ <u><u>6,965,659</u></u>	\$ <u><u>4,564,047</u></u>
 Noncash Investing Activities			
Unrealized Gains (Losses) on Investments		\$ (179,483)	\$ 291,190
 Noncash Capital and Related Financing Activities			
Contributions of Capital Assets by Developers		\$ 0	\$ (30,542)
Gain (Loss) on Capital Assets		\$ 0	\$ (8,150)
Amortization of Bond Premium		\$ (139,325)	\$ (144,972)
Amortization of Deferred Refundings		\$ 148,992	\$ 158,958

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

KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY

STATEMENTS OF FIDUCIARY NET POSITION

	As of	February 29, <u>2024</u>	February 28, <u>2023</u>
ASSETS			
Investments, at Fair Value:			
Mutual Funds:			
Money Market - Short Term	\$	166,911	\$ 98,811
Domestic Equity		3,342,514	3,280,960
International Equity		1,473,082	1,764,131
Bonds		2,681,160	1,849,640
Market Neutral/Alternative		332,998	400,195
Real Estate		513,831	411,402
Floating Rate Loans		339,497	328,386
Large Cap		42,500	29,472
Small/Mid Cap		29,770	24,651
International		31,034	24,441
Target Date		<u>1,048,475</u>	<u>759,949</u>
Total Investments		<u>10,001,772</u>	<u>8,972,038</u>
Receivables:			
Employer Contributions		<u>0</u>	<u>20,000</u>
TOTAL ASSETS	\$	<u>10,001,772</u>	\$ <u>8,992,038</u>
LIABILITIES AND NET POSITION			
NET POSITION			
Restricted for Pension Benefits	\$	8,849,993	\$ 8,153,525
Restricted for Retirement Benefits		<u>1,151,779</u>	<u>838,513</u>
TOTAL NET PENSION RESTRICTED FOR BENEFITS	\$	<u>10,001,772</u>	\$ <u>8,992,038</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

	For the Fiscal Years Ended	February 29, 2024	February 28, 2023
ADDITIONS			
Employer Contributions		\$ 263,396	\$ 130,997
Employee Contributions		103,847	61,613
Net Investment Income (Loss)		1,020,651	(639,208)
Total Additions		<u>1,387,894</u>	<u>(446,598)</u>
DEDUCTIONS			
Benefit Payments		365,319	274,541
Administrative Expenses		12,841	12,271
Total Deductions		<u>378,160</u>	<u>286,812</u>
CHANGE IN NET POSITION		1,009,734	(733,410)
NET POSITION - RESTRICTED BENEFITS BEGINNING OF YEAR		<u>8,992,038</u>	<u>9,725,448</u>
NET POSITION - RESTRICTED FOR BENEFITS END OF YEAR		<u>\$ 10,001,772</u>	<u>\$ 8,992,038</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, 2024 and February 28, 2023

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 15,000 water and 3,000 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 (GAAP). The District applies all Governmental Accounting Standards Board (GASB) pronouncements.

All operating activities (other than the fiduciary fund activities) 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 net investment in capital assets; restricted for capital activity and debt service; and unrestricted components.

The fiduciary fund type funds are used to account for resources held in trust for the benefit of participants in the District's pension and retirement plans. 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 funds are 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 plans as reported as the pension trust fund, defined contribution plan and deferred compensation plan.

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 2024 and 2023. 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. The District considers all instruments with original maturities of three months or less when purchased to be cash equivalents.

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:

	<u>Years</u>
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 reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net assets 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 assets 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 - Fiduciary Fund - Net fiduciary position consists of results from net investment income (loss), employer contributions, benefits paid and administrative expenses of the District's benefit plans. Fiduciary net position is classified as: restricted for pension benefits and restricted for retirement benefits. See Note 13.

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.

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.

Adoption of New Accounting Standards - The District adopted the provisions of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* during the 2023 fiscal year. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users. It (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset (an intangible asset) and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. The Statement's effect on the financial statements was insignificant.

Subsequent Events - Management has evaluated subsequent events through August 12, 2024, which is the date the financial statements became available for issuance. See Note 8.

NOTE 2 - DEPOSITS AND INVESTMENTS – PROPRIETARY FUND

The District’s proprietary fund had the following deposits and investments at year-end 2024 and 2023:

	2024		2023	
	Fair Value	Weighted Average Maturity (Years)	Fair Value	Weighted Average Maturity (Years)
Deposits:				
Demand Deposits	\$ 3,004,642	N/A	\$ 2,480,612	N/A
Investments:				
Cash & Cash Equivalents	700,778	N/A	269,663	N/A
Certificates of Deposit	4,219,393	2.12	3,473,671	1.57
US Government Obligations	1,764,013	2.12	2,524,938	1.57
Total Investments	6,684,184		6,268,272	
Total	\$ 9,688,826		\$ 8,748,884	

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

	2024	2023
Current Assets:		
Cash and Cash Equivalents	\$ 3,004,642	\$ 2,480,612
Investments	3,164,627	2,853,251
	6,169,269	5,333,863
Other Assets:		
Investments - Restricted	3,519,557	3,415,021
Total	\$ 9,688,826	\$ 8,748,884

The District’s investments were in the following:

	2024	2023
Certificates of Deposit	63.13%	55.42%
Government Obligations	26.39%	40.28%
Cash & Cash Equivalents	10.48%	4.30%
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, 2024 and February 28, 2023 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:

	2024	2023
Interest Income	\$ 156,996	\$ 112,197
Gain (Loss) - Net	179,483	(291,190)
Total	<u>\$ 336,479</u>	<u>\$ (178,993)</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.

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.

US Government Obligations - Actively traded individual debt securities are valued at the quoted market prices for identical assets in active markets. Non-actively traded individual debt securities are valued using pricing models that maximize the use of observable inputs or similar securities which includes the yield currently available on comparable securities of issuers with similar maturities and credit ratings.

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, 2024:

	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	\$ 4,219,393	\$ 0	\$ 0	\$ 4,219,393
US Government Obligations	1,764,013	0	0	1,764,013
Cash and Cash Equivalents	700,778	0	0	700,778
Total Proprietary Fund	6,684,184	0	0	6,684,184
Fiduciary Funds				
Mutual Funds	10,001,772	0	0	10,001,772
Total Investments	\$ 16,685,956	\$ 0	\$ 0	\$ 16,685,956

The following table sets forth by level, within the fair value hierarchy, the District's investments at fair value as of February 28, 2023:

	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	\$ 3,473,671	\$ 0	\$ 0	\$ 3,473,671
US Government Obligations	2,524,938	0	0	2,524,938
Cash and Cash Equivalents	269,663	0	0	269,663
Total Proprietary Fund	6,268,272	0	0	6,268,272
Fiduciary Funds				
Mutual Funds	8,992,037	0	0	8,992,037
Total Investments	\$ 15,260,309	\$ 0	\$ 0	\$ 15,260,309

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 2024 and 2023, there were no transfers in or out of Levels 1, 2 or 3.

NOTE 4 - CREDIT RISKS - FIDUCIARY FUNDS

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, 2024 and February 28, 2023, all of the District's fiduciary trust fund's cash deposits were covered by Federal Deposit Insurance Corporation (FDIC) coverage.

Credit Risk - The Fiduciary Funds 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, 2024 was as follows:

	Balance 3/1/2023	Additions	Deletions Retirements Transfers	Balance 2/29/2024
Capital Assets				
Capital Assets Not Being Depreciated/Amortized:				
Water System:				
Land and Easements	\$ 421,518	\$ 4,584	\$ 0	\$ 426,102
Construction in Progress	4,616,126	3,057,805	(2,843,478)	4,830,453
Wastewater System:				
Land and Easements	127,757	2,994	0	130,751
Total Capital Assets, Not Being Depreciated/Amortized	<u>5,165,401</u>	<u>3,065,383</u>	<u>(2,843,478)</u>	<u>5,387,306</u>
Capital Assets Being Depreciated/Amortized:				
Water System:				
Mains, Lines and Equipment	42,018,903	2,935,417	0	44,954,320
Treatment Facilities	29,088,062	0	0	29,088,062
Wastewater System:				
Collection Lines and Equipment	21,278,747	66,642	0	21,345,389
Wastewater Capacity Costs	3,829,036	0	0	3,829,036
Office Property and Equipment	998,051	7,600	0	1,005,651
Vehicles	781,920	287,126	0	1,069,046
Total Capital Assets Being Depreciated/Amortized	<u>97,994,719</u>	<u>3,296,785</u>	<u>0</u>	<u>101,291,504</u>
Less Accumulated Depreciation/Amortization For:				
Water System:				
Mains, Lines and Equipment	(14,244,761)	(1,198,405)	0	(15,443,166)
Treatment Facilities	(10,836,617)	(699,120)	0	(11,535,737)
Wastewater System:				
Collection Lines and Equipment	(7,807,510)	(517,801)	0	(8,325,311)
Wastewater Capacity Costs	(1,954,846)	(142,975)	0	(2,097,821)
Office Property and Equipment	(769,669)	(13,770)	0	(783,439)
Vehicles	(666,834)	(71,608)	0	(738,442)
Total Accumulated Depreciation/Amortization	<u>(36,280,237)</u>	<u>(2,643,679)</u>	<u>0</u>	<u>(38,923,916)</u>
Total Capital Assets Being Depreciated/Amortized - Net	<u>61,714,482</u>	<u>653,106</u>	<u>0</u>	<u>62,367,588</u>
Net Capital Assets	<u>\$ 66,879,883</u>	<u>\$ 3,718,489</u>	<u>\$ (2,843,478)</u>	<u>\$ 67,754,894</u>

Depreciation and amortization expense was \$2,500,704 and \$142,975 for 2024, respectively.

NOTE 5 - CAPITAL ASSETS (Continued)

A summary of capital asset activity and changes in accumulated depreciation for the year ended February 28, 2023 was as follows:

	Balance 3/1/2022	Additions	Deletions Retirements Transfers	Balance 2/28/2023
Capital Assets				
Capital Assets Not Being Depreciated/Amortized:				
Water System:				
Land and Easements	\$ 419,252	\$ 2,266	\$ 0	\$ 421,518
Construction in Progress	525,536	4,505,942	(415,352)	4,616,126
Wastewater System:				
Land and Easements	127,757	0	0	127,757
Total Capital Assets, Not Being Depreciated/Amortized	<u>1,072,545</u>	<u>4,508,208</u>	<u>(415,352)</u>	<u>5,165,401</u>
Capital Assets Being Depreciated/Amortized:				
Water System:				
Mains, Lines and Equipment	41,603,557	415,346	0	42,018,903
Treatment Facilities	28,961,262	126,800	0	29,088,062
Wastewater System:				
Collection Lines and Equipment	21,229,903	48,844	0	21,278,747
Wastewater Capacity Costs	3,829,036	0	0	3,829,036
Office Property and Equipment	983,357	14,694	0	998,051
Vehicles	816,611	0	(34,691)	781,920
Total Capital Assets Being Depreciated/Amortized	<u>97,423,726</u>	<u>605,684</u>	<u>(34,691)</u>	<u>97,994,719</u>
Less Accumulated Depreciation/Amortization For:				
Water System:				
Mains, Lines and Equipment	(13,084,961)	(1,159,800)	0	(14,244,761)
Treatment Facilities	(10,145,854)	(690,763)	0	(10,836,617)
Wastewater System:				
Collection Lines and Equipment	(7,291,806)	(515,704)	0	(7,807,510)
Wastewater Capacity Costs	(1,811,847)	(142,999)	0	(1,954,846)
Office Property and Equipment	(755,079)	(14,590)	0	(769,669)
Vehicles	(628,613)	(72,912)	34,691	(666,834)
Total Accumulated Depreciation/Amortization	<u>(33,718,160)</u>	<u>(2,596,768)</u>	<u>34,691</u>	<u>(36,280,237)</u>
Total Capital Assets Being Depreciated/Amortized - Net	<u>63,705,566</u>	<u>(1,991,084)</u>	<u>0</u>	<u>61,714,482</u>
Net Capital Assets	<u>\$ 64,778,111</u>	<u>\$ 2,517,124</u>	<u>\$ (415,352)</u>	<u>\$ 66,879,883</u>

Depreciation and amortization expense was \$2,453,769 and \$142,999 for 2023, 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 \$166,751 and \$238,220 at year-end 2024 and 2023. Amortization expense for 2024 and 2023 was \$71,469 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 \$698,447 and \$745,807 at year-end 2024 and 2023. Amortization expense for 2024 and 2023 was \$47,360 annually.

During 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 were \$866,004 and \$890,174 at year-end 2024 and 2023. Amortization expense for 2024 and 2023 was \$24,170.

NOTE 7 - CONSTRUCTION IN PROGRESS

Construction in progress consisted of:

	2024		2023	
	Actual To Date	Remaining Commitment	Actual To Date	Remaining Commitment
Alcoa Hwy TDOT Project	\$ 295,795	\$ 0	\$ 293,795	\$ 0
Hendron Chapel/Chapman-TDOT Project	1,898,643	0	1,262,552	0
Hydraulic Model Update	29,208	0	0	0
John Sevier Tank Rehab	44,700	0	0	0
South Ridge Line Replacement	2,885	0	0	0
Martin Mill Sewer Improvements	161,988	0	129,796	0
Maryville Capital Expenditures	618,557	0	291,312	0
Cellular Towers and Read Meters	1,496,993	0	455,856	0
Burnette Creek Basin WW Rehab	281,684	0	247,650	0
Circle Drive Water Line	0	0	1,803	0
Harwell Line Extension	0	0	2,830	0
Kimberlin Heights 16 Line Extension	0	0	1,930,532	457,210
Total	\$ 4,830,453	\$ 0	\$ 4,616,126	\$ 457,210

NOTE 8 - REVENUE BONDS AND NOTES PAYABLE / SUBSEQUENT EVENT

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). The bond was paid off as of January 1, 2021.

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 \$3,517 in 2024 and \$6,883 in 2023.

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 \$52,439 and \$55,713 in 2024 and 2023, respectively.

NOTE 8 - REVENUE BONDS AND NOTES PAYABLE / SUBSEQUENT EVENT (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 \$93,037 and \$96,412 in 2024 and 2023, respectively.

On July 29, 2024, the District issued \$3,000,000 in Revenue Anticipation Notes (Series 2024) to provide funding for certain improvements to the water and sewer system. The notes are secured by a pledge of the District's revenues.

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 \$9,052 and \$11,835 for 2024 and 2023, respectively. The amount of principal payments were \$70,658 and \$67,875 for 2024 and 2023, respectively. The amount of the liability at year-end 2024 and 2023 was \$150,125 and \$220,783, respectively.

NOTE 8 - REVENUE BONDS AND NOTES PAYABLE (Continued)

Overview (Continued)

Bonds and notes payable at year-end 2024 and 2023, consisted of the following:

	<u>2024</u>	<u>2023</u>
<u>Revenue Bonds</u>		
Water and Sewer Revenue Bonds, Series 2005	\$ 1,534,278	\$ 1,584,419
Water and Sewer Revenue Refunding and Improvement Bonds, Series 2012	12,880,000	13,330,000
Water and Sewer Revenue Refunding and Improvement Bonds, Series 2015	11,405,000	12,015,000
Water and Sewer Revenue Refunding and Improvement Bonds, Series 2017	<u>14,485,000</u>	<u>15,170,000</u>
	40,304,278	42,099,419
Add: Unamortized Bond Premium	1,179,446	1,318,771
Less: Current Portion	<u>(1,857,069)</u>	<u>(1,795,142)</u>
Total Revenue Bonds	<u>39,626,655</u>	<u>41,623,048</u>
<u>Other Direct Borrowings</u>		
Note Payable – City of Maryville – #1	150,125	220,783
Less: Current Portion	<u>(73,555)</u>	<u>(70,658)</u>
Total Other Direct Borrowings	<u>76,570</u>	<u>150,125</u>
Total Long-Term Debt	<u>\$ 39,703,225</u>	<u>\$ 41,773,173</u>

Interest expense for bonds and notes payable consisted of:

	<u>2024</u>	<u>2023</u>
Interest Bonds Payable	\$ 1,604,698	\$ 1,664,822
Change in Accrued Interest Payable on Revenue Bonds at Year-End	(9,850)	(9,683)
Amortization of Bond Premium	(139,325)	(144,972)
Amortization of Deferred Cost of Defeasance	148,992	158,958
Paying Agent Fees	3,470	2,549
Interest on Note Payable - Maryville	<u>7,121</u>	<u>9,980</u>
Total	<u>\$ 1,615,106</u>	<u>\$ 1,681,654</u>

NOTE 8 - REVENUE BONDS AND NOTES PAYABLE (Continued)

Activity

Long-term debt activity during 2024 was as follows:

Bonds and Notes Notes Payable	Balance 03/01/23	Reclassifications Additions	Reductions	Balance 02/29/24	Due Within One Year
Revenue Bonds	\$ 42,099,419	\$ 0	\$ (1,795,141)	\$ 40,304,278	\$ 1,857,069
Other Direct Borrowings	220,783	0	(70,658)	150,125	73,555
	<u>42,320,202</u>	<u>0</u>	<u>(1,865,799)</u>	<u>40,454,403</u>	<u>1,930,624</u>
Noncash Items:					
Add: Bond Premium 2012 Series	388,662	0	(31,493)	357,169	0
Add: Bond Premium 2015 Series	647,855	0	(76,372)	571,483	0
Add: Bond Premium 2017 Series	282,254	0	(31,460)	250,794	0
Total	<u>\$ 43,638,973</u>	<u>\$ 0</u>	<u>\$ (2,005,124)</u>	<u>\$ 41,633,849</u>	<u>\$ 1,930,624</u>

Long-term debt activity during 2023 was as follows:

Bonds and Notes Notes Payable	Balance 03/01/22	Reclassifications Additions	Reductions	Balance 02/28/23	Due Within One Year
Revenue Bonds	\$ 43,852,538	\$ 0	\$ (1,753,119)	\$ 42,099,419	\$ 1,795,142
Other Direct Borrowings	288,658	0	(67,875)	220,783	70,658
	<u>44,141,196</u>	<u>0</u>	<u>(1,820,994)</u>	<u>42,320,202</u>	<u>1,865,800</u>
Noncash Items:					
Add: Bond Premium 2012 Series	420,677	0	(32,015)	388,662	0
Add: Bond Premium 2015 Series	727,694	0	(79,839)	647,855	0
Add: Bond Premium 2017 Series	315,371	0	(33,117)	282,254	0
Total	<u>\$ 45,604,938</u>	<u>\$ 0</u>	<u>\$ (1,965,965)</u>	<u>\$ 43,638,973</u>	<u>\$ 1,865,800</u>

Debt Service

The annual requirements for the payment of the principal and interest on the bonds and notes payable as of February 29, 2024, are as follows:

Fiscal Year	REVENUE BONDS			OTHER DIRECT BORROWINGS			TOTAL DEBT		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
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	1,924,438	1,483,278	3,407,716	76,570	3,139	79,709	2,001,008	1,486,417	3,487,425
2027	1,991,727	1,410,914	3,402,641	0	0	0	1,991,727	1,410,914	3,402,641
2028	2,059,112	1,336,154	3,395,266	0	0	0	2,059,112	1,336,154	3,395,266
2029	2,136,443	1,254,723	3,391,166	0	0	0	2,136,443	1,254,723	3,391,166
2030-2034	11,993,908	4,920,746	16,914,654	0	0	0	11,993,908	4,920,746	16,914,654
2035-2039	14,488,712	2,442,529	16,931,241	0	0	0	14,488,712	2,442,529	16,931,241
2040-2044	3,852,869	189,675	4,042,544	0	0	0	3,852,869	189,675	4,042,544
Total	<u>\$ 40,304,278</u>	<u>\$ 14,581,691</u>	<u>\$ 54,885,969</u>	<u>\$ 150,125</u>	<u>\$ 9,294</u>	<u>\$ 159,419</u>	<u>\$ 40,454,403</u>	<u>\$ 14,590,985</u>	<u>\$ 55,045,388</u>

Pledged Revenue Coverage

During 2024 and 2023, the District's pledged revenue coverage ratio was 1.82 and 1.61. 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 was called and redeemed on January 1, 2021.

NOTE 10 - COMPENSATED ABSENCES

Changes in compensated absences for the years ended February 29, 2024 and February 28, 2023 consisted of:

	<u>2024</u>	<u>2023</u>
Beginning Balance	\$ 558,826	\$ 514,531
Earned	306,925	308,152
Used	<u>(229,261)</u>	<u>(263,857)</u>
Ending Balance	<u>\$ 636,490</u>	<u>\$ 558,826</u>
Current Portion Due	<u>\$ 264,020</u>	<u>\$ 242,100</u>

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 2024 and 2023 were as follows:

	<u>2024</u>	<u>2023</u>
Net Investment in Capital Assets:		
Net Property, Plant and Equipment	\$ 67,754,894	\$ 66,879,883
Less: Revenue Bonds and Notes Payable - Net of Discounts, Premiums and Unamortized Deferred Refunding Loss	(40,546,833)	(42,402,966)
Less: Construction and Retainage Payable	<u>0</u>	<u>(93,620)</u>
	<u>27,208,061</u>	<u>24,383,297</u>
Restricted for Capital Activity:		
Less: Accounts Payable for Capital Assets	0	(93,620)
Reclassified to Net Investment in Capital Assets	<u>0</u>	<u>93,620</u>
	<u>0</u>	<u>0</u>
Restricted for Debt Service:		
Restricted Investments	3,519,557	3,415,021
Less: Accrued Interest Payable – Bonds and Notes	<u>(250,970)</u>	<u>(262,752)</u>
	<u>3,268,587</u>	<u>3,152,269</u>
Unrestricted	<u>5,643,408</u>	<u>5,873,593</u>
Total	<u>\$ 36,120,056</u>	<u>\$ 33,409,159</u>

NOTE 12 - NET WATER AND WASTEWATER REVENUES

Net water and wastewater revenues earned during 2024 and 2023 are as follows:

	2024		2023	
	Water	Wastewater	Water	Wastewater
Gross Revenues	\$ 9,957,383	\$ 2,852,438	\$ 9,509,329	\$ 2,958,918
Less: Provision for Bad Debts	(34,421)	(9,929)	(25,924)	(8,890)
Total	<u>\$ 9,922,962</u>	<u>\$ 2,842,509</u>	<u>\$ 9,483,405</u>	<u>\$ 2,950,028</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, 2024 and February 28, 2023, the following employees were covered by the benefit terms:

	2024	2023
Inactive Employees or Beneficiaries Currently Receiving Benefits	6	5
Inactive Employees Entitled to, but not yet Receiving Benefits	5	5
Active Employees	15	16
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 2024 and 2023 the District's contributions were approximately 10% and 2% 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, 2024 and February 28, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of March 1, 2023 and 2022.

Actuarial Assumptions - The total pension liability in the February 29, 2024 and February 28, 2023 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-dollar amortization, Closed
- Remaining Amortization Period: 11 Years (2024), 12 (2023)
- Asset Valuation Method: 5-year smoothed within a 20% corridor to market value
- Investment Rate of Return: 6.75% (2024, 2023) per Annum
- Discount Rate: 6.75% (2024, 2023)
- Salary Increases: 3.50% (2024, 2023) per Annum
- Retirement Age: Retirement Age of 65 combined with a graded service table (2024, 2023)
- Cost of Living Increase: 0.0%
- Mortality: PRI-2012 Blue Collar with Scale MP-2021 (2024, 2023)

The actuarial assumptions used in the 2024 and 2023 valuation were based on the results of actual experience of the Plan from March 1, 2015 through February 29, 2024.

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 2.47% per annum in 2024 and 2.45% in 2023. 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, 2024 and are summarized in the following table:

Asset Class	Target Allocation	Average Long-Term Expected Real Rate of Return	
		2024	2023
US Equity - Large Cap	18%	6.05%	5.24%
US Equity - Small/Mid Cap	17%	7.08%	6.37%
Non-US Equity - Developed	10%	6.74%	6.07%
Non-US Equity - Emerging	5%	8.70%	8.02%
US Corporate Bonds - Core	18%	2.40%	1.17%
US Corporate Bonds - High Yield	8%	4.45%	2.91%
Non-US Debt - Developed	7%	1.31%	0.31%
US Treasuries (Cash Equivalents)	2%	0.74%	-0.44%
Real Estate	5%	4.89%	4.75%
Hedge Funds	10%	3.97%	3.31%
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 2024 and 2023 was 10.53% and (6.12%), 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 2024 and 2023 was 6.75%. 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 2024.

Changes in Net Pension Liability

The changes in net pension liability are shown below:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Position Liability (a) - (b)
<u>For the Fiscal Year Ended February 29, 2024</u>			
Balances at March 1, 2023	\$ 10,344,978	\$ 8,153,522	\$ 2,191,456
Changes for the Year			
Service Cost	128,971	0	128,971
Interest	696,976	0	696,976
Difference between Expected and Actual Experience	458,265	0	458,265
Changes of assumptions	(45,214)	0	(45,214)
Contributions - Employer	0	128,000	(128,000)
Net Investment Income	0	878,654	(878,654)
Benefit Payments - Annuities	(301,674)	(301,674)	0
Administrative Expenses	0	(8,511)	8,511
Net Changes	<u>937,324</u>	<u>696,469</u>	<u>240,855</u>
Balances at February 29, 2024	<u>\$ 11,282,302</u>	<u>\$ 8,849,991</u>	<u>\$ 2,432,311</u>
<u>For the Fiscal Year Ended February 28, 2023</u>			
Balances at March 1, 2022	\$ 9,904,244	\$ 8,935,099	\$ 969,145
Changes for the Year			
Service Cost	133,704	0	133,704
Interest	669,546	0	669,546
Difference between Expected and Actual Experience	(136,294)	0	(136,294)
Changes of assumptions	15,229	0	15,229
Contributions - Employer	0	20,000	(20,000)
Net Investment Income	0	(552,092)	552,092
Benefit Payments - Annuities	(241,451)	(241,451)	0
Administrative Expenses	0	(8,034)	8,034
Net Changes	<u>440,734</u>	<u>(781,577)</u>	<u>1,222,311</u>
Balances at February 28, 2023	<u>\$ 10,344,978</u>	<u>\$ 8,153,522</u>	<u>\$ 2,191,456</u>

Plan Fiduciary Net Position was approximately 78.8% and 78.4% of total Pension Liability for fiscal years 2024 and 2023.

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, 2024 and February 28, 2023, calculated using the discount rate of 6.75%, 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%) or 1-percentage-point higher (7.75%) than the current rate:

Net Pension Liability	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
2024	\$ 3,215,728	\$ 2,432,311	\$ 1,734,483

Net Pension Liability	1% Decrease (5.75%)	Current Discount Rate Rate (6.75%)	1% Increase (7.75%)
2023	\$ 2,902,043	\$ 2,191,456	\$ 1,555,789

Pension Expense and Deferred Inflow of Resources Related to Plan

For the fiscal years 2024 and 2023, the District recognized pension expense of \$546,059 and \$492,951, respectively. At February 29, 2024 and February 28, 2023, the District reported deferred outflows of resources related to the Plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>For the Fiscal Year Ended February 29, 2024</u>		
Differences Between Expected and Actual Experience	\$ 602,340	\$ 296,612
Change of Assumptions	147,928	37,050
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	449,558	0
Total	\$ 1,199,826	\$ 333,662
<u>For the Fiscal Year Ended February 28, 2023</u>		
Differences Between Expected and Actual Experience	\$ 355,088	\$ 474,660
Change of Assumptions	221,666	3,372
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	944,645	0
Total	\$ 1,521,399	\$ 478,032

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>	
2025	\$ 211,390
2026	356,265
2027	303,039
2028	(8,385)
2029	3,855
Thereafter	0
Total	\$ 866,164

NOTE 13 - RETIREMENT PLANS (Continued)**A - Defined Benefit Plan (Continued)****Payable to Pension Plan**

At February 29, 2024 and February 28, 2023, the District did not report a payable for any outstanding amount of contributions to the Plan required for the years ended February 29, 2024 and February 28, 2023 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 2024 and 2023, 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 2024 and 2023, the payroll for employees covered under this Plan was \$1,430,441 and \$1,276,517, respectively, and the District made employer contributions of \$133,197 and \$110,997, respectively. Of these amounts \$24,922 and \$27,525 was attributable to deferrals associated with the 457(b) Deferred Compensation Plan for 2024 and 2023, respectively. The amount of forfeitures used to reduce the employer contributions were \$17,366 and \$19,645 for 2024 and 2023, respectively. As of year-end 2024 and 2023, there were 31 and 34 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 2024 and 2023 was \$24,922 and \$27,525, respectively. These matching contributions are credited to the 401(a) Defined Contribution Retirement per the Plan document. As of year-end 2024 and 2023, there were 27 and 29 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 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description - Employees of the District are provided with pre-65 retiree health insurance benefits (the “Plan”) through Blue Cross Blue Shield of Tennessee administered by the District. The Plan is a single-employer defined benefit plan.

Benefits Provided - The District offers to provide health insurance coverage to eligibility pre-65 retirees and disable participants. Insurance coverage is the only postemployment benefit provided to retirees. Retired plan members received the same plan benefits as active employees at a blended premium rate that considers the cost of all participants. The coverage is funded on a pay-as-you-go basis and there are no assets accumulated in a trust that meets the criteria of paragraph 4 of GASB Statement No. 75.

Employees Covered by Benefit Terms - At February 29, 2024 and February 28, 2023 the following employees of the District were covered by the benefit terms:

	2024	2023
Inactive Employees or Beneficiaries Currently Receiving Benefits	1	1
Active Employees Eligible for Future Benefits	12	12
Total	<u>13</u>	<u>13</u>

Total OPEB Liability

Actuarial Assumptions - The total OPEB liability in the February 29, 2024 and February 28, 2023 actuarial valuations was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Salary Increases	3.50%
Discount Rate	3.54% (2024) and 3.75% (2023)
Healthcare Cost Trend Rates	The Pre-65 healthcare cost trend rate was updated to 7.0% in 2021, grading down 0.5% per annum to an ultimate trend rate of 5.0% in years 2026 and later.

Discount Rate - The discount rate used to measure the total OPEB liability for February 29, 2024 was 3.54% (3.75% for February 28, 2023). This rate reflects the interest rate derived from yields on the Bond Buyer’s 20 Bond Index.

Changes in the Total OPEB Liability

	2024	2023
<u>For the Fiscal Year Ended February 28.</u>		
Balances at Beginning of the Year	\$ <u>455,449</u>	\$ <u>586,863</u>
Changes for the Year		
Service Cost	11,412	14,690
Interest	17,399	12,092
Difference between Expected and Actual Experience	0	(117,132)
Changes of assumptions and other inputs	4,583	(21,070)
Benefit Payments	<u>(5,843)</u>	<u>(19,994)</u>
Net Changes	<u>27,551</u>	<u>(131,414)</u>
Balances at End of Year	\$ <u><u>483,000</u></u>	\$ <u><u>455,449</u></u>

Changes in Assumptions - The discount rate was changed from 3.75% as of the beginning of the measurement period to 3.54% as of February 29, 2024. The change in assumption decreased total OPEB liability. Other changes in assumptions include adjustments to initial per capita costs and health trend rates.

NOTE 14 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Sensitivity of Total OPEB Liability to Changes in the Discount Rate - The following present the total OPEB liability as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rate.

Total OPEB Liability	1% Decrease (2.54%)	Current Discount Rate (3.54%)	1% Increase (4.54%)
2024	\$ <u>504,807</u>	\$ <u>483,000</u>	\$ <u>461,225</u>
2023	\$ <u>478,326</u>	\$ <u>455,449</u>	\$ <u>432,642</u>

Sensitivity of Total OPEB Liability to Changes in the Healthcare Cost Trend Rate - The following presents the total OPEB liability related to the Plan, as well as what the total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rate.

Total OPEB Liability	1% Decrease (5% decreasing to 4%)	Healthcare Cost Trend (6% decreasing to 5%)	1% Increase (7% decreasing to 6%)
2024	\$ <u>449,854</u>	\$ <u>483,000</u>	\$ <u>515,836</u>
2023	\$ <u>424,755</u>	\$ <u>455,449</u>	\$ <u>485,759</u>

NOTE 14 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

OPEB Expense - For the fiscal year ended February 29, 2024, the District recognized OPEB expense of \$23,914.

Deferred Outflows of Resources and Deferred Inflows of Resources - For the fiscal year ended February 29, 2024 and February 28, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB benefits from the following sources:

<u>2024</u>	<u>Total</u>
Deferred Outflows of Resources	
Change in Assumptions - February 29, 2024	\$ (32,877)
Experience Gains (Losses) - February 29, 2024	<u>(34,396)</u>
Total	<u>\$ (67,273)</u>
 Deferred Inflows of Resources	
Change in Assumptions - February 29, 2024	\$ 21,722
Experience Gains (Losses) - February 29, 2024	<u>86,826</u>
Total	<u>\$ 108,548</u>
 <u>2023</u>	 <u>Total</u>
Deferred Outflows of Resources	
Change in Assumptions - February 28, 2023	\$ (34,055)
Experience Gains (Losses) - February 28, 2023	<u>(42,765)</u>
Total	<u>\$ (76,820)</u>
 Deferred Inflows of Resources	
Change in Assumptions - February 28, 2023	25,596
Experience Gains (Losses) - February 28, 2023	<u>\$ 101,979</u>
Total	<u>\$ 127,575</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year Ended June 30,	<u>Total</u>
2025	\$ (4,897)
2026	(4,897)
2027	(4,897)
2028	(4,897)
2029	(12,286)
Thereafter	<u>(9,401)</u>
Total	<u>\$ (41,275)</u>

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

NOTE 15 - 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 16 - 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 12% of total water and wastewater revenues during 2024 and 2023.

NOTE 17 - RISKS AND UNCERTAINTIES

The District's Fiduciary Fund Plans invest 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.

NOTE 18 - FEDERAL GRANT

The District was awarded federal funds of \$4,075,000 through the American Rescue Plan Act (ARPA) Coronavirus State and Local Fiscal Recovery Funds program (SLFRF). The grant monies pass through Knox County, the original recipient of the federal award. The District must submit support for eligible expenditures and obtain approval from Knox County to receive the grant funds. The period of funding for the SLFRF award is from May 1st, 2023 through September 30, 2026 and funds are to be spent on expanded or enhanced water mains, rehabilitations and sewer improvements. Associated costs prior to May 1, 2023 are allowed to be reimbursed and funded by this grant as long as they were incurred after March 3, 2021. For the year ended February 29, 2024, the District recognized SLFRF grant revenue of \$639,514.

REQUIRED SUPPLEMENTARY INFORMATION

KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY
SCHEDULE OF CHANGES IN DISTRICT'S NET PENSION LIABILITY AND RELATED RATIOS
Last Ten Fiscal Years

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Total Pension Liability										
Service Cost	\$ 128,971	\$ 133,704	\$ 141,983	\$ 140,088	\$ 113,463	\$ 128,281	\$ 136,909	\$ 232,897	\$ 223,939	\$ 215,326
Interest	696,976	669,546	617,980	615,131	590,162	551,430	544,960	549,672	504,503	440,273
Changes of Benefit Terms	0	0	0	0	0	173,087	0	0	0	0
Differences between Expected and Actual Experience	458,265	(136,294)	228,454	(533,897)	199,839	13,605	(109,576)	(399,444)	10,708	394,983
Changes of Assumptions	(45,214)	15,229	18,893	(6,798)	122,406	60,637	157,749	7,712	243,566	0
Benefit Payments	(301,674)	(241,449)	(228,947)	(121,235)	(39,275)	(1,239,705)	(38,587)	(674,978)	(28,732)	(152,153)
Net Change in Total Pension Liability	937,324	440,736	778,363	93,289	986,595	(312,665)	691,455	(284,141)	953,984	898,429
Total Pension Liability - Beginning	10,344,980	9,904,244	9,125,881	9,032,592	8,045,997	8,358,662	7,667,207	7,951,348	6,997,364	6,098,935
Total Pension Liability - Ending (a)	\$ 11,282,304	\$ 10,344,980	\$ 9,904,244	\$ 9,125,881	\$ 9,032,592	\$ 8,045,997	\$ 8,358,662	\$ 7,667,207	\$ 7,951,348	\$ 6,997,364
Plan Fiduciary Net Position										
Contributions - Employer	\$ 128,000	\$ 20,000	\$ 35,000	\$ 215,000	\$ 960,000	\$ 960,000	\$ 960,000	\$ 960,000	\$ 960,000	\$ 593,800
Net Investment Income (Loss)	878,654	(552,092)	164,331	1,245,716	221,532	204,655	490,835	557,016	(312,243)	183,356
Benefit Payments	(301,674)	(241,451)	(228,947)	(121,235)	(39,275)	(1,239,705)	(38,587)	(674,978)	(28,732)	(152,153)
Administrative Expense	(8,511)	(8,034)	(9,297)	(8,688)	(6,001)	(6,230)	(7,292)	(4,315)	(1,350)	(1,320)
Net Change in Plan Fiduciary Net Position	696,469	(781,577)	(38,913)	1,330,793	1,136,256	(81,280)	1,404,956	837,723	617,675	623,683
Plan Fiduciary Net Position - Beginning	8,153,524	8,935,101	8,974,014	7,643,221	6,506,965	6,588,245	5,183,289	4,345,566	3,727,891	3,104,208
Plan Fiduciary Net Position - Ending (b)	\$ 8,849,993	\$ 8,153,524	\$ 8,935,101	\$ 8,974,014	\$ 7,643,221	\$ 6,506,965	\$ 6,588,245	\$ 5,183,289	\$ 4,345,566	\$ 3,727,891
Net Pension Liability - Ending (a) - (b)	\$ 2,432,311	\$ 2,191,456	\$ 969,143	\$ 151,867	\$ 1,389,371	\$ 1,539,032	\$ 1,770,417	\$ 2,483,918	\$ 3,605,782	\$ 3,269,473
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.44%	78.82%	90.21%	98.34%	84.62%	80.87%	78.82%	67.60%	54.65%	53.28%
Covered Payroll	\$ 1,238,932	\$ 1,212,120	\$ 1,145,045	\$ 1,251,847	\$ 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	196.32%	180.80%	84.64%	12.13%	107.70%	114.43%	130.45%	162.98%	220.35%	216.40%

Note: This schedule was first required for the fiscal year ended February 28, 2015.

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.

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 Ten Fiscal Years

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Actuarially Determined Contribution	\$ 116,727	\$ 15,242	\$ 31,680	\$ 44,506	\$ 183,613	\$ 172,067	\$ 282,637	\$ 376,661	\$ 557,402	\$ 500,764
Contributions in Relation to the Actuarially Determined Contribution	<u>128,000</u>	<u>20,000</u>	<u>35,000</u>	<u>215,000</u>	<u>960,000</u>	<u>960,000</u>	<u>960,000</u>	<u>960,000</u>	<u>960,000</u>	<u>593,800</u>
Contribution Deficiency (Excess)	<u>\$ (11,273)</u>	<u>\$ (4,758)</u>	<u>\$ (3,320)</u>	<u>\$ (170,494)</u>	<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	\$ 1,238,932	\$ 1,212,120	\$ 1,145,045	\$ 1,251,847	\$ 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	10.33%	1.65%	3.06%	17.17%	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.

Notes:

Valuation Date: March 1, 2023

Actuarial determined contribution amounts for FY 2024 was calculated as of March 1, 2023.

Methods and Assumptions used to Calculate Actuarially Determined Contribution:

Actuarial Cost Method:	Individual Entry Age Normal
Amortization Method:	Level-dollar amortization, Closed
Remaining Amortization Period:	11 Years
Asset Valuation Method:	5-year smoothed within a 20% corridor to market value
Salary Increases:	3.5%
Investment Rate of Return	6.75% (2024 to 2021), 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; or graded schedule (70% to 95%) from age 60 to age 64 with Rule of 95
Mortality	Pri-2012 Collar Mortality with Scale MP - 2021 (2024 to 2021), Pri-2012 Collar Mortality with Scale MP - 2020 (2020), 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 Ten Fiscal Years**

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Annual Money-Weighed Rate of Return (Loss), Net of Investment Expense	10.53 %	(6.12) %	1.75 %	15.91 %	3.20 %	3.11 %	8.76 %	12.86 %	(7.56) %	5.44 %

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.

KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY
SCHEDULE OF CHANGES IN THE OPEB LIABILITY AND RELATED RATIOS

Last Seven Fiscal Years

	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB Liability							
Service Cost	\$ 11,412	\$ 14,690	\$ 14,978	\$ 14,551	\$ 13,250	\$ 13,970	\$ 0
Interest	17,399	12,092	14,438	14,636	19,042	17,026	0
Changes of Benefit Terms	0	0	0	3,987	0	0	0
Differences between Expected and Actual Experience	0	(117,132)	0	67,872	0	0	0
Changes of Assumptions	4,583	(21,070)	(1,856)	945	53,349	(10,377)	0
Benefit Payments	<u>(5,843)</u>	<u>(19,994)</u>	<u>(34,639)</u>	<u>(32,228)</u>	<u>(5,282)</u>	<u>(10,006)</u>	<u>0</u>
Net Change in Total OPEB Liability	27,551	(131,414)	(7,079)	69,763	80,359	10,613	0
Total OPEB Liability - Beginning	<u>455,449</u>	<u>586,863</u>	<u>593,942</u>	<u>524,179</u>	<u>443,820</u>	<u>433,207</u>	<u>433,207</u>
Total OPEB Liability - Ending	<u>\$ 483,000</u>	<u>\$ 455,449</u>	<u>\$ 586,863</u>	<u>593,942</u>	<u>\$ 524,179</u>	<u>\$ 443,820</u>	<u>\$ 433,207</u>
Covered-Employee Payroll	1,007,752	983,206	970,908	1,009,581	947,819	1,008,723	931,149
Net Pension Liability as a Percentage of Covered Payroll	47.93%	46.32%	60.44%	58.83%	55.30%	44.00%	46.52%

Note: *There are no assets accumulating in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 related to this OPEB Plan. This schedule is intended to display ten years of information. Additional years will be displayed as they become available.*

*Plan Changes: In 2021 the District reimbursed the first \$3,000 of the deductible on employee only coverage
Beginning in 2022, the District reimbursed the first \$5,800 of the deductible on employee only coverage
In 2021 the District reimbursed the first \$6000 of the deductible on employee plus spouse coverage
In 2022 the District reimbursed the first \$11,600 of the deductible on employee plus spouse coverage*

OTHER SUPPLEMENTARY INFORMATION

KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY

STATEMENTS OF FIDUCIARY NET POSITION – RETIREMENT TRUST FUNDS

	February 29, 2024				February 28, 2023			
	Frozen Defined Benefit Plan	Defined Contribution Plan	Deferred Compensation Plan	Total	Frozen Defined Benefit Plan	Defined Contribution Plan	Deferred Compensation Plan	Total
ASSETS								
Investments, at Fair Value:								
Mutual Funds:								
Money Market - Short Term	\$ 166,911	\$ 0	\$ 0	\$ 166,911	\$ 98,811	\$ 0	\$ 0	\$ 98,811
Domestic Equity	3,342,514	0	0	3,342,514	3,280,960	0	0	3,280,960
International Equity	1,473,082	0	0	1,473,082	1,764,131	0	0	1,764,131
Bonds	2,681,160	0	0	2,681,160	1,849,640	0	0	1,849,640
Market Neutral/Alternative	332,998	0	0	332,998	400,195	0	0	400,195
Real Estate	513,831	0	0	513,831	411,402	0	0	411,402
Floating Rate Loans	339,497	0	0	339,497	328,385	0	0	328,385
Large Cap	0	42,500	0	42,500	0	29,472	0	29,472
Small/Mid Cap	0	18,074	11,697	29,771	0	14,012	10,639	24,651
International	0	31,034	0	31,034	0	24,441	0	24,441
Target Date	0	862,162	186,312	1,048,474	0	651,623	108,326	759,949
Total Investments	8,849,993	953,770	198,009	10,001,772	8,133,524	719,548	118,965	8,972,037
Receivables:								
Employer Contributions	0	0	0	0	20,000	0	0	20,000
TOTAL ASSETS	\$ 8,849,993	\$ 953,770	\$ 198,009	\$ 10,001,772	\$ 8,153,524	\$ 719,548	\$ 118,965	\$ 8,992,037
LIABILITIES AND NET POSITION								
NET POSITION								
Restricted for Retirement Benefits	\$ 8,849,993	\$ 953,770	\$ 198,009	\$ 10,001,772	\$ 8,153,524	\$ 719,548	\$ 118,965	\$ 8,992,037

KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION – RETIREMENT TRUST FUNDS

	Year Ended February 29, 2024				Year Ended February 28, 2023			
	Frozen Defined Benefit Plan	Defined Contribution Plan	Deferred Compensation Plan	Total	Frozen Defined Benefit Plan	Defined Contribution Plan	Deferred Compensation Plan	Total
ADDITIONS								
Employer Contributions	\$ 128,000	\$ 135,396	\$ 0	\$ 263,396	\$ 20,000	\$ 110,997	\$ 0	\$ 130,997
Employee Contributions	0	41,340	62,507	103,847	0	34,088	27,525	61,613
Net Investment Income (Loss)	878,654	120,869	21,129	1,020,652	(552,094)	(74,872)	(12,243)	(639,209)
Total Additions	<u>1,006,654</u>	<u>297,605</u>	<u>83,636</u>	<u>1,387,895</u>	<u>(532,094)</u>	<u>70,213</u>	<u>15,282</u>	<u>(446,599)</u>
DEDUCTIONS								
Administrative Expenses	8,511	2,139	2,191	12,841	8,032	2,073	2,166	12,271
Benefits	301,674	61,244	2,401	365,319	241,451	28,271	4,819	274,541
Total Deductions	<u>310,185</u>	<u>63,383</u>	<u>4,592</u>	<u>378,160</u>	<u>249,483</u>	<u>30,344</u>	<u>6,985</u>	<u>286,812</u>
CHANGE IN NET POSITION	696,469	234,222	79,044	1,009,735	(781,577)	39,869	8,297	(733,411)
NET POSITION - RESTRICTED FOR RETIREMENT BENEFITS, BEGINNING OF YEAR	<u>8,153,524</u>	<u>719,548</u>	<u>118,965</u>	<u>8,992,037</u>	<u>8,935,101</u>	<u>679,679</u>	<u>110,668</u>	<u>9,725,448</u>
NET POSITION - RESTRICTED FOR RETIREMENT BENEFITS, END OF YEAR	<u>\$ 8,849,993</u>	<u>\$ 953,770</u>	<u>\$ 198,009</u>	<u>\$ 10,001,772</u>	<u>\$ 8,153,524</u>	<u>\$ 719,548</u>	<u>\$ 118,965</u>	<u>\$ 8,992,037</u>

KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY
SCHEDULE OF DEBT SERVICE REQUIREMENTS
February 29, 2024

Year	Series 2005 Bonds		Series 2012 Bonds		Series 2015 Bonds		Series 2017 Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2025	\$ 52,069	\$ 62,471	\$ 470,000	\$ 522,600	\$ 635,000	\$ 450,938	\$ 700,000	\$ 507,663
2026	54,438	60,102	495,000	501,450	655,000	435,063	720,000	486,663
2027	56,727	57,813	515,000	479,175	660,000	408,863	760,000	465,063
2028	59,112	55,428	530,000	456,000	690,000	382,463	780,000	442,263
2029	61,443	53,097	200,000	434,800	730,000	347,963	1,145,000	418,863
2030	64,180	50,360	205,000	426,800	760,000	311,463	1,180,000	384,513
2031	66,878	47,662	210,000	418,600	805,000	273,463	1,215,000	349,113
2032	69,688	44,851	225,000	410,200	840,000	233,213	1,260,000	300,513
2033	72,496	42,044	235,000	401,200	880,000	191,213	1,310,000	250,113
2034	75,666	38,874	250,000	391,800	920,000	147,213	1,350,000	207,538
2035	78,847	35,693	255,000	381,800	945,000	119,613	1,415,000	153,538
2036	82,162	32,378	270,000	371,600	990,000	91,263	1,450,000	96,938
2037	85,529	29,011	1,620,000	360,800	1,010,000	60,326	220,000	48,000
2038	89,212	25,328	2,370,000	296,000	285,000	28,763	230,000	39,200
2039	92,962	21,578	2,465,000	201,200	295,000	19,500	240,000	30,000
2040	96,870	17,670	2,565,000	102,600	305,000	9,913	250,000	20,400
2041	100,898	13,642	0	0	0	0	260,000	10,400
2042	105,184	9,356	0	0	0	0	0	0
2043	109,606	4,934	0	0	0	0	0	0
2044	60,311	760	0	0	0	0	0	0
Total	\$ 1,534,278	\$ 703,052	\$ 12,880,000	\$ 6,156,625	\$ 11,405,000	\$ 3,511,233	\$ 14,485,000	\$ 4,210,781

KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY
SCHEDULE OF DEBT SERVICE REQUIREMENTS (Continued)
February 29, 2024

Year	Total Revenue Bonds		Total Notes from Direct Borrowings		Total Debt Service
	Principal	Interest	Principal	Interest	
2025	\$ 1,857,069	\$ 1,543,672	\$ 73,555	\$ 6,155	\$ 3,480,451
2026	1,924,438	1,483,278	76,570	3,139	3,487,425
2027	1,991,727	1,410,914	0	0	3,402,641
2028	2,059,112	1,336,154	0	0	3,395,266
2029	2,136,443	1,254,723	0	0	3,391,166
2030	2,209,180	1,173,136	0	0	3,382,316
2031	2,296,878	1,088,838	0	0	3,385,716
2032	2,394,688	988,777	0	0	3,383,465
2033	2,497,496	884,570	0	0	3,382,066
2034	2,595,666	785,425	0	0	3,381,091
2035	2,693,847	690,644	0	0	3,384,491
2036	2,792,162	592,179	0	0	3,384,341
2037	2,935,529	498,137	0	0	3,433,666
2038	2,974,212	389,291	0	0	3,363,503
2039	3,092,962	272,278	0	0	3,365,240
2040	3,216,870	150,583	0	0	3,367,453
2041	360,898	24,042	0	0	384,940
2042	105,184	9,356	0	0	114,540
2043	109,606	4,934	0	0	114,540
2044	60,311	760	0	0	61,071
Total	\$ 40,304,278	\$ 14,581,691	\$ 150,125	\$ 9,294	\$ 55,045,388

KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY
SCHEDULE OF CHANGES IN LONG-TERM DEBT BY INDIVIDUAL ISSUE
February 29, 2024

<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, 2023</u>	<u>Paid and/or Matured During Period</u>	<u>Outstanding February 29, 2024</u>
Bonds Payable							
Series 2005	\$ 2,194,100	\$ 4.125%	9/28/2005	9/28/2043	\$ 1,584,419	\$ (50,142)	\$ 1,534,277
Series 2012	18,095,000	3.00%	10/18/2012	1/1/2040	13,330,000	(450,000)	12,880,000
Series 2015	15,505,000	5.00%	4/16/2015	1/1/2040	12,015,000	(610,000)	11,405,000
Series 2017	17,310,000	3.00%	2/23/2017	1/1/2041	15,170,000	(685,000)	14,485,000
Total Bonds Payable					<u>\$ 42,099,419</u>	<u>\$ (1,795,142)</u>	<u>\$ 40,304,277</u>
Notes Payable							
City of Maryville Capacity - NP #1	1,429,332	4.10%	3/31/2006	7/1/2025	\$ 220,783	\$ (70,658)	\$ 150,125
Total Notes Payable					<u>\$ 220,783</u>	<u>\$ (70,658)</u>	<u>\$ 150,125</u>

KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY

SCHEDULE OF INSURANCE COVERAGE

February 29, 2024

<u>Standard Workers' Compensation</u>	<u>Coverage</u>
ICW Insurance Group	Meets All State Requirements
Policy #WTE 5064647 00	\$500,000 Each Accident
Policy Period – 3/11/2023 - 3/01/2024	\$500,000 Policy Limit-Disease
	\$500,000 Each Employee-Disease
<u>Comprehensive and Blanket Crimes Bond Occurrence</u>	
Berkley Southeast Insurance Group	
Policy # CPA 4307066	
Policy Period – 3/11/2023 - 3/01/2024	
Employee Dishonesty	\$ 200,000
Employee Benefits Liability	\$ 1,000,000
<u>General Liability</u>	
Berkley Southeast Insurance Group	
Policy Period – 3/11/2023 - 3/01/2024	
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 – 3/11/2023 - 3/01/2024	
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 – 3/11/2023 - 3/01/2024	
Total of Equipment Described on Policy -	\$ 433,442

KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY
SCHEDULE OF INSURANCE COVERAGE (Continued)
February 29, 2024

Commercial Property Insurance
Berkley Southeast Insurance Group
Policy # CPA 4307066
Policy Period – 3/11/23 – 3/11/24
Special Causes of Loss
\$1,000 Deductible

Schedule of Locations on Commercial Property Insurance Policy:

1 Building #1 R-1905 John Sevier Highway Filtration Plant and Warehouse	\$11,933,204	Building & Contents
2 1905 John Sevier Highway Office and Warehouse	\$400,984	Building
3 French Road/John Sevier Highway Pump House and Water Pumps	\$20,860	Building & Contents
4 Porterfield Gap Road Pump House /Pumps and Fittings	\$34,520	Building & Contents
5 Chapman Highway at Sevier County Line Pump House /Pumps/Fittings	\$26,062	Building & Contents
6 Pump Stations at Twenty-Three Locations Insured for \$24,228 to \$96,907 Each	\$1,472,594	Building
7 South Point Pump Station	\$130,768	Building
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, 2024 and February 28, 2023

1. As of fiscal year-end 2024 and 2023, 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 3,114 and 3,027 sewer customers for the fiscal years ended 2024 and 2023, respectively.

Billing Units	2024	2023
Residential and Commercial	15,391	15,204
Industrial	32	32
Total	15,423	15,236

2. Monthly Water Rate Schedule per 1,000 Gallons – (In effect as of February 29, 2024 and February 28, 2023)

(A) Water Rates – Residential and Commercial:

	2024	2023
Minimum Bill	\$ 20.95	\$ 20.14
Per 1,000 gallons	\$ 6.56	\$ 6.30

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

	2024	2023
Minimum Bill	\$ 22.27	\$ 21.41
0 – 10,000	\$ 6.65	\$ 6.40
10,000	\$ 6.65	\$ 5.01
25,000 to 60,000	\$ 6.65	\$ 5.01
Over 60,000	\$ 6.65	\$ 5.01

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

	2024	2023
Minimum Bill	\$ 25.39	\$ 25.39
Per 1,000 gallons	\$ 6.92	\$ 6.92

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

	2024	2023
Minimum Bill	\$ 28.26	\$ 28.26
Per 1,000 gallons	\$ 6.92	\$ 6.92

KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY
SCHEDULE OF WATER RATES AND STATISTICS (Continued)
February 29, 2024 and February 28, 2023

(E) Sewer Rates – Commercial and Contract Subdivisions:

	2024	2023
Minimum Bill	\$ 32.25	\$ 32.25
Per 1,000 gallons	\$ 7.20	\$ 7.20

(F) Sewer Rates – Industrial:

	2024	2023
Minimum Bill	\$ 34.40	\$ 34.40
Per 1,000 gallons	\$ 9.09	\$ 9.09

3. Water Tap Fees

	2024	2023
¾"	\$ 1,550	\$ 1,350
1"	\$ 3,000	\$ 2,800
2"	\$ Various	\$ Various
3"	\$ Various	\$ Various
4"	\$ Various	\$ Various
6"	\$ Various	\$ Various

4. Sewer Tap Fees

	2024	2023
Includes Inspection	\$ 30.00	\$ 30.00

5. Fireline Tap Fees

	2024	2023
Tap (Per Inch, Plus Cost of Meter)	\$ 1,000	\$ 1,000
Fire Hydrant	\$ 5,000	\$ 5,000
Private Fire Hydrant (Per Month)	\$ 10	\$ 10
Sprinkler Heads (Per Month)	\$ 0.30	\$ 0.30

6. Service Charge

	\$ 50.00	\$ 50.00
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7. Returned Check Charge

	\$ 35.00	\$ 35.00
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8. Renter's Deposit

	\$ 100.00	\$ 100.00
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STATISTICAL SECTION

This part of the District's Annual Comprehensive 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>	57-58
Revenue Capacity	
<i>These schedules contain information to help the reader assess the District's operating revenues and customer statistics.....</i>	59-66
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>	67-68
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>	69-70
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>	71-72

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

KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY

NET POSITION BY COMPONENT

Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Net Investment in Capital Assets</u>	<u>Restricted Capital Activity</u>	<u>Debt Service</u>	<u>Unrestricted</u>	<u>Total</u>
2024	\$ 27,208,061	\$ 0	\$ 3,268,587	\$ 5,643,408	\$ 36,120,056
2023	24,383,297	0	3,152,269	5,873,593	33,409,159
2022	20,568,139	0	3,285,619	6,501,419	30,355,177
2021	18,655,220	0	3,349,782	6,548,826	28,553,828
2020	15,607,917	0	3,335,430	7,000,695	25,944,042
2019	13,108,652	0	3,249,506	7,428,217	23,786,375
2018	12,887,074	0	3,230,036	6,133,090	22,250,200
2017	13,291,075	0	3,099,987	4,891,978	21,283,040
2016	14,041,499	0	2,981,409	3,502,469	20,525,377
2015 (A)	15,112,130	0	2,775,018	2,762,825	20,649,973

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

	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating Revenues										
Water – Net	\$ 9,922,962	\$ 9,483,405	\$ 9,034,938	\$ 9,027,217	\$ 8,627,947	\$ 8,512,931	\$ 8,124,340	\$ 7,995,487	\$ 7,495,074	\$ 7,175,591
Wastewater – Net	2,842,509	2,950,028	2,604,152	2,366,233	2,218,585	1,931,485	1,916,216	1,844,280	1,602,686	1,522,689
Connection Fees	511,342	661,098	538,228	554,507	601,035	703,426	367,929	383,000	279,525	329,875
Service Fees	198,067	149,573	102,367	87,179	95,948	97,803	97,715	45,755	49,030	71,149
Miscellaneous	45,322	52,502	(1,774,446)	43,025	40,130	96,686	44,125	30,448	20,293	29,504
Total Operating Revenues	<u>13,520,202</u>	<u>13,296,606</u>	<u>10,505,239</u>	<u>12,078,161</u>	<u>11,583,645</u>	<u>11,342,331</u>	<u>10,550,325</u>	<u>10,298,970</u>	<u>9,446,608</u>	<u>9,128,808</u>
Operating Expenses										
Water Purification and Supply	1,943,326	1,662,368	1,025,625	971,618	1,307,119	1,240,495	1,101,190	1,240,163	1,296,053	1,112,950
Water Transmission and Distribution	2,708,468	3,054,237	2,692,280	2,522,166	2,430,258	2,087,651	1,933,641	1,839,616	1,800,885	1,485,543
Wastewater Collection	897,120	1,113,268	831,839	813,207	920,083	862,186	719,035	713,113	759,714	929,344
Customer Accounting and Collections	812,522	705,957	689,992	657,932	682,193	681,757	655,528	688,653	717,014	683,778
Administrative and General	1,165,077	1,095,392	996,427	1,077,357	997,756	1,024,951	1,111,647	980,827	818,001	714,428
Depreciation and Amortization	2,643,679	2,596,768	2,524,490	2,417,435	2,364,519	2,310,892	2,243,511	2,200,653	2,129,712	1,990,860
Total Operating Expenses	<u>10,170,192</u>	<u>10,227,990</u>	<u>8,760,653</u>	<u>8,459,715</u>	<u>8,701,928</u>	<u>8,207,932</u>	<u>7,764,552</u>	<u>7,663,025</u>	<u>7,521,379</u>	<u>6,916,903</u>
Operating Income	<u>3,350,010</u>	<u>3,068,616</u>	<u>1,744,586</u>	<u>3,618,446</u>	<u>2,881,717</u>	<u>3,134,399</u>	<u>2,785,773</u>	<u>2,635,945</u>	<u>1,925,229</u>	<u>2,211,905</u>
Non-Operating Revenues (Expenses)										
Investment Income	336,479	(178,993)	(46,036)	135,548	266,459	135,870	31,202	47,765	41,580	44,009
Interest & Issuance Expense	(1,615,106)	(1,681,654)	(1,740,293)	(1,791,539)	(1,896,469)	(1,940,882)	(1,983,090)	(2,038,436)	(2,102,641)	(1,554,018)
Gain (Loss) on Disposal and Impairment of Capital Assets	0	8,150	2,000	(10,968)	0	12,158	0	5,501	3,896	(65,309)
Total Non-Operating Revenues (Expenses) - Net	<u>(1,278,627)</u>	<u>(1,852,497)</u>	<u>(1,784,329)</u>	<u>(1,666,959)</u>	<u>(1,630,010)</u>	<u>(1,792,854)</u>	<u>(1,951,888)</u>	<u>(1,985,170)</u>	<u>(2,057,165)</u>	<u>(1,575,318)</u>
Increase in Net Position Before Capital Contributions	<u>2,071,383</u>	<u>1,216,119</u>	<u>(39,743)</u>	<u>1,951,487</u>	<u>1,251,707</u>	<u>1,341,545</u>	<u>833,885</u>	<u>650,775</u>	<u>(131,936)</u>	<u>636,587</u>
Capital Contributions										
Cash Contributions	639,514	1,807,321	13,502	1,125,128	784,587	0	45,244	23,101	0	0
Developers Contributions of Capital Assets	0	30,542	21,220	57,350	121,374	194,631	88,030	83,787	7,340	0
Total Capital Contributions	<u>639,514</u>	<u>1,837,863</u>	<u>34,722</u>	<u>1,182,478</u>	<u>905,961</u>	<u>194,631</u>	<u>133,274</u>	<u>106,888</u>	<u>7,340</u>	<u>0</u>
Change in Net Position	<u>\$ 2,710,897</u>	<u>\$ 3,053,982</u>	<u>\$ (5,021)</u>	<u>\$ 3,133,965</u>	<u>\$ 2,157,668</u>	<u>\$ 1,536,176</u>	<u>\$ 967,159</u>	<u>\$ 757,663</u>	<u>\$ (124,596)</u>	<u>\$ 636,587</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
2024	1,540,752	1,063,520	422,752	27.44	\$ 20.95	\$ 6.56	\$ 25.39	\$ 6.92
2023	1,512,059	1,057,077	421,203	27.86	20.14	6.30	24.41	6.65
2022	1,435,358	1,061,049	335,325	23.36	20.14	6.30	24.41	6.65
2021	1,539,628	1,033,982	453,029	29.42	18.64	6.30	23.70	6.46
2020	1,528,699	1,030,605	461,793	30.21	17.64	6.30	22.79	6.22
2019	1,388,078	1,007,389	383,328	27.62	16.64	6.30	21.91	5.98
2018	1,343,981	948,013	349,696	26.02	16.64	6.30	21.27	5.81
2017	1,506,244	934,550	571,694	37.95	15.64	6.30	19.70	5.38
2016	1,349,539	883,952	456,752	33.85	14.64	6.30	18.24	4.98
2015	1,318,830	869,595	449,235	34.06	14.21	6.11	17.70	4.83

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 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 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>
2024	169	76	245
2023	243	137	380
2022	237	85	322
2021	244	78	322
2020	291	64	355
2019	246	102	348
2018	175	47	222
2017	243	44	287
2016	145	51	196
2015	152	58	210

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					
2024	14,945	438	32	8	15,423
2023	14,764	433	32	7	15,236
2022	14,536	439	33	7	15,015
2021	14,320	442	34	7	14,803
2020	14,149	427	34	7	14,617
2019	13,860	419	32	7	14,318
2018	13,635	398	32	7	14,072
2017	13,316	491	27	4	13,838
2016	13,063	487	26	4	13,580
2015	12,860	489	26	5	13,380
Wastewater					
2024	2,902	187	25	0	3,114
2023	2,817	185	25	0	3,027
2022	2,660	182	26	0	2,868
2021	2,589	187	26	0	2,802
2020	2,542	158	20	0	2,720
2019	2,471	170	26	0	2,667
2018	2,392	162	23	0	2,577
2017	2,328	146	21	0	2,495
2016	2,271	143	20	1	2,435
2015	2,230	144	20	1	2,395

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	Fiscal Year									
	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Meter Size										
(b)										
3/4"	\$ 20.95	\$ 20.14	\$ 20.14	\$ 18.64	\$ 17.64	\$ 16.64	\$ 16.64	\$ 15.64	\$ 14.64	\$ 14.21
1"	22.27	21.41	21.41	19.91	18.91	17.91	17.91	16.91	15.91	15.44
2"	22.27	21.41	21.41	19.91	18.91	17.91	17.91	16.91	15.91	15.44
6"	22.27	21.41	21.41	19.91	18.91	17.91	17.91	16.91	15.91	15.44
8"	22.27	21.41	21.41	19.91	18.91	17.91	17.91	16.91	15.91	15.44
Usage Rates										
(Per 1,000 Gallons)										
Over Minimum										
Over 1,000 Gallons	\$ 6.56	\$ 6.30	\$ 6.30	\$ 6.30	\$ 6.30	\$ 6.30	\$ 6.30	\$ 6.30	\$ 6.30	\$ 6.11

Notes: Information compiled from internal records

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

(b) 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	Fiscal Year									
	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Meter Size (b)										
3/4" Residential	\$ 28.26	\$ 27.17	\$ 27.17	\$ 26.38	\$ 25.37	\$ 24.39	\$ 23.68	\$ 21.93	\$ 18.24	\$ 17.70
3/4" Commercial	32.25	31.01	31.01	30.11	28.96	27.85	27.04	25.04	23.18	22.50
Industrial	43.49	41.81	41.81	40.60	39.05	37.55	28.83	26.70	24.72	24.00
1"	9.09	8.74	8.74	8.49	8.17	7.86	7.63	7.07	6.54	6.35
2"	9.09	8.74	8.74	8.49	8.17	7.86	7.63	7.07	6.54	6.35
6"	9.09	8.74	8.74	8.49	8.17	7.86	7.63	7.07	6.54	6.35
8"	9.09	8.74	8.74	8.49	8.17	7.86	7.63	7.07	6.54	6.35
Usage Rates										
(Per 1,000 Gallons)										
Over 1,000 Gallons										
Residential	\$ 6.92	\$ 6.65	\$ 6.65	\$ 6.46	\$ 6.22	\$ 5.98	\$ 5.81	\$ 5.38	\$ 4.98	\$ 4.83
Commercial	7.20	6.92	6.92	6.72	6.47	6.22	6.04	5.60	5.18	5.03
Industrial	9.09	8.74	8.74	8.49	8.17	7.86	7.63	7.07	6.54	6.35

Notes: Information compiled from internal records

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

(b) 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 2024		FY 2015	
		Total Annual Sales	Percentage of Total Sales	Total Annual Sales	Percentage of Total Sales
Cintas Corporation	Uniform Laundry Service	\$ 298,460	2.34 %	\$ 218,188	3.04 %
Johnson University	Higher Education	310,673	2.43	115,308	1.61
Tuckaleechee Utility District	Utility	266,328	2.09	139,505	1.94
Evoqua Water Technologies	Retail Store	104,425	0.82	53,544	0.75
Sevier County Schools	Education	98,173	0.77	58,819	0.82
Knox County Schools	Education	101,313	0.79	61,186	0.85
Harrison Chilhowee School	Education	112,734	0.88	N/A	N/A
Williamsburg Villas	Residential	N/A	N/A	48,006	0.67
Trinity Home	Residential	N/A	N/A	41,025	0.57
Zips Car Wash	Car Wash	58,850	0.46	31,168	0.43
White Oak Crossing	Apartments	65,036	0.51	N/A	N/A
Flex-N-Gate	Manufacturing	68,385	0.54	N/A	N/A
Fastop Market	Retail Store	N/A	N/A	49,987	0.70
Total		<u>\$ 1,484,377</u>	<u>11.63 %</u>	<u>\$ 816,736</u>	<u>11.38 %</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				
2024	\$ 40,304,278	\$ 150,125	\$ 1,179,446	\$ 41,633,849	15,423	\$ 2,699
2023	42,099,419	220,783	1,318,771	43,638,973	15,236	2,864
2022	43,852,538	288,658	1,463,742	45,604,938	15,015	3,037
2021	45,553,715	353,860	1,613,770	47,521,345	14,803	3,210
2020	47,197,836	416,494	1,773,023	49,387,353	14,617	3,379
2019	48,785,370	1,786,186	1,943,622	52,515,178	14,318	3,668
2018	50,326,189	1,854,277	2,120,476	54,300,942	14,072	3,859
2017	51,750,361	1,948,803	2,295,922	55,995,086	13,838	4,046
2016	47,627,740	2,012,431	2,066,841	51,707,012	13,580	3,808
2015	43,923,824	2,073,958	760,391	46,758,173	13,380	3,495

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	
2024	\$ 13,856,681	\$ 7,526,513	\$ 6,330,168	\$ 1,865,800	\$ 1,613,751	\$ 3,479,551	1.82
2023	13,117,613	7,631,222	5,486,391	1,753,119	1,664,822	3,417,941	1.61
2022	12,265,573	6,236,163	6,029,410	1,701,177	1,714,964	3,416,141	1.76
2021	12,213,709	6,042,280	6,171,429	1,644,120	1,762,271	3,406,391	1.81
2020	11,850,103	6,337,409	5,512,694	1,587,535	1,825,306	3,412,841	1.62
2019	11,478,201	5,897,040	5,581,161	1,540,819	1,870,060	3,410,879	1.64
2018	10,581,527	5,521,041	5,060,486	1,424,172	1,824,032	3,248,204	1.56
2017	10,346,735	5,462,372	4,884,363	1,247,379	1,934,737	3,182,116	1.53
2016	9,488,188	5,391,667	4,096,521	1,061,084	1,857,460	2,918,544	1.40
2015	9,172,817	4,926,043	4,246,774	1,009,596	1,887,916	2,897,512	1.47

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
2023	502,471	N/A	N/A	2.8	3.4
2022	494,574	31,402,606	63,494	2.6	3.5
2021	486,677	29,168,574	59,934	2.6	3.6
2020	475,609	25,988,024	54,642	5.0	5.6
2019	469,363	24,342,690	51,863	2.9	3.3
2018	464,819	23,142,739	49,738	2.8	3.3
2017	459,396	22,243,142	48,160	2.9	3.3
2016	456,132	21,121,133	46,305	4.7	5.1
2015	451,324	20,241,530	44,849	4.8	5.6
2014	448,664	19,297,297	43,011	5.7	6.6

- 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	2023		2014	
		Number of Employees	% of Total Knox County Workforce	Number of Employees	% of Total Knox County Workforce
U.S. DOE - Oak Ridge	Government	16,975	6.67 %	11,637	5.14 %
Covenant Health	Health Care	11,963	4.70	10,458	4.62
Knox County Schools	Education	10,118	3.98	6,804	3.01
The University of Tennessee	Education	11,197	4.40	6,660	2.94
Walmart	Retail	6,614	2.60	6,006	2.65
University Health Systems	Health Care	5,387	2.12	4,224	1.87
Clayton Homes	Manufacturing	5,047	1.98	N/A	N/A
DENSO Manufacturing	Manufacturing	5,000	1.96	3,500	1.55
K-VA-T Food Stores	Retail Grocery	4,023	1.58	4,078	1.80
State of Tennessee	Government	3,811	1.50	3,226	1.43
Tennova Healthcare	Health Care	N/A	N/A	4,067	1.80
Total		80,135	31.48 %	60,660	26.81 %

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>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
WATER AND WASTEWATER										
Water Purification	7	8	7	7	7	6	6	6	6	5
Water Treatment	14	14	14	14	17	14	14	13	11	10
Waste Water Collection	3	3	3	3	3	3	3	3	3	4
Customer Accounting and Collection	<u>8</u>	<u>7</u>	<u>7</u>	<u>7</u>	<u>5</u>	<u>4</u>	<u>4</u>	<u>3</u>	<u>2</u>	<u>3</u>
	<u>32</u>	<u>32</u>	<u>31</u>	<u>31</u>	<u>32</u>	<u>27</u>	<u>27</u>	<u>25</u>	<u>22</u>	<u>22</u>
ADMINISTRATION										
Billing and Customer Service	6	5	4	5	5	5	6	6	5	5
Finance and Accounting	2	2	2	2	2	2	3	3	3	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>10</u>	<u>9</u>	<u>8</u>	<u>9</u>	<u>9</u>	<u>9</u>	<u>11</u>	<u>11</u>	<u>10</u>	<u>9</u>
TOTAL EMPLOYEES	<u>42</u>	<u>41</u>	<u>39</u>	<u>40</u>	<u>41</u>	<u>36</u>	<u>38</u>	<u>36</u>	<u>32</u>	<u>31</u>

Note: Information compiled from internal records.

KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY

OPERATING AND CAPITAL INDICATORS

Last Ten Fiscal Years

	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Area in Square Miles	84	84	84	84	84	84	84	84	84	84
Water System:										
Miles of Water Mains	435	431	429	404	403	397	392	392	392	392
Number of Treatment Plants	1	1	1	1	1	1	1	1	1	1
Number of Service Connections	16,995	16,687	16,557	16,300	16,118	15,828	13,883	13,883	13,522	13,379
Number of Fire Hydrants	797	769	751	751	738	731	694	694	694	692
Daily Average Consumption in Gallons (MGD)	4	4	4	4	4	4	4	4	4	4
Maximum Daily Capacity of Plant in Gallons (MGD)	8	8	8	8	8	8	8	8	8	8
Water Storage Capacity (MGD)	7	7	7	7	7	7	7	7	7	7
Number of Pumping Stations	29	26	25	24	24	24	24	24	24	24
Number of Reservoirs	8	8	8	9	9	9	9	9	9	9
Wastewater System:										
Miles of Sanitary Sewers	118	114	114	109	92	87	85	85	85	85
Number of Service Connections	3,105	3,015	2,868	2,752	2,720	2,647	2,528	2,528	2,446	2,395

Notes: Information compiled from internal records.

(a) MGD = Millions of gallons per day.

COMPLIANCE SECTION

KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended February 29, 2024

<u>Federal Grantor/Pass-through Grantor Program</u>	<u>Assistance Listing Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Expenditures</u>
Federal Awards				
U.S. Department of the Treasury				
Pass-Through Program from Knox County, Tennessee American Rescue Plan Act (ARPA)	21.027	965591886	\$ 0	\$ 199,507
U.S. Department of the Treasury				
Pass-Through Program from Knox County, Tennessee Tennessee Department of Environment and Conservation (TDEC)	21.027	965591886	\$ 0	\$ 34,034
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027		\$ 0	\$ 233,541
Total Expenditures of Federal Awards			<u>\$ 0</u>	<u>\$ 233,541</u>

The accompanying notes to the schedule of expenditures of federal awards are an integral part of this schedule.

KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended February 29, 2024

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Knox Chapman Utility District of Knox County (the "District") and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Subpart F of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, they are not intended to and do not present the financial position, changes in net position, or cash flows of the District.

Federal Financial Assistance - The Single Audit Act Amendments of 1996 (Public Law 104-156) and Uniform Guidance define federal financial assistance as grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations or other assistance. Federal financial assistance does not include direct federal cash assistance to individuals.

Direct Payments - Assistance received directly from the Federal government is classified as direct payments on the Schedule.

Pass-through Payments - Assistance received in a pass-through relationship from entities other than the Federal government is classified as pass-through payments on the Schedule.

Major Programs - The Single Audit Act Amendments of 1996 and Uniform Guidance establish the criteria to be used in defining major programs. Major programs for the City were defined using a risk-based approach in accordance with Uniform Guidance.

Assistance Listing Number - The Assistance Listing Number (formerly known as Catalog of Federal Domestic Assistance or CFDA) is a government-wide compendium of individual federal programs. Each program included in the catalog is assigned a five-digit program identification number (Assistance Listing Number), which is reflected in the Schedule.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Any negative amounts shown in the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

NOTE 3 - INDIRECT COST RATE

The District has elected not to use the 10% de minimis indirect rate as allowed under Uniform Guidance.

NOTE 4 - CONTINGENCIES

The federal and state awards received by the government are subject to audit and adjustment. If any expenditures are disallowed by the grantor agencies as a result of such an audit, the grantor agency could make a claim for reimbursement.



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

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 (*Government Auditing Standards*), the financial statements of the Knox Chapman Utility District of Knox County (the "District") as of and for the year ended February 29, 2024, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated August 12, 2024.

Report on 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) as a basis for designing 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 12, 2024



Knox Chapman Utility District

KNOX CHAPMAN UTILITY DISTRICT OF KNOX COUNTY

SCHEDULE OF PRIOR YEAR FINDINGS

For the Year Ended February 29, 2024

There were no findings or questioned costs reported in the prior year.