

**WEST KNOX UTILITY DISTRICT**

**Knoxville, Tennessee**

**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**

**For the Years Ended June 30, 2020 and 2019**

**WEST KNOX UTILITY DISTRICT**

**For the Years Ended June 30, 2020 and 2019**

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## **INTRODUCTORY SECTION**



**Board of Commissioners:**

**Ann Milsaps**

President

**Nathan Butler, DVM**

Vice President

**Patrick Wade**

Secretary

**Drexel Heidel, P.E.**

General Manager

**Wayne Hastings, P.E.**

Assistant Manager

December 17, 2020

Board of Commissioners of  
West Knox Utility District  
Knoxville, Tennessee

State law and the Comptroller of the Treasury, State of Tennessee, requires that every political subdivision or municipal corporation publish within six months of the close of each fiscal year-end, a complete set of audited financial statements. This Comprehensive Annual Financial Report (CAFR) of West Knox Utility District (the "District") is published to fulfill these requirements for the fiscal years ended June 30, 2020 and 2019.

### Internal Controls

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

### Independent Audit

Parsons and Wright, CPA's has issued an unmodified opinion on the District's financial statements for the years ended June 30, 2020 and 2019. As stated in the independent auditor's report, the audits were conducted in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. The independent auditor's report is located at the front of the financial section of this report.

### Management's Discussion and Analysis (MD&A)

Generally Accepted Accounting Principles 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 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 October 18, 1954. The purpose of the District is to “acquire, construct, improve, extend, operate, and maintain a wastewater and water treatment system.” The District serves 29,535 water and 24,690 wastewater customer billing units in the northwestern portion of Knox County. The District’s primary source of water is drawn from the Clinch River that forms Melton Hill Lake which borders Knox and Anderson counties.

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

The District’s capital assets consist of two water treatment plants, one wastewater treatment facility, one office building and related maintenance facility, and five water reservoir tanks. The collection system, consisting of mains, laterals and pump stations, is owned and maintained by the District.

The District receives no ongoing financial support from Knox County, Tennessee and has no taxing authority. The District’s water and wastewater revenues are derived from charges based upon metered water consumption of customers. The water and wastewater rates are established by the District’s 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 (see the major initiatives section). During 2020 and 2019 there were no significant budget amendments. The District’s budgets are projections and are not legally binding.

## **Financial Overview**

During 2020, the District’s operating income was \$9.0 million, which was \$1.3 million more than 2019 or 17%. Operating income increased mainly due to a \$3.8 million increase in operating revenues while operating expenses increased by only \$2.5 million. The District’s pledged revenue bond coverage ratio decreased to 1.96 in 2020 vs. 2.30 in 2019.

## **Local Economy**

The District is located within the Knoxville Metropolitan Statistical Area (MSA) which includes Anderson, Blount, Campbell, Grainger, Knox, Loudon, Morgan, Roane 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 June 30, 2019, the unemployment rates according to the U.S. Bureau of Labor Statistics for Knox County, State of Tennessee and the U.S. were 3.5%, 3.9% and 3.8%, respectively.

Median household per capita income in calendar year 2018 for Knox County, State of Tennessee and the U.S. was \$49,738, \$46,900 and \$54,446, respectively.

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

## **Long-Term Financial Planning**

The District has projected a 1% to 2% annual increase in the number of customers over the next five years. The District is currently making several capital improvements including several water line improvements and extensions.

The financing of the District’s capital improvements is by internally generated cash flows and the issuance of long-term debt. The District’s debt coverage ratio has consistently been in excess of the required bond covenants.

## Major Initiatives

Multiple water and wastewater projects were completed or started during the fiscal year. A summary of these projects is as follows:

- The District completed and submitted its annual Capacity Management Operations and Maintenance (CMOM) program annual report for the sanitary sewer system to both TDEC and the EPA.
- Work continues to update the water distribution system hydraulic model. This work will bring the model up to date to include all new customer demands, system piping, pumps, tanks, and operational controls.
- New WWTP Construction: A new 6 MGD WWTP with discharge to Melton Hill Lake (Clinch River main channel) became operational in January of 2020. The State of Tennessee issued NPDES permit for the new WWTP has discharge limits essentially equivalent to advanced secondary treatment. These limits reinforce the decision to move the discharge location since the previous discharge location would most likely have received advanced tertiary limits with stringent nutrient removal requirements. The need for this facility is exemplified by increased growth in the system demand for sewer service in both the sewered and unsewered areas of the system; the existing hydraulic loading to the previous WWTP very often exceeded the rated hydraulic capacity of the facility.

Low bidder, Judy Construction Company, Inc. was awarded a \$41,255,000 contract to construct the new WWTP in April of 2016. FY 2019-2020 work included finishing work on the buildings, startup of installed process equipment, and completing electrical and controls work. The New Melton Hill Lake Wastewater Treatment Plant was placed into service late January of 2020. With the new plant startup, the Karns Wastewater Treatment Plant was decommissioned.

Other major components of the overall project include a new headworks (screening and grit removal) and a new 15 MGD transfer sewerage pumping station at the former treatment plant; conversion of the WWTP oxidation ditch tankage at the previous treatment facility to side stream equalization; a new sewer force main from the former treatment facility to the Melton Hill Lake Wastewater Treatment Plant; and a treated effluent outfall line from the new WWTP to the submerged discharge location in Melton Hill Reservoir. Design, bidding, and construction updates of these additional project components are as follows:

Following TDEC approval in February of 2018, the plans and specifications for the new headworks and transfer station at the then existing Karns WWTP that will convey sewage to the new WWTP were advertised and bid on March 20, 2018. Three bids were received with the lowest being submitted by Judy Construction Company, Inc. in the amount of \$9,016,000.00. WKUD's Board awarded Judy Construction Company, Inc. the bid at the April 2018 Board meeting. Construction began in June of 2018 and the pump station was operational in January of 2020.

Following TDEC approval in May of 2018, the plans and specifications for the new 30-inch force main from the Karns facility to the new WWTP were advertised and bid on May 22, 2018. Merkel Brothers Construction was awarded the contract in the amount of \$10,816,475.50 and began work in June of 2018. Change orders for work to replace both the force mains from both Pellissippi and Hardin Valley pump stations were added to the project. Both of these force mains will manifold directly into the 30-inch force main. This will allow WKUD to take its existing force mains under Pellissippi Parkway out of service so that TDOT can begin work on the intersection improvements at Hardin Valley Road. The force main was completed in the fall of 2019 and placed into service in January 2020. The additional work for the Pellissippi and Hardin Valley pump stations was completed and placed into service in February 2020.

- Utility Mapping System: WKUD entered into contractual agreements with ESRI to improve its GIS System. Year three of the contract is nearing the completion, with an extension of the agreement in the plan for FY2020-2021. These agreements include, but are not limited to, an organizational ESRI license structure for certain programs/software and personalized support for implementation of applications designed to maximize the growth and efficiency of the GIS System. WKUD has shifted from a standalone file geodatabase to an SDE Database that utilizes REST end services to be consumed in all aspects of ESRI's platform including but not limited to AGOL, iOS apps, and Portal applications. This gives WKUD the power to create customized applications to better understand, analyze, and react to our infrastructure at any given time. WKUD utilizes this technology to share data back and forth between business partners for better efficiency and accuracy daily. WKUD has completed the connectivity to our asset management software (LUCITY) and some GIS mapping applications are being used for field work that auto populates work orders/inspections within LUCITY. These things allow WKUD to be more efficient and accurate in the day to day work environment thus providing a better experience to our customers and employees.
- TDEC Consent Order: On January 2, 2018, West Knox Utility District received a letter from the Tennessee Riverkeepers stating of their intent to file suit against the District, seeking among other things, a judgment declaring the discharges related to overflows and effluent violations to be illegal. Tennessee Riverkeeper will also seek an injunction prohibiting the West Knox Utility District from discharging pollutants and from operating in violation of the CWA and state law. A Compliance Review Meeting ("CRM") was held on January 25, 2018 with West Knox Utility District and TDEC at the Knoxville Environmental Field Office. Topics of discussion included the letter received by West Knox Utility District from Tennessee Riverkeepers, and the EPA AO closed in 2016. The District received a letter in February, from TDEC stating that the Division planned to pursue formal enforcement against the District. West Knox Utility District received the Consent Order draft on July 3, 2018.

An Agreed to Consent Order was executed on October 16, 2018. The order and assessment included the following four items:

1. Within 2 years of the execution of the Consent Order, the Agreement requires WKUD to establish and maintain the capacity, collection, and treatment protocols for all new developments, as well as individual connections not part of a development, proposed to connect to the system. Further, certification of adequate capacity must be made by a registered professional engineer for each wastewater extension, tracking of the capacity studies, and the requirement that developments within the boundary of the district be subject to inspection to ensure materials are as specified, bedding is correctly compacted, joints meet their design criteria, and shall include any other design features that could otherwise decrease the structural integrity of the system.

TDEC reviewed and accepted the District's proposed capacity assurance certification process, and the capacity studies are being tracked within its GIS system.

2. The District shall submit an annual CMOM report summarizing progress made on each item in the EPA approved CMOM.
3. The District shall initiate reporting on an electronic monthly operating report ("eMOR").
4. The District shall achieve substantial compliance with the permit on or before December 31, 2021 and shall submit a final report of all of the corrective actions both taken and additionally needed (if applicable) to bring the plant into compliance with the permit.

The Agreement also included a Civil Penalty of \$34,000. The penalty to be assessed as follows:

- An upfront penalty of \$6,800, or the combination of a Supplemental Environmental Project (SEP) and a penalty of \$1,700.

West Knox Utility District requested that the State of Tennessee Department of Environment and Conservation consider its proposal to use pervious pavers for the expanding parking lot to satisfy the SEP portion of its Consent Order. The SEP is an effort to preserve the existing drainage area, accommodate WKUD's increased demand for parking and reduce stormwater runoff into adjacent Plumb Creek. WKUD acquired two separate cost estimates from reputable paving contractors to determine if the pervious pavers would have a 2:1 (\$10,200) value of the offset portion of the civil penalty when compared to the conventional paving approach. The estimate for the conventional asphalt lot was \$57,500 while the estimate for the pervious pavers lot was \$84,000. This additional estimated expense of \$26,500 to install a pervious pavers parking lot exceeds the SEP offset requirement specified within the Consent Order.

- TDEC granted approval of the SEP proposal on June 17, 2019. WKUD's Engineering Department configured a proposed schedule consisting of the project design and construction. The SEP was completed in March 2020; furthermore, the actual costs expended documentation and photographic documentation of the completed SEP was submitted to the Division by March 30, 2020.
- A penalty of \$3,100.00 if the District fails to comply with Item 1.
- A penalty of \$5,000.00 if the District fails to comply with Item 2.
- A penalty of \$3,100.00 if the District fails to comply with Item 3.
- A penalty of \$1,000.00 if the District fails to comply with Item the reporting requirements of Item 4.
- A penalty of up to \$15,000.00 if the District fails to achieve substantial compliance with the permit as required in Item 4. This penalty is assessed at \$500.00 per effluent exceedance or overflow for the period beginning on January 1, 2022 and ending on December 31, 2022.

Plumb Creek Interceptor Replacement: Cleary Construction was awarded the contract in the amount of \$3,686,504.00. The project will replace approximately 7,000 linear feet of PVC gravity sewer between 18 and 24-inch diameter. The existing sanitary sewers are in poor condition and are showing signs of capacity issues. Construction began in the summer of 2020 and completion is expected in the summer of 2021.

- Beaver Creek Interceptor Replacement: Hurst Excavating was awarded the contract in the amount of \$4,360,608.00. The project will install 4,700 linear feet of 36-inch PVC gravity sewer to replace existing sanitary sewers that were both too small and in poor condition. Construction began in the fall of 2018 and continues to date. Completion is expected in the fall of 2020.
- Dresden Pump Station Renovation: The Dresden Pump Station was completely submerged by flood water during the historical flooding event in February 2019. All of the components inside the control panel had to be replaced and a 5 HP pump had to be replaced due to extensive runtimes. The District incurred \$33,411 worth of damages. WKUD filed a claim with TEMA's Public Assistance Division shortly after the flood levels dropped and a more thorough inspection could be completed. The program consists of grants from FEMA to assist state and local governments and certain Private Nonprofit (PNP) entities with the response to and recovery from disasters; furthermore, the program encourages protection from future damage by providing assistance for hazard mitigation measures during the recovery process. WKUD's Engineering Department proposed a site renovation plan to raise the elevations of all components within the existing site to be flush with the wet well. FEMA has approved WKUD plans. WKUD will bid and construct the project in the fall of 2020.
- Buttermilk Rd Water Line Replacement: In January of 2019, WKUD Engineers completed the design of 6,615 feet of 6-inch water line to replaced deteriorated 3-inch cast iron water line on Buttermilk Rd between Graybeal Rd and Hickory Creek Rd. The District entered into a change order with Merkel Brothers Construction on the Hardin Valley 30-inch Contract in order to complete the work. This 6-inch pipe replaces existing undersized and problematic 3-inch cast iron main and relocates a short section of main away from Knox County's realignment of Buttermilk Rd near the Vulcan Quarry. This project was completed in late fall 2019.
- Flying J Pump Station Replacement: In April 2020, WKUD entered into an agreement with Fulghum MacIndoe and Associates to design a replacement station for the existing Flying J Pump Station. This station has been identified for replacement due to capacity concerns and increased maintenance due to age. Design is expected to be completed in the late 2020 with bidding and construction to follow shortly afterwards. Construction is expected to be completed the late 2021 to early 2022 timeframe.
- Beaver Ridge Road Waterline Replacement: In 2018, WKUD entered into an agreement with Fulghum MacIndoe and Associates for the design of a new water line on Beaver Ridge Road. The District has experienced several leaks over the past few years on this line. The design addresses the leak issues and meets the pipe sizing contained in the District's master plan for the water system. Construction is expected to begin early in 2021 with a completion date of early 2022.
- Flow Monitoring and Other System Rehab: The District continues to maintain a flow monitoring network to provide data on the effectiveness of the current sewer rehabilitation work and to assist in prioritizing the areas that need to be investigated and rehabilitated.

- In-House Construction Projects:

- Greystone Vista Booster Pump Station Upgrades: WKUD designed and purchased an additional pump for the existing Greystone Vista Booster Pump Station. The additional pump is designed to meet peak and fire demand for future growth in the area served by the booster station. The construction is expected to be complete and the new pump operational in the fall of 2020.
- Ongoing CCTV Inspections and Repairs: WKUD continues its ongoing CCTV and flushing program to identify critical areas in need of repairs and cleaning. WKUD uses internal crews that have successfully completed the MACP, PACP, and LACP training courses established by NASSCO to conduct this work. Approximately 15-20% of the District's gravity sewer lines are inspected and cleaned annually.
  - The District continues to monitor leakage and line breaks on their water distribution system and will replace segments of lines with a history of problems.
  - Chemical root control is applied to each pipe segment with vigorous root growth to restore the flow capacity within the pipe which mitigates the chance of an SSO from occurring due to a root blockage.

Review of Proposed Developments: WKUD continues to receive and review utility portions of proposed developments (commercial and residential) within their service area and evaluate the adequacy of existing water and sewer facilities to continue meeting the increasing demands on the system. According to District records, the following development projects are in progress:

- 2019-2020 Approved Development Completed (Currently ready to set meters):

- Firestone Complete Auto Care – 1 Lot
- Dutchtown View West – 10 Lots
- Home Federal Mortgage Office – 1 Lot
- Jane's Place – 3 Lots
- Matlock Tire – 1 Lot
- Elder's ACE Hardware – 1 Lot
- Hayden Hill Phase III – 61 Lots
- Creek Bend Farms – 189 Lots
- The Cove at Churchill Downs – 62 Lots
- Karns Valley Business Park – 1 Lot
- Icon Apartment Homes – 299 Lots
- Carter Cove Phase II – 29 Lots
- Hickory Creek – 115 Lots
- Brandywine at Pepper Ridge – 24 Lots

- Approved Developments Expected to Complete in 2020-2021:

- Beaver Ridge Gardens – 6 Lots
- Buttermilk Rd – 40 Lots
- Castaic Ln – 4 Lots
- Everett Woods (Phase II) – 82
- Lovell Landing – 9 Lots
- Morning Pointe of Hardin Valley – 3 Lots
- Oak Ridge Hwy C-Store – 1 Lot
- Serenity at Everett Rd – 74 Lots
- Solway Rd Apartments Phase I – 192 Lots

- U-Haul – 1 Lot
- Broady Glen – 52 Lots
- Coward Mill – 114 Lots
- Padget Hill Phase I – 32 Lots
- Vining Mill Phase II – 75 Lots
- Willow Place Apartments Phase II – 20 Lots

As can be seen in the project descriptions above, WKUD has undertaken necessary projects requiring major capital investments while continuing to maintain their system by replacing small deteriorated galvanized, cast iron, and HDPE water lines (thus reducing water loss) with more reliable lines of adequate size to deliver flows and pressures that meet state regulations, continuing with sewer line rehabilitation and repair projects to reduce the amount of extraneous flow entering the sewer system, along with other in-house projects to improve the water distribution and wastewater collection systems.

These water and wastewater improvements will enable the WKUD to continue serving the citizens within their jurisdiction with an adequate supply of potable water and means of treating the wastewater flows to meet increasingly more stringent effluent standards.

### **Credit Ratings**

In June 2020, the District continued to maintain its sound public finance credit rating by receiving a Standard and Poor's (S&P) credit rating of "AA+".

### **Awards**

The Government Finance Officers Association of the United States and Canada (GFOA) awards a Certificate of Achievement for Excellence in Financial Reporting. The District received this award for the 16th consecutive year for the FYE June 30, 2019. To be awarded a Certificate of Achievement the District must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

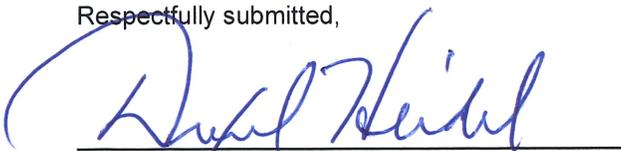
A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

### **Acknowledgements**

The preparation of this CAFR results from the combined efforts of the staff of the Finance Department and technical assistance provided by Pugh CPAs, our external accountants. 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,

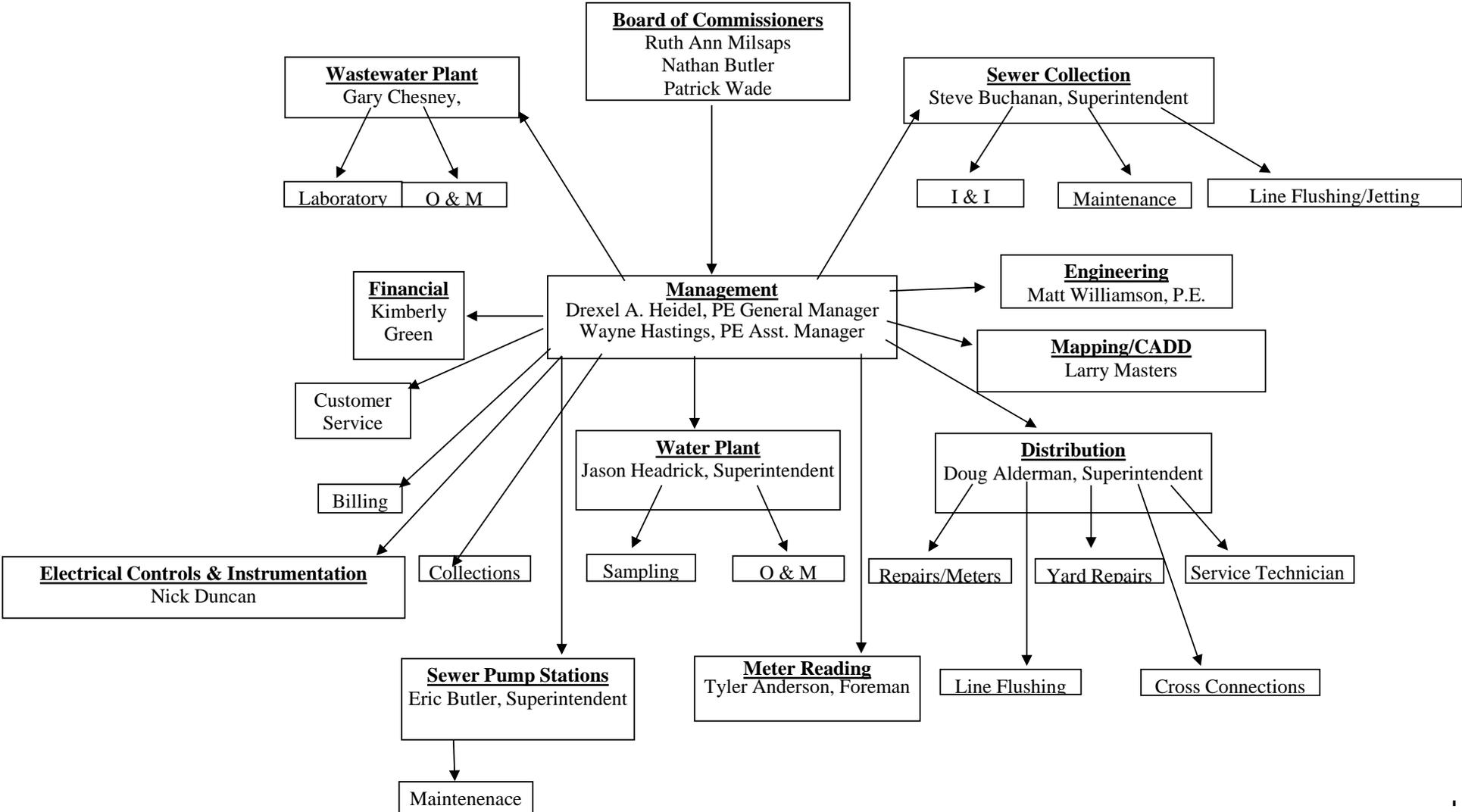


Drexel Heigel  
General Manager



Kimberly Green  
Comptroller

**WEST KNOX UTILITY DISTRICT  
ORGANIZATIONAL CHART  
June 30, 2020**



**WEST KNOX UTILITY DISTRICT**  
**ROSTER OF DISTRICT OFFICIALS AND OTHERS**  
**June 30, 2020**

**Board of Commissioners**

**Expiration of Term**

Ruth Ann Milsaps, President

December 31, 2020

Nathan Butler, DVM, Vice President

December 31, 2022

Patrick Wade, Secretary

December 31, 2023

**Management**

Drexel A. Heidel, PE General Manager

Wayne Hastings, PE Assistant Manager

Kimberly Green, Comptroller

**General and Bond Counsel**

John Owings, Attorney at Law  
Owings, Wilson & Coleman  
Knoxville, Tennessee

**Independent Auditors**

Parsons & Wright, CPAs  
Kingston, Tennessee

**Consulting Engineer**

GRW Engineers, Inc.  
Nashville, Tennessee



Government Finance Officers Association

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

**West Knox Utility District  
Tennessee**

For its Comprehensive Annual  
Financial Report  
For the Fiscal Year Ended

June 30, 2019

*Christopher P. Morill*

Executive Director/CEO

**FINANCIAL SECTION**

CERTIFIED PUBLIC ACCOUNTANTS

Joe Savage  
Rebecca Hutsell  
Steven Jones

Stephen J. Parsons - Retired  
William R. Scandlyn - 1988 - 1999  
Earl O. Wright - 1988 - 2002

### INDEPENDENT AUDITOR'S REPORT

Board of Commissioners  
The West Knox Utility District of Knox County  
Knoxville, Tennessee

#### Report on the Financial Statements

We have audited the accompanying financial statements of West Knox Utility District of Knox County (the "District"), which comprise the proprietary fund balance sheets and the statements of fiduciary net position – pension trust fund, as of and for the years ended June 30, 2020 and 2019, and the related proprietary fund statements of revenues, expenses, and changes in net position and cash flows and the statements of changes in fiduciary net position – pension trust fund for the years then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

#### Auditor's Responsibility

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

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

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

#### Opinions

In our opinion, the proprietary fund financial statements referred to above present fairly, in all material respects, the financial position of the District, as of June 30, 2020 and 2019, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America. Also, in our opinion, the pension trust fund financial statements referred to above present fairly, in all material respects, the pension trust fund net position of the District, as of June 30, 2020 and 2019, and the respective changes in pension trust fund net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages xiii through xxi and the Schedules of Changes in the District's Net Pension Liability and Related Ratios, the Schedules of District's Pension Contributions, the Schedules of Investment Returns, and the Schedules of Changes in the District's Net Pension Liability and Related Ratios Based on Participation in the Public Employee Pension Plan of TCRS on pages 42 through 45, and the Schedule of Changes in OPEB Liability and Related Ratios on page 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory, supplementary information and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The information included in the supplementary information section as listed in the table of contents is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audits 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 supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections, management's responses, and corrective action plan have not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2020, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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.

***Parsons & Wright***

Parsons & Wright  
Certified Public Accountants  
Kingston, Tennessee

December 17, 2020

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents management's analysis of West Knox Utility District's (the "District") financial condition and results of operations for the years ended June 30, 2020, 2019 and 2018. This information should be read in conjunction with the accompanying financial statements and the additional information we have furnished in our letter of transmittal on pages i to vii.

### FINANCIAL HIGHLIGHTS

- During 2020, 2019 and 2018, the District produced 2.34, 2.21 and 2.15 billion gallons of water, which represents an increase (decrease) of 6.1%, 2.7%, (0.5)%, from the previous year. During 2020, 2019 and 2018 the District treated 1.58, 1.40 and 1.37 billion gallons of wastewater, representing an increase (decrease) of 12.5%, 2.3% and (1.1)%, respectively, from the previous years.

Total assets and deferred outflows at year-end 2020, 2019 and 2018 were \$286.2, \$289.8 and \$239.0 million and exceeded liabilities and deferred inflows by \$108.3, \$104.5 and \$99.9 million. Of the total net position, \$34.1, \$16.9 and \$25.8 million was unrestricted and was available to support operations. During 2020, 2019 and 2018 net position increased by \$3.9, \$4.5 and \$6.5 million.

- Operating revenues were \$29.9, \$26.1 and \$24.6 million during 2020, 2019 and 2018 an increase (decrease) of \$3.8, \$1.5 and \$0million, respectively from the previous years.
- Operating expenses before depreciation increased (decreased) by \$2,630, \$(402) and \$817 thousand during 2020, 2019 and 2018, respectively.
- Operating income for 2020, 2019 and 2018 was \$9.0, \$7.7 and \$5.8 million, representing a 17.1%, 32.1% and (17.3)% increase (decrease) from previous years. The change in net position before capital contributions was \$1.0, \$2.6 and \$3.1 million for 2020, 2019 and 2018, respectively.
- The ratios of operating income to total operating revenues were 30.0% for 2020, 29.4% for 2019 and 23.6% for 2018.
- Debt service coverage ratio for the District's revenue bonds was 1.96 for 2020, 2.30 for 2019 and 1.86 for 2018, exceeding the 1.60 required by various bond and note covenants.
- Cash capital contributions from developers were \$0, \$0 and \$201 thousand for 2020, 2019 and 2018. Developer contributions of facilities were \$2.9, \$1.9 and \$3.2 million for 2020, 2019 and 2018.
- In an effort to replace aging infrastructure, and to accommodate growth, the District has embarked on several water and wastewater projects. The amount of construction in progress was \$59.0, \$85.1 and \$41.3 million at year-end 2020, 2019 and 2018, respectively. The remaining contractual commitments were \$1.9, \$14.5 and \$52.2 million at June 30, 2020, 2019 and 2018, respectively.
- Customer growth in water billing units in the District increased (decreased) by 2.4%, (1.2)% and 2.9% during 2020, 2019 and 2018, respectively and have increased 16.4% over the last ten years.

## 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 are 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 the 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 updated annually. 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 equity among customer classes and to ensure that capital costs are allocated on the basis of long-term capacity needs, ensuring that growth pays for growth. The statement of cash flows presents changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The pension trust fund financial statements are used to account for the resources held in trust for the benefit of the participants in the District's single employer pension plan, the WKUD DB Plan. These resources are not available to support the District's operations. The accounting for the pension trust fund is much like that used for the proprietary fund discussed above.

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.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

**FINANCIAL ANALYSIS**

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

	<u>2020</u>	<u>As Restated 2019</u>	<u>As Restated 2018</u>
<b>ASSETS AND DEFERRED OUTFLOWS</b>			
(in thousands)			
Current Assets	\$ 50,128	\$ 64,016	\$ 60,926
Capital Assets:			
Producing - Net	174,137	138,293	134,521
Construction in Progress	59,001	85,089	41,266
Other	<u>552</u>	<u>523</u>	<u>491</u>
Total Assets	283,818	287,921	237,204
Deferred Outflows of Resources	<u>2,356</u>	<u>1,871</u>	<u>1,802</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<b><u>\$ 286,174</u></b>	<b><u>\$ 289,792</u></b>	<b><u>\$ 239,006</u></b>
 <b>LIABILITIES AND DEFERRED INFLOWS</b>			
Current Liabilities	\$ 6,357	\$ 12,257	\$ 7,969
Non-Current Liabilities	<u>167,000</u>	<u>169,061</u>	<u>127,354</u>
Total Liabilities	<u>173,357</u>	<u>181,318</u>	<u>135,323</u>
Deferred Inflows of Resources	<u>4,481</u>	<u>4,015</u>	<u>3,763</u>
 <b>NET POSITION</b>			
Net Investment in Capital Assets	73,637	87,057	73,657
Restricted:			
Pensions	551	523	491
Unrestricted	<u>34,148</u>	<u>16,879</u>	<u>25,772</u>
Total Net Position	<u>108,336</u>	<u>104,459</u>	<u>99,921</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION</b>	<b><u>\$ 286,174</u></b>	<b><u>\$ 289,792</u></b>	<b><u>\$ 239,006</u></b>

**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

**FINANCIAL ANALYSIS (Continued)**

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

For the Years Ended June 30, 2020, 2019 and 2018

	<u>2020</u>	As Restated <u>2019</u>	As Restated <u>2018</u>
<b>Operating Revenues</b>			
Water, Net	\$ 10,790	\$ 9,487	\$ 9,195
Wastewater	16,180	14,254	13,051
Connection Fees	1,481	984	1,181
Low Pressure Pump Fees	789	375	171
Customer Forfeited Discounts	288	353	507
Service Fees	141	147	158
Wastewater Inspection Fees	18	12	16
Miscellaneous	<u>230</u>	<u>466</u>	<u>352</u>
Total Operating Revenues	<u>29,917</u>	<u>26,077</u>	<u>24,632</u>
<b>Operating Expenses</b>			
Water Purification and Supply	1,474	1,172	1,366
Wastewater Collection and Treatment	4,753	3,578	3,837
Water Treatment and Distribution	3,936	3,451	2,940
Capacity Management Operations			
Maintenance (CMOM)	1,258	1,248	1,414
Shop and General Maintenance	303	279	327
Customer Accounting	359	157	136
Administrative and General	3,092	2,660	2,926
Depreciation	<u>5,757</u>	<u>5,862</u>	<u>5,879</u>
Total Operating Expenses	<u>20,931</u>	<u>18,406</u>	<u>18,825</u>
Operating Income	<u>8,986</u>	<u>7,671</u>	<u>5,807</u>
<b>Non-Operating Revenues (Expenses)</b>			
Investment Income	1,053	1,150	782
Interest Expense	(5,636)	(4,917)	(4,135)
Change in Fair Value of Derivative - Interest Rate Swap	(669)	(445)	579
Debt Issuance Expense	0	(712)	0
Gain (Loss) on Sales or Disposals of Capital Assets	<u>(2,733)</u>	<u>(144)</u>	<u>31</u>
Total Non-Operating Revenues (Expenses) - Net	<u>(7,986)</u>	<u>(5,069)</u>	<u>(2,743)</u>
Increase (Decrease) in Net Position			
Before Capital Contributions	<u>1,000</u>	<u>2,602</u>	<u>3,064</u>
<b>Capital Contributions</b>			
Cash Contributions	0	0	201
Non-Cash	<u>2,877</u>	<u>1,936</u>	<u>3,242</u>
Total Capital Contributions	<u>2,877</u>	<u>1,936</u>	<u>3,443</u>
Change in Net Position	3,877	4,538	6,507
Net Position, Beginning of Year	<u>104,459</u>	<u>99,921</u>	<u>93,414</u>
Net Position, End of Year	<u>\$ 108,335</u>	<u>\$ 104,459</u>	<u>\$ 99,921</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

## OTHER SELECTED INFORMATION

	<u>2020</u>	<u>As Restated 2019</u>	<u>As Restated 2018</u>
Employees at Year-End	82	81	75
Average Employees	82	78	73
Customers (Billing Units) at Year End:			
Water	29,535	28,832	29,170
Wastewater	24,690	23,378	23,162
Water (Millions of Gallons)			
Treated (Pumped)	2,341	2,207	2,149
Sold and Consumed	1,725	1,646	1,572
Wastewater Treated (Millions of Gallons)	1,581	1,405	1,373
Per Average Employee:			
Operating Revenues	\$ 367,074	\$ 334,320	\$ 337,427
Operating Expenses	256,821	235,975	257,879
Average Realized Rates per 1,000 Gallons of Water Sold:			
Water - Residential	\$ 6.37	\$ 5.88	\$ 5.91
Wastewater - Residential	10.24	10.15	9.57
Ratio of Operating Revenues to:			
Operating Expenses	1.43	1.42	1.31
Operating Expenses - Net of Depreciation	1.97	2.08	1.90
Total Assets	0.10	0.09	0.10
Net Position	0.28	0.25	0.25
Debt Related Ratios:			
Long-Term Liabilities to Net Position	1.54	1.62	1.27
Long-Term Liabilities to Total Assets and Deferred Outflows	0.58	0.58	0.53
Operating Coverage	1.96	2.30	1.86

**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

**GENERAL TRENDS AND SIGNIFICANT EVENTS**

**PROPRIETARY FUND FINANCIAL CONDITION**

Total assets and deferred outflows at year-end 2020, 2019 and 2018 were \$286.2, \$289.8 and \$239.0 million and exceeded liabilities and deferred inflows by \$108.3, \$104.5 and \$99.9 million. Of the total net position, \$34.1, \$16.9 and \$25.8 million was unrestricted and was available to support operations. During 2020, 2019 and 2018, net position increased by \$3.9, \$4.5 and \$6.5 million. During 2020, 2019 and 2018, the fair value of the District's interest rate swap increased (decreased) by \$(0.7), \$(0.4) and \$0.6 million.

Net accounts receivable at year-end 2020, 2019 and 2018 were \$3.5, \$2.5 and \$2.3 million, which increased (decreased) by 39.2%, 8.3% and (19.0)% than the previous years. At 2020 year-end, 89.5% of billed accounts receivable were current within 30 days. The District's provision for bad debt expense for 2020, 2019 and 2018 was \$203, \$187 and \$90 thousand. Changes in year-end net accounts receivable are impacted by the timing of customer route billings and rainfall received during June.

**PROPRIETARY FUND RESULTS OF OPERATIONS**

**Operating Revenues**

Revenues from operations fall into three broad 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 waived late penalty fees for three months during 2020 as part of providing COVID -19 economic relief, estimated to be approximately \$90 thousand. Operating revenues were \$29.9, \$26.1 and \$24.6 million during 2020, 2019 and 2018, an increase (decrease) of \$3.8, \$1.5 and \$0 million, respectively from the previous years.

The average realized rate from residential water sales was \$6.37 per thousand gallons in 2020, \$5.88 in 2019, and \$5.91 in 2018. The average realized rate from residential wastewater revenues per thousand gallons of water sold was \$10.24 in 2020, \$10.15 in 2019, and \$9.57 in 2018.

**Capital Contributions**

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

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Cash Capital Contributions from:			
Federal EPA Grant	\$ 0	\$ 0	\$ 200,915
Noncash Capital Contributions from:			
Donated Lines from Developers	<u>2,876,640</u>	<u>1,935,855</u>	<u>3,241,701</u>
Total	<u>\$ 2,876,640</u>	<u>\$ 1,935,855</u>	<u>\$ 3,442,616</u>

**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)****GENERAL TRENDS AND SIGNIFICANT EVENTS (Continued)****Expenses**

Operating expenses, excluding depreciation, increased (decreased) by \$2,630, \$(403) and \$817 thousand in 2020, 2019 and 2018, respectively. This was a result of significant increases (decreases) in:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Salaries and Benefits	\$ 1,516,187	\$ (622,510)	\$ 334,352
Power Purchased	297,028	122,157	(29,936)
Repairs and Maintenance - Vehicles & Shop	24,367	(48,472)	(95,028)
Chemicals	(14,671)	44,753	(68,686)
Legal Services	(38,985)	89,090	(1,486)
Insurance	23,455	611	(7,993)
Water Treatment Supplies	(66,607)	75,863	(96,171)
Treatment of Wastewater	(63,404)	18,994	9,181
Sludge Disposal	23,398	25,819	13,584
Information Technology	(19,657)	(257,111)	396,227
Professional Services	2,092	33,723	(98,302)
Repairs and Maintenance - Electrical	96,055	(33,630)	243,622
Low-Pressure Pumps	657,062	79,896	61,817
Other	193,285	67,817	155,819
Total	<u>\$ 2,629,605</u>	<u>\$ (403,000)</u>	<u>\$ 817,000</u>

During 2020, the District hired two additional pump station maintenance personnel due mainly to the additional low pressure pumps and pump station maintenance within the District. With the startup of the new Melton Hill Lake Wastewater Treatment Plant, an additional employee was hired for plant operations. One new electrician was hired during the year as part of the District's succession plan for an electrician who is retiring. Contributions to the District's Defined Benefit Pension Plan increased during the year due to overlapping fiscal year payments into the plan. The reduction in Water Treatment Supplies is due to the reclassification of plant maintenance as well as reduced expenses for security installations from the previous year. The District completed construction of the Ten Mile Wastewater Pump Station during the year and therefore no longer sends wastewater flows to First Utility District for treatment. However, with that pump station's increased capacity design as well as the Melton Hill Lake Wastewater Treatment Plant coming online during the year, power costs were increased from the previous years. The increase in Electrical Repairs and Maintenance is due to increased maintenance needs at the water plants from the previous year. The largest increase in low-pressure pump expense is due to the timing of purchasing low-pressure wastewater pumps inventory. The District purchases these pumps in large quantities to hold in inventory for customer purchase. During 2019, the District hired two additional employees; one in distribution maintenance and one in customer service, both resulting from the growth occurring in the District. The District also began funding the employer match in the defined contribution pension plan. At June 30, 2019, fourteen employees were enrolled in the plan. The increase in tapping expenses for the year can be attributed to the added growth within the District as well. During 2018, the District hired four additional employees in the engineering & inspection and wastewater treatment departments and implemented a new accounting software system that includes customer billing and accounts receivable, general ledger, accounts payable and payroll. Also, during 2018 the District reclassified electrical repairs and maintenance into a separate category.

**MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)**

**GENERAL TRENDS AND SIGNIFICANT EVENTS (Continued)**

**PROPRIETARY FUND CAPITAL ASSETS**

The District is continuing its water and wastewater line replacement, relocation, and extension program. The reasons for these replacements are aging infrastructure that has reached or exceeded its useful life, upgrades to accommodate growth, and relocation of water and sewer lines due to state and county road projects.

During 2020, 2019 and 2018, the District increased its capital assets before depreciation by \$9.1, \$52.8, and \$24.9 million, respectively. This increase is due to the following:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Water Line Extensions and Improvements	\$ 1,148,616	\$ 1,979,024	\$ 2,359,664
Water Plant Upgrades	212,387	60,260	96,142
Wastewater Lines	25,121,319	6,325,981	2,475,670
Wastewater Plant Improvements	17,311,601	49,168	9,729
Office, Vehicles and Equipment	485,880	1,327,818	419,514
Land and Easements	81,352	38,233	125,733
Disposals	<u>(9,162,007)</u>	<u>(778,702)</u>	<u>(181,870)</u>
	35,199,148	9,001,782	5,304,582
Construction in Progress - Net	<u>(26,088,437)</u>	<u>43,822,819</u>	<u>19,623,562</u>
Total	<u>\$ 9,110,711</u>	<u>\$ 52,824,601</u>	<u>\$ 24,928,144</u>

During 2020, 2019 and 2018, the District was in the process of constructing the Melton Lake wastewater treatment plant (WWTP), which went online in January 2020. The project costs-to-date as of year-end 2020, 2019 and 2018 were \$51.4, \$47.4 and \$28.0 million. The remaining contractual commitment of this project as of June 30, 2020 was \$1.8 million with a projected completion date during fiscal year 2021.

During 2020, several projects that are related to the Melton Lake WWTP were completed. These projects included the outfall discharge line, the Karns transfer pump station, and the Hardin Valley sewer force main.

Depreciation expense of the District’s system increased (decreased) by \$105, (17) and \$230 thousand in 2020, 2019 and 2018, respectively.

The District's capital asset activity for 2020 and 2019 is described in Notes 4 and 5 to the financial statements.

**PROPRIETARY FUND DEBT**

At year-end 2020, 2019 and 2018, the District had \$164.6, \$166.9 and \$124.9 million in long and short-term debt, an increase (decrease) of \$(2.3), \$42.0 and \$(2.7) million. During 2020, 2019 and 2018, the District paid principal of \$2.2, \$2.6 and \$2.6 million, respectively.

The long-term debt to total asset and deferred outflows ratio was 0.58, 0.58, and 0.52 in 2020, 2019 and 2018 respectively.

During 2019, the District issued \$28.5 million in water and sewer revenue bonds to provide financing for several of the District’s capital projects. Additionally, during 2019, the District issued \$15 million in local government public improvement revenue bonds.

More detailed information about the District’s long-term debt is described in Notes 6 and 7 to the financial statements.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

**GENERAL TRENDS AND SIGNIFICANT EVENTS (Continued)**

**ECONOMIC FACTORS AND FISCAL YEAR 2021**

The District's operating budget for FY 2021 has projected revenues of \$29.0 million, expenses of \$27.7 with an estimated increase of \$1.65 million in net position. The District does not anticipate issuing any further revenue bonds to provide for the financing of the Melton Lake WWTP and the related capital projects.

**CONTACTING THE DISTRICT**

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

Drexel Heidel, General Manager  
West Knox Utility District  
2328 Lovell Road  
Knoxville, TN 37932  
865-690-2521  
[www.wkud.com](http://www.wkud.com)

**WEST KNOX UTILITY DISTRICT**  
**PROPRIETARY FUND BALANCE SHEETS**

	As of June 30,	<u>2020</u>	As Restated <u>2019</u>
<b>ASSETS AND DEFERRED OUTFLOWS</b>			
<b>CURRENT ASSETS</b>			
Cash and Cash Equivalents	\$	13,647,067	\$ 2,772,920
Cash and Cash Equivalents - Restricted		1,268,004	17,313,240
Investments, at Fair Value		26,491,184	20,719,790
Investments - Restricted, at Fair Value		5,072,137	20,624,815
Accounts Receivable - (Net of Allowance for Uncollectible Accounts of \$65,000 for 2020 and \$19,500 for 2019)		3,509,074	2,520,566
Inventory - Materials		81,399	3,800
Prepaid Expenses		<u>59,526</u>	<u>61,225</u>
<b>Total Current Assets</b>		<u>50,128,391</u>	<u>64,016,356</u>
<b>NON-CURRENT ASSETS</b>			
Capital Assets - Net		<u>233,137,813</u>	<u>223,381,739</u>
Other Assets			
Net Pension Asset - TCRS Pension Plan		551,161	522,592
Other Deposits		<u>560</u>	<u>560</u>
Total Other Assets		<u>551,721</u>	<u>523,152</u>
<b>Total Non-Current Assets</b>		<u>233,689,534</u>	<u>223,904,891</u>
<b>TOTAL ASSETS</b>		<u>283,817,925</u>	<u>287,921,247</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension Plans		2,092,765	1,586,700
Other Postemployment Benefits		17,392	7,729
Deferred Bond Refunding Loss		<u>246,210</u>	<u>276,931</u>
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>		<u>2,356,367</u>	<u>1,871,360</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<b>\$</b>	<u><u>286,174,292</u></u>	<b>\$</b> <u><u>289,792,607</u></u>

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

**WEST KNOX UTILITY DISTRICT**  
**PROPRIETARY FUND BALANCE SHEETS (Continued)**

	As of June 30,	As Restated
	<u>2020</u>	<u>2019</u>
<b>LIABILITIES, DEFERRED INFLOWS AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 683,048	\$ 889,441
Accounts and Retainage Payable - Construction	1,487,368	7,638,106
Payroll and Related Liabilities	534,208	443,330
Other Accrued Liabilities	703,506	651,124
Accrued Revenue Bond Interest Payable	438,673	440,200
Revenue Bonds - Current Portion	<u>2,510,000</u>	<u>2,195,000</u>
<b>Total Current Liabilities</b>	<u>6,356,803</u>	<u>12,257,201</u>
<b>NON-CURRENT LIABILITIES</b>		
Revenue Bonds - Net of Current Portion	162,089,862	164,706,181
Net Pension Liability - Defined Benefit Plan	4,770,128	4,236,926
Other Postemployment Benefits Liability	<u>140,289</u>	<u>118,230</u>
<b>Total Non-Current Liabilities</b>	<u>167,000,279</u>	<u>169,061,337</u>
<b>TOTAL LIABILITIES</b>	<u>173,357,082</u>	<u>181,318,538</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Derivative Instrument - Interest Rate Swap	3,843,410	3,174,840
Pension Plans	609,917	804,995
Other Postemployment Benefits	<u>27,961</u>	<u>35,086</u>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>4,481,288</u>	<u>4,014,921</u>
<b>NET POSITION</b>		
Net Investment in Capital Assets	73,636,934	87,057,438
Restricted:		
Pensions	551,161	522,592
Unrestricted	<u>34,147,827</u>	<u>16,879,118</u>
<b>TOTAL NET POSITION</b>	<u>108,335,922</u>	<u>104,459,148</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION</b>	<u>\$ 286,174,292</u>	<u>\$ 289,792,607</u>

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

**WEST KNOX UTILITY DISTRICT**  
**PROPRIETARY FUND STATEMENTS OF REVENUES, EXPENSES**  
**AND CHANGES IN NET POSITION**

	For the Years Ended June 30,	As Restated
	<u>2020</u>	<u>2019</u>
<b>OPERATING REVENUES</b>		
Water, Net	\$ 10,789,576	\$ 9,487,077
Wastewater	16,180,046	14,253,528
Connection Fees	1,481,283	983,807
Low Pressure Pump Fees	789,450	375,000
Customer Forfeited Discounts	288,068	352,785
Service Fees	140,700	146,565
Wastewater Inspection Fees	17,580	12,035
Miscellaneous	<u>229,841</u>	<u>466,135</u>
<b>Total Operating Revenues</b>	<u>29,916,544</u>	<u>26,076,932</u>
<b>OPERATING EXPENSES</b>		
Water Purification and Supply	1,473,656	1,171,594
Wastewater Collection and Treatment	4,752,955	3,578,095
Water Treatment and Distribution	3,936,095	3,451,334
Wastewater Capacity Management Operations		
Maintenance (CMOM)	1,257,520	1,247,631
Shop and General Maintenance	302,950	278,583
Customer Accounting	358,761	157,447
Administrative and General	3,092,193	2,659,965
Depreciation - Water System	2,474,850	2,764,357
Depreciation - Wastewater System	2,895,016	2,776,811
Depreciation - Other	<u>386,900</u>	<u>320,351</u>
<b>Total Operating Expenses</b>	<u>20,930,896</u>	<u>18,406,168</u>
<b>OPERATING INCOME</b>	<u>8,985,648</u>	<u>7,670,764</u>

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

**WEST KNOX UTILITY DISTRICT**  
**PROPRIETARY FUND STATEMENTS OF REVENUES, EXPENSES,**  
**AND CHANGES IN NET POSITION (Continued)**

	For the Years Ended June 30,	2020	As Restated 2019
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Investment Income, Net		1,052,950	1,149,793
Interest Expense		(5,636,465)	(4,917,374)
Change in Fair Value of Derivative Instrument - Interest Rate Swap		(668,570)	(444,607)
Debt Issuance Expense		0	(712,442)
Gain (Loss) on Sales or Disposals of Capital Assets		<u>(2,733,429)</u>	<u>(143,946)</u>
<b>Total Non-Operating Revenues (Expenses), Net</b>		<u>(7,985,514)</u>	<u>(5,068,576)</u>
<b>INCREASE (DECREASE) IN NET POSITION BEFORE CAPITAL CONTRIBUTIONS</b>			
		<u>1,000,134</u>	<u>2,602,188</u>
<b>CAPITAL CONTRIBUTIONS</b>			
Developers Contributions of Capital Assets		<u>2,876,640</u>	<u>1,935,855</u>
<b>CHANGE IN NET POSITION</b>			
		<u>3,876,774</u>	<u>4,538,043</u>
<b>NET POSITION, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED</b>			
		104,459,148	100,064,569
<b>PRIOR PERIOD ADJUSTMENT - SEE NOTE 11</b>			
		<u>0</u>	<u>(143,464)</u>
<b>NET POSITION, BEGINNING OF YEAR, AS RESTATED</b>			
		<u>104,459,148</u>	<u>99,921,105</u>
<b>NET POSITION, END OF YEAR</b>			
		<u>\$ 108,335,922</u>	<u>\$ 104,459,148</u>

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

**WEST KNOX UTILITY DISTRICT**  
**PROPRIETARY FUND STATEMENTS OF CASH FLOWS**

	For the Years Ended June 30,	<u>2020</u>	<u>2019</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from Customers and Users	\$	28,980,419	\$ 25,888,520
Payments to Employees		(7,031,195)	(6,233,009)
Payments to Suppliers		<u>(8,525,590)</u>	<u>(7,076,612)</u>
<b>Net Cash Provided by (Used in) Operating Activities</b>		<u>13,423,634</u>	<u>12,578,899</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition and Construction of Capital Assets		(21,546,816)	(47,177,915)
Proceeds from Sale of Capital Assets		26,449	3,954
Interest Paid on Bonds Payable		(5,713,590)	(4,964,131)
Principal Paid on Bonds Payable		(2,195,000)	(2,595,000)
Proceeds from Bonds Payable		<u>0</u>	<u>43,917,334</u>
<b>Net Cash Provided by (Used in) Capital and Related Financing Activities</b>		<u>(29,428,957)</u>	<u>(10,815,758)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest Income Received		751,177	767,439
Purchases of Investments		(51,048,566)	(36,349,236)
Proceeds from Sales and Maturities of Investments		<u>61,131,623</u>	<u>41,823,829</u>
<b>Net Cash Provided by (Used in) Investing Activities</b>		<u>10,834,234</u>	<u>6,242,032</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		(5,171,089)	8,005,173
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>		<u>20,086,160</u>	<u>12,080,987</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	\$	<u><u>14,915,071</u></u>	\$ <u><u>20,086,160</u></u>
<b>Cash and Cash Equivalents at End of Year Consist of:</b>			
Unrestricted Cash and Cash Equivalents	\$	13,647,067	\$ 2,772,920
Restricted Cash and Cash Equivalents		<u>1,268,004</u>	<u>17,313,240</u>
<b>Total</b>	\$	<u><u>14,915,071</u></u>	\$ <u><u>20,086,160</u></u>

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

**WEST KNOX UTILITY DISTRICT**  
**PROPRIETARY FUND STATEMENTS OF CASH FLOWS (Continued)**

	For the Years Ended June 30,	<u>2020</u>	<u>2019</u>
<b>RECONCILIATION OF OPERATING INCOME TO</b>			
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>			
Operating Income	\$	8,985,648	\$ 7,670,764
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used in) Operating Activities:			
Depreciation		5,756,766	5,861,519
Bad Debt Expense		203,093	186,578
Changes in:			
Accounts Receivable		(1,191,601)	(378,851)
Other Current Assets		(75,900)	14,456
Accounts Payable		(206,393)	27,937
Payroll and Related Liabilities		90,878	58,951
Other Accrued Liabilities		52,382	3,861
Net Pension Asset and Liability		504,633	(549,721)
Other Postemployment Benefits (OPEB) Liability		22,059	(22,797)
Deferred Outflows and Inflows for Pension Plans		(701,143)	(318,718)
Deferred Outflows and Inflows for OPEB		(16,788)	24,920
		<u>13,423,634</u>	<u>12,578,899</u>
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>\$</b>	<b><u>13,423,634</u></b>	<b>\$ <u>12,578,899</u></b>
<b>Noncash Investing, Capital and Financing Activities:</b>			
Gain (Loss) on Investments	\$	301,773	\$ 382,354
Gain (Loss) on Sales or Disposals of Capital Assets		(2,733,429)	(143,946)
Net Amortization (Accretion) of Bond Premiums and Discounts		106,319	50,697
Amortization of Deferred Cost of Defeased Bonds		(30,721)	(31,795)
Developers Contributions of Capital Assets		2,876,640	1,935,855
Change in Fair Value of Derivative Instrument - Interest Rate Swap		(668,570)	(444,607)

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

**WEST KNOX UTILITY DISTRICT**  
**STATEMENTS OF FIDUCIARY NET POSITION - PENSION TRUST FUND**

	As of June 30,	<u>2020</u>	<u>2019</u>
<b>ASSETS</b>			
Investments, at Fair Value			
Mutual Funds:			
Money Market - Short Term	\$	212,686	\$ 95,649
Domestic Equity		2,658,814	2,502,592
International Equity		2,062,865	1,864,490
Fixed Income		3,313,817	3,134,014
Real Estate		456,544	440,144
Market Neutral & Alternative		<u>655,759</u>	<u>638,137</u>
Total Investments		<u>9,360,485</u>	<u>8,675,026</u>
<b>TOTAL ASSETS</b>	<b>\$</b>	<b><u>9,360,485</u></b>	<b>\$ <u>8,675,026</u></b>
<b>LIABILITIES AND NET POSITION</b>			
<b>LIABILITIES</b>			
Accounts Payable	\$	<u>0</u>	\$ <u>0</u>
<b>NET POSITION</b>			
Restricted for Pension & Retirement Benefits		<u>9,360,485</u>	<u>8,675,026</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$</b>	<b><u>9,360,485</u></b>	<b>\$ <u>8,675,026</u></b>

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

WEST KNOX UTILITY DISTRICT

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION - PENSION TRUST FUND

	For the Years Ended June 30,	2020	2019
<b>ADDITIONS</b>			
Employer Contributions	\$	1,098,000	\$ 720,000
Net Investment Earnings		25,099	410,204
<b>Total Additions</b>		<u>1,123,099</u>	<u>1,130,204</u>
<b>DEDUCTIONS</b>			
Benefit Payments:			
Annuity Payments		287,000	230,295
Lump Sum Payments		150,617	30,834
Administrative Expenses		23	3,067
<b>Total Deductions</b>		<u>437,640</u>	<u>264,196</u>
<b>CHANGE IN NET POSITION</b>		685,459	866,008
<b>TOTAL NET POSITION RESTRICTED FOR PENSION &amp; RETIREMENT BENEFITS, BEGINNING OF YEAR</b>		<u>8,675,026</u>	<u>7,809,018</u>
<b>TOTAL NET POSITION RESTRICTED FOR PENSION &amp; RETIREMENT BENEFITS, END OF YEAR</b>	\$	<u>9,360,485</u>	\$ <u>8,675,026</u>

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

**WEST KNOX UTILITY DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS**

**June 30, 2020 and 2019**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

West Knox Utility District ("WKUD" or the "District") was established on October 18, 1954 under the authority of Title 7, Chapter 82 of the 1937 Utility District Law of the State of Tennessee.

The WKUD Board of Commissioners are appointed by the Knox County Mayor for a term of four years. Knox County does not have any fiscal or budgetary control over WKUD. The operations of WKUD are funded by water and wastewater rates established by the Board of Commissioners.

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

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

The District makes a distinction between operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with its principal ongoing operations. The principal operating revenues of the District are water and wastewater charges to customers. Operating expenses consist of salaries, benefits, utilities, operating contracts for maintenance, insurance, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

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 plus deferred outflows, net of total liabilities plus deferred inflows) are segregated into net investment in capital assets; restricted for capital assets activity and debt service; and unrestricted components.

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

**Budgeting** - The District adopts flexible annual operating and capital budgets. Budgets are adopted on a basis consistent with generally accepted accounting principles. 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. The District's budgets are not legally binding. During the year, management is authorized to transfer budgeted amounts between line items within the District's departments.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Cash Equivalents, Deposits and Investments** - Cash and cash equivalents, for purposes of the statement of cash flows, include restricted and unrestricted cash on hand or on deposit, certificates of deposit, and debt security investments with a maturity at purchase of three months or less.

Investments are reported at their estimated fair value (see Note 3). 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. Purchases and sales of securities are recorded on the trade-date basis. Interest income is recorded on the accrual basis.

**Investments - Fiduciary Fund** - The pension trust fund's investments are stated at their estimated fair value (see Note 3). Investment income includes realized gains (losses) from the sale of investments, unrealized gains (losses) in the change in market values, and interest and dividend income earned during the year. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date.

**Restricted Assets** - Restricted assets represent cash and investments maintained in accordance with bond resolutions, loan agreements, grant awards, and other resolutions and formal actions of the District 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.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

**Receivables, Revenues and Unbilled Revenues** - Revenues are billed monthly to customers on a cyclical meter reading basis. Recognition has been given to unbilled revenue in the financial statements.

Accounts receivable are stated at the amount management expects to collect from outstanding balances. The District provides for estimated uncollectible receivables through a reduction of gross water 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, if any, are recorded as cash capital contributions.

Non-operating revenue consists of investment income. Investment income is interest earned, the accretion of interest on zero coupon debt instruments and the change in the fair value of investment securities.

**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 and depreciation of capital assets.

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

**Inventories** - Material and supply inventories are stated at cost using the first-in, first-out method. Incidental supplies and chemicals are not included in inventory.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Capital 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 estimated acquisition value, if available, or at engineers' estimated acquisition value or 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 acquisition value.

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

Interest is not capitalized on project costs funded by contributed capital, such as grants, gifts and impact fees. Interest costs of tax-exempt borrowings are capitalized net of related investment earnings on the proceeds. Depreciation is not recorded until the assets are put into use.

Assets are depreciated on the straight-line method. Depreciation is calculated using the following estimated useful lives:

	<u>Years</u>
Source of Supply Equipment	15-50
Water Treatment Plant	40-50
Wastewater Treatment Plant	40-50
Transmission and Distribution Systems	40-50
Equipment	5-20
Structures and Improvements	10-50
Office Furniture, Equipment and Vehicles	5-20

**Long-Term Obligations and Costs** - Long-term obligations are reported at face value, net of applicable premiums and discounts. Premiums and discounts, and gains or losses on advance refundings and defeasances are deferred and amortized over the life of the related bonds.

**Compensation for Future Absences** - Accumulated vacation eligible to be paid to employees at termination is recorded as an expense and liability as the benefits are earned.

**Pension Plans** - For purposes of measuring the District's net pension liability, pension expense, deferred outflow of resources and deferred inflows of resources related to the single-employer 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.

For purposes of measuring the net pension asset, deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System (TCRS), and additions to/deductions from the District's fiduciary net position have been determined on the same basis as they are reported by the TCRS for the Public Employee Retirement Plan. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Public Employee Retirement Plan of TCRS. Investments are reported at fair value.

**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.

**Presentation of Certain Taxes** - The District collects various taxes from customers and remits these amounts to applicable taxing authorities. The District's accounting policy is to exclude these taxes from revenues and cost of operations.

## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

**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 assets activity, debt service, and pensions; 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 is 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 assets activity, debt service and pensions consist 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 net position restricted for pensions is restricted due to state statutes, and the plan assets which are in trust, are to be used only for the benefit of retirees and beneficiaries and are protected from the District's creditors. The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

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

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

**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 amounts. Actual results may differ from those estimates.

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

**Evaluation of Subsequent Events** - Management has evaluated subsequent events through December 17, 2020, which is the date the financial statements were available to be issued, and has determined that there are no subsequent events that require disclosure.

**NOTE 2 - DEPOSITS AND INVESTMENTS**

At June 30, 2020 and 2019, the District had the following deposits and investments:

	Proprietary Fund				Fiduciary Funds			
	2020		2019		2020		2019	
	Fair Value	Weighted Average Maturity (Years)	Fair Value	Weighted Average Maturity (Years)	Fair Value	Weighted Average Maturity (Years)	Fair Value	Weighted Average Maturity (Years)
Deposits:								
Demand Deposits	\$ 14,915,071	N/A	\$ 20,086,160	N/A	\$ 0	N/A	\$ 0	N/A
Investments:								
Federal Agency Debt Securities	5,006,110	1.5	16,163,046	0.6	0	N/A	0	N/A
U.S. Treasuries	3,000,950	0.2	13,090,199	0.5	0	N/A	0	N/A
Cash & Cash Equivalents	249,257	N/A	39,912	N/A	0	N/A	0	N/A
Certificates of Deposit	18,280,030	1.2	12,051,448	1.0	0	N/A	0	N/A
State & Municipal Bonds	5,026,974	0.2	0	N/A	0	N/A	0	N/A
Mutual Funds	0	N/A	0	N/A	9,360,485	N/A	8,675,026	N/A
Total Investments	<u>31,563,321</u>		<u>41,344,605</u>		<u>9,360,485</u>		<u>8,675,026</u>	
Total	<u>\$ 46,478,392</u>		<u>\$ 61,430,765</u>		<u>\$ 9,360,485</u>		<u>\$ 8,675,026</u>	

A summary of the deposits and investments on the proprietary fund balance sheets at June 30, 2020 and 2019 is as follows:

	2020	2019
Current Assets:		
Cash and Cash Equivalents	\$ 13,647,067	\$ 2,772,920
Cash and Cash Equivalents - Restricted	1,268,004	17,313,240
Investments, at Fair Value	26,491,184	20,719,790
Investments - Restricted, at Fair Value	5,072,137	20,624,815
Total	<u>\$ 46,478,392</u>	<u>\$ 61,430,765</u>

As of June 30, 2020 and 2019, the District's investments were in the following:

	Proprietary Fund		Fiduciary Funds	
	2020	2019	2020	2019
Certificates of Deposits	57.9%	29.1%	0.0%	0.0%
Cash & Cash Equivalents	0.8%	0.1%	0.0%	0.0%
Federal Agency Securities	15.9%	39.1%	0.0%	0.0%
U.S. Treasuries	9.5%	31.7%	0.0%	0.0%
State & Municipal Bonds	15.9%	0.0%	0.0%	0.0%
Mutual Funds	0.0%	0.0%	100.0%	100.0%
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

**NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)**

**Deposits - Custodial Credit Risk**

Tennessee Code Annotated (TCA) Section 7-82-108 and bond covenants restrict the types of depositories available to the District. The District is limited to demand or certificates of deposits with state or national chartered banks, or credit unions located in the United States. The District's deposits, with a carrying amount of \$14,915,071 and \$20,086,160 at June 30, 2020 and 2019, respectively, were covered by FDIC insurance, government securities, or the bank collateral pool administered by the Treasurer of the State of Tennessee, except for uninsured balances of \$0 and \$1,920,628 at June 30, 2020 and 2019, respectively. 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 insured and classified as Category 1, under GASB Statement No. 40, for purposes of custodial credit risk disclosure.

**Investments, at Fair Value**

The District's proprietary fund investments at June 30, 2020 and 2019, with a carrying amount of \$31,563,321 and \$41,344,605, respectively, are in U.S. government and federal agency debt securities, state and municipal bonds, and certificates of deposit which are registered in the District's name. The carrying value of investments is presented at fair value.

**Investment Income, Net**

Investment income, net, for the proprietary fund for 2020 and 2019 consisted of the following:

	<u>2020</u>	<u>2019</u>
Interest Income	\$ 751,177	\$ 767,439
Realized and Unrealized Gains (Losses) - Net	<u>301,773</u>	<u>382,354</u>
Total Net Investment Income	<u>\$ 1,052,950</u>	<u>\$ 1,149,793</u>

**Investment Policies - Proprietary Fund**

State statute (T.C.A. § 7-82-108) authorizes the District to invest in obligations of the federal government, federal agency securities, State of Tennessee, state local government investment pool (SLGIP), state and municipal bonds, certificates of deposit and other time deposits and repurchase agreements. The District may also invest in collateralized certificates of deposit or 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 West Knox Utility District.

*Credit Risk:* The District's investment policy and state law 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. Ratings were obtained from either Moody's or Standard & Poor's.

**NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)**

At June 30, 2020 and 2019, the District's investments in marketable debt securities were rated as follows:

	2020		2019	
	Fair Value	Moody's	Fair Value	Moody's
Federal Agency Debt Securities	\$ 5,006,110	Aaa	\$ 16,163,046	Aaa
U.S. Treasuries	1,000,317	Aaa	13,090,199	Aaa
U.S. Treasuries	2,000,633	N/A		
State & Municipal Bonds	1,339,707	Aaa	0	N/A
State & Municipal Bonds	3,687,267	Aa1 to Aa3	0	N/A
Total	<u>\$ 13,034,034</u>		<u>\$ 29,253,245</u>	

*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. 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.

**Investment Policies - Fiduciary Fund**

See Note 8-A for information concerning the investment policies for the West Knox Utility District Defined Benefit Plan.

**NOTE 3 - FAIR VALUE OF INVESTMENTS**

GAAP establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the input 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 fair value hierarchy are described below:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

Investments whose values are based upon quoted market prices in active markets, and are therefore classified within Level 1, primarily include certain U.S. Government Obligations, federal agency debt securities and mutual funds. These investments are traded daily in public markets in the United States and other foreign countries. The fair value of these investments is based on the last reported sales price on the last day of the fiscal year.

Investments that trade in markets that are not considered to be actively traded on a daily basis, but are valued based on quoted market prices, dealer and broker quotations, bid prices, or alternative pricing sources using observable inputs, are classified within Level 2. These include certain federal agency debt securities, interest rate swaps and state and municipal bonds.

Investments classified within Level 3 have significant unobservable inputs, as they trade infrequently or not at all. Level 3 investments include private equity funds, real estate investments, limited partnerships, certain mortgage and asset backed and common and collective trust funds that are primarily invested in real estate. The fair value of these investments is determined by estimates provided by independent pricing sources in asset classes, non-binding bid prices from industry vendors and managers, and the net asset value on the last day of the fiscal year. During 2020 and 2019, the District did not have any Level 3 investments.

### NOTE 3 - FAIR VALUE OF INVESTMENTS (Continued)

The District and its Pension Trust Funds has the following recurring fair value measurements as of June 30, 2020 and 2019:

**Debt Securities** - This category includes U.S. Treasuries, Federal Agency Debt and State and Municipal bonds. Values are based on actively traded individual debt securities at the quoted market prices for identical assets in active markets. For non-actively traded individual debt securities are valued using pricing models that maximize the use of observable inputs for similar securities which includes the yield currently available on comparable securities of issuers with similar maturities and credit ratings. Debt securities are classified as a Level 1 or 2 in the fair value hierarchy.

**Mutual Funds** - Valued at the daily closing price as reported by the fund. Mutual funds held by the District's Pension Trust Fund are open-end mutual funds that are registered with the U.S. Securities and Exchange Commission (SEC). These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Pension Trust Funds are deemed to be actively traded and are classified as a Level 1 in the fair value hierarchy.

**Derivative Liabilities - Interest Rate Swap** - Valued based on the interest rate swap agreement's valuation models and assumptions and available market data, some of which may be internally developed. The fair value model calculates future cash flows by projecting forward rates, and then discounts those cash flows at their present value. Interest rate swaps are classified as Level 2 in the fair value hierarchy.

**NOTE 3 - FAIR VALUE OF INVESTMENTS (Continued)**

The following table summarizes the assets and liabilities of the Proprietary and Pension Trust Funds for which fair values are determined on a recurring basis as of June 30, 2020 and 2019:

	Fair Value Measurements Using			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>June 30, 2020</b>				
<b>Investments</b>				
<b>Proprietary Fund</b>				
Federal Agency Debt Securities	\$ 0	\$ 5,006,110	\$ 0	\$ 5,006,110
U.S. Treasuries	3,000,950	0	0	3,000,950
State & Municipal Bonds	0	5,026,974	0	5,026,974
Total Proprietary Fund	3,000,950	10,033,084	0	13,034,034
<b>Pension Trust Funds</b>				
Mutual Funds	9,360,485	0	0	9,360,485
Total Investments, at Fair Value	\$ 12,361,435	\$ 10,033,084	\$ 0	\$ 22,394,519
<b>Derivative Liability</b>				
<b>Proprietary Fund</b>				
Derivative Liability - Interest Rate Swap	\$ 0	\$ 3,843,410	\$ 0	\$ 3,843,410
<b>June 30, 2019</b>				
<b>Investments</b>				
<b>Proprietary Fund</b>				
Federal Agency Debt Securities	\$ 0	\$ 16,163,046	\$ 0	\$ 16,163,046
U.S. Treasuries	13,090,199	0	0	13,090,199
Total Proprietary Fund	13,090,199	16,163,046	0	29,253,245
<b>Pension Trust Fund</b>				
Mutual Funds	8,675,026	0	0	8,675,026
Total Investments, at Fair Value	\$ 21,765,225	\$ 16,163,046	\$ 0	\$ 37,928,271
<b>Derivative Liability</b>				
<b>Proprietary Fund</b>				
Derivative Liability - Interest Rate Swap	\$ 0	\$ 3,174,840	\$ 0	\$ 3,174,840

For the fiscal years 2020 and 2019, there were no significant transfers in or out of Levels 1, 2, or 3. There have been no changes in the methodologies used for fiscal years 2020 and 2019.

**NOTE 4 - CAPITAL ASSETS**

A summary of capital asset activity and changes in accumulated depreciation for the year ended June 30, 2020 is as follows:

	Balance 07/01/19	Additions Transfers	Deletions Retirements Transfers	Balance 06/30/20
Capital Assets Not Being Depreciated				
Water System:				
Land and Easements	\$ 375,240	\$ 9,468	\$ 0	\$ 384,708
Construction in Progress	821,135	99,135	(6,207)	914,063
Wastewater System:				
Land and Easements	573,779	71,884	0	645,663
Construction in Progress	84,268,087	7,729,390	(33,910,753)	58,086,724
Office Property and Equipment:				
Land and Easements	244,189	0	0	244,189
<b>Total Capital Assets Not Being Depreciated</b>	<b>86,282,430</b>	<b>7,909,877</b>	<b>(33,916,960)</b>	<b>60,275,347</b>
Capital Assets Being Depreciated				
Water System:				
Mains, Lines and Equipment	65,176,341	1,148,615	(37,742)	66,287,214
Treatment Facilities	36,693,768	212,386	(119,284)	36,786,870
Wastewater System:				
Collection Lines and Equipment	88,489,461	25,121,319	(31,460)	113,579,320
Treatment Facilities	25,091,709	17,311,601	(8,651,805)	33,751,505
General & Office Property and Equipment	7,606,485	485,880	(321,716)	7,770,649
<b>Total Capital Assets Being Depreciated</b>	<b>223,057,764</b>	<b>44,279,801</b>	<b>(9,162,007)</b>	<b>258,175,558</b>
Less Accumulated Depreciation				
Water System:				
Mains, Lines and Equipment	(25,562,224)	(1,521,670)	11,935	(27,071,959)
Treatment Facilities	(12,329,421)	(953,180)	87,934	(13,194,667)
Wastewater System:				
Collection Lines and Equipment	(27,790,731)	(2,234,938)	7,136	(30,018,533)
Treatment Facilities	(16,353,592)	(660,078)	5,983,652	(11,030,018)
General & Office Property and Equipment	(3,922,487)	(386,900)	311,472	(3,997,915)
<b>Total Accumulated Depreciation</b>	<b>(85,958,455)</b>	<b>(5,756,766)</b>	<b>6,402,129</b>	<b>(85,313,092)</b>
<b>Total Capital Assets Being Depreciated, Net</b>	<b>137,099,309</b>	<b>38,523,035</b>	<b>(2,759,878)</b>	<b>172,862,466</b>
<b>Total Capital Assets</b>	<b>\$ 223,381,739</b>	<b>\$ 46,432,912</b>	<b>\$ (36,676,838)</b>	<b>\$ 233,137,813</b>

Depreciation expense was \$5,756,766 for 2020.

**NOTE 4 - CAPITAL ASSETS (Continued)**

A summary of capital asset activity and changes in accumulated depreciation for the year ended June 30, 2019 is as follows:

	Balance 07/01/18	Additions Transfers	Deletions Retirements Transfers	Balance 06/30/19
<b>Capital Assets Not Being Depreciated</b>				
Water System:				
Land and Easements	\$ 378,684	\$ 1,518	\$ (4,962)	\$ 375,240
Construction in Progress	1,108,223	2,145,273	(2,432,361)	821,135
Wastewater System:				
Land and Easements	537,064	36,715	0	573,779
Construction in Progress	40,072,781	49,260,351	(5,065,045)	84,268,087
Office Property and Equipment:				
Land and Easements	244,189	0	0	244,189
Construction in Progress	85,399	315,147	(400,546)	0
<b>Total Capital Assets Not Being Depreciated</b>	<u>42,426,340</u>	<u>51,759,004</u>	<u>(7,902,914)</u>	<u>86,282,430</u>
<b>Capital Assets Being Depreciated</b>				
Water System:				
Mains, Lines and Equipment	63,812,316	1,979,024	(614,999)	65,176,341
Treatment Facilities	38,739,993	60,260	(2,106,485)	36,693,768
Wastewater System:				
Collection Lines and Equipment	81,098,558	6,325,981	1,064,922	88,489,461
Treatment Facilities	23,606,926	49,168	1,435,615	25,091,709
General & Office Property and Equipment	6,831,460	1,327,818	(552,793)	7,606,485
<b>Total Capital Assets Being Depreciated</b>	<u>214,089,253</u>	<u>9,742,251</u>	<u>(773,740)</u>	<u>223,057,764</u>
<b>Less Accumulated Depreciation</b>				
Water System:				
Mains, Lines and Equipment	(24,145,451)	(1,812,558)	395,785	(25,562,224)
Treatment Facilities	(11,112,555)	(951,799)	(265,067)	(12,329,421)
Wastewater System:				
Collection Lines and Equipment	(25,915,055)	(2,080,537)	204,861	(27,790,731)
Treatment Facilities	(15,573,865)	(696,274)	(83,453)	(16,353,592)
General & Office Property and Equipment	(3,980,812)	(320,351)	378,676	(3,922,487)
<b>Total Accumulated Depreciation</b>	<u>(80,727,738)</u>	<u>(5,861,519)</u>	<u>630,802</u>	<u>(85,958,455)</u>
<b>Total Capital Assets Being Depreciated, Net</b>	<u>133,361,515</u>	<u>3,880,732</u>	<u>(142,938)</u>	<u>137,099,309</u>
<b>Total Capital Assets</b>	<u>\$ 175,787,855</u>	<u>\$ 55,639,736</u>	<u>\$ (8,045,852)</u>	<u>\$ 223,381,739</u>

Depreciation expense was \$5,861,519 for 2019.

**NOTE 5 - CONSTRUCTION IN PROGRESS**

Construction in progress including the remaining contractual commitments at June 30, 2020 and 2019 consists of:

Project	2020		2019	
	Actual To Date	Remaining Contractual Commitments	Actual To Date	Remaining Contractual Commitments
Ball Camp Road Water Line				
Relocation - Engineering	\$ 454,310	\$ 0	\$ 454,310	\$ 0
Ten Mile WWPS, Sewer Lines, & Basin Study	0	0	6,752,048	248,218
Beaver Creek Interceptor	5,199,681	77,035	2,656,497	2,029,162
Melton Lake WWTP	51,392,278	1,793,750	47,445,664	6,023,320
Melton Lake WWTP - Outfall Discharge Line	0	0	6,697,968	2,513,654
Karns Waste Water Pump Station	0	0	7,099,344	3,651,205
Highgate Sewer Line Interceptor	1,018,905	0	381,437	0
Beaver Ridge Water Line - Daughtery WTP	88,623	0	194,984	0
Hardin Valley Force Main Wastewater Line	0	0	12,702,432	30,297
Waldbrook Drive Water Line	15,556	0	15,556	0
Plumb Creek Trunk Line Replacement	74,426	0	0	0
Other Small Projects	757,008	0	688,982	0
<b>Total</b>	<b>\$ 59,000,787</b>	<b>\$ 1,870,785</b>	<b>\$ 85,089,222</b>	<b>\$ 14,495,856</b>

During fiscal year 2019, the District issued \$43,535,000 in water and sewer revenue bonds to provide financing for the Melton Lake Wastewater Treatment Plant (WWTP) and other capital projects.

**NOTE 6 - REVENUE BONDS**

**Overview**

Revenue bonds at June 30, 2020 and 2019 consisted of the following:

	<u>2020</u>	<u>2019</u>
<u>Revenue Bonds:</u>		
Local Government Public Improvement Revenue Bonds, Series V-F-1, \$15,000,000 Issued June 28, 2019	\$ 15,000,000	\$ 15,000,000
Water and Sewer Revenue Bonds, Series 2019, \$20,000,000 Issued June 28, 2019	20,000,000	20,000,000
Water and Sewer Revenue Bonds, Series 2018, \$8,535,000 Issued November 1, 2018	8,535,000	8,535,000
Water and Sewer Revenue Bonds, Series 2016, \$27,015,000 Issued December 22, 2016	25,205,000	27,015,000
Local Government Public Improvement Revenue Bonds, Series 2016 V-E-1, \$25,000,000 Issued December 23, 2016	23,110,000	23,375,000
Water and Sewer System Revenue Bonds, Series 2015, \$9,995,000 Issued December 22, 2015	9,875,000	9,995,000
Water and Sewer System Revenue Bonds Build America Bonds (BABS), Series 2010, \$35,000,000 Issued November 30, 2010	35,000,000	35,000,000
Public Building Authority of Sevier County, Tennessee Loan Agreement Series 2009 V-B-1, \$35,425,000 Issued August 1, 2009	<u>26,095,000</u>	<u>26,095,000</u>
Total Revenue Bonds	162,820,000	165,015,000
Add: Unamortized Premium	1,884,644	1,996,244
Less: Unamortized Discount	<u>(104,782)</u>	<u>(110,063)</u>
	164,599,862	166,901,181
Less: Current Portion	<u>(2,510,000)</u>	<u>(2,195,000)</u>
Total	<u>\$ 162,089,862</u>	<u>\$ 164,706,181</u>

The District has pledged all its revenues to secure the revenue bonds until all outstanding debt has been repaid. In addition, the bondholders have statutory mortgage liens upon the District as created by T.C.A. § 7-82-101 that remain in effect until the various bond issues are paid in full. The revenue bond covenants require a minimum debt service coverage ratio of 1.60; for the years ended June 30, 2020 and 2019 the ratio was 1.96 and 2.30, respectively.

Interest expense for 2020 and 2019 consisted of the following:

	<u>2020</u>	<u>2019</u>
Interest Paid	\$ 5,711,384	\$ 4,957,697
Change in Accrued Interest Payable	(1,527)	(27,855)
Paying Agents Fees	2,206	2,206
Amortization of Note Discount - Knox County	0	4,228
Amortization of Bond Discounts	5,281	5,281
Amortization of Bond Premiums	(111,600)	(55,978)
Amortization of Deferred Cost of Refunding	<u>30,721</u>	<u>31,795</u>
Total	<u>\$ 5,636,465</u>	<u>\$ 4,917,374</u>

**NOTE 6 - REVENUE BONDS (Continued)**

**Activity**

Long-term debt activity during 2020 and 2019 was as follows:

	<b>2020</b>				
	Balance July 1, 2019	Additions	Reductions	Balance June 30, 2020	Due Within One Year
Revenue Bonds	\$ 165,015,000	\$ 0	\$ 2,195,000	\$ 162,820,000	\$ 2,510,000
Other Revenue Bond Items:					
Add: Bond Premiums	1,996,244	0	(111,600)	1,884,644	0
Less: Bond Discounts	(110,063)	0	5,281	(104,782)	0
<b>Total</b>	<b>\$ 166,901,181</b>	<b>\$ 0</b>	<b>\$ 2,088,681</b>	<b>\$ 164,599,862</b>	<b>\$ 2,510,000</b>

	<b>2019</b>				
	Balance July 1, 2018	Additions	Reductions	Balance June 30, 2019	Due Within One Year
Revenue Bonds	\$ 122,725,000	\$ 43,535,000	\$ 1,245,000	\$ 165,015,000	\$ 2,195,000
Note Payable from Direct Borrowings	1,350,000	0	1,350,000	0	0
	124,075,000	43,535,000	2,595,000	165,015,000	2,195,000
Other Revenue Bond Items:					
Add: Bond Premiums	957,446	1,094,776	(55,978)	1,996,244	0
Less: Bond Discounts	(115,344)	0	5,281	(110,063)	0
<b>Total</b>	<b>\$ 124,917,102</b>	<b>\$ 44,629,776</b>	<b>\$ 2,544,303</b>	<b>\$ 166,901,181</b>	<b>\$ 2,195,000</b>

**Debt Service**

The annual debt service requirements for revenue bonds as of June 30, 2020 are as follows:

Fiscal Years Ending June 30,	Revenue Bonds					Total
	Principal	Coupon Interest	BABS Treasury Rebate	Net Interest		
2021	\$ 2,510,000	\$ 7,342,887	\$ (769,307)	\$ 6,573,580	\$ 9,083,580	
2022	3,435,000	7,235,438	(765,927)	6,469,511	9,904,511	
2023	3,645,000	7,090,038	(762,424)	6,327,614	9,972,614	
2024	3,775,000	6,935,049	(758,758)	6,176,291	9,951,291	
2025	3,925,000	6,773,574	(755,011)	6,018,563	9,943,563	
2026-2030	22,095,000	31,227,338	(3,711,880)	27,515,458	49,610,458	
2031-2035	26,865,000	26,399,980	(3,586,670)	22,813,310	49,678,310	
2036-2040	32,845,000	20,016,262	(2,931,249)	17,085,013	49,930,013	
2041-2045	41,210,000	10,700,601	(1,223,161)	9,477,440	50,687,440	
2046-2050	15,900,000	2,386,465	0	2,386,465	18,286,465	
2051-2054	6,615,000	631,500	0	631,500	7,246,500	
<b>Total</b>	<b>\$ 162,820,000</b>	<b>\$ 126,739,132</b>	<b>\$ (15,264,387)</b>	<b>\$ 111,474,745</b>	<b>\$ 274,294,745</b>	

**Local Government Public Improvement Revenue Bonds - Series V-F-1**

The Public Building Authority of Sevier County, Tennessee issued \$15,000,000 in Local Government Public Improvement Bonds, Series V-F-1. The bonds are to provide the District financing for certain water and sewer improvement projects under a loan agreement dated June 28, 2019. Interest payments are made semi-annually beginning December 1, 2019. This loan has a variable rate based upon an index rate agreement dated June 28, 2019 that calculates monthly interest of not more than 69% of the London Interbank Offered Rate (LIBOR) plus not more than 49 basis points. This debt issue was unrated. The variable interest rate as of June 30, 2020 and 2019 was 0.63% and 2.42%. The annual loan principal payments of between \$230,000 to \$1,745,000 begin June 1, 2022 to June 1, 2038 and continue from June 1, 2047 through June 1, 2054.

## **NOTE 6 - REVENUE BONDS (Continued)**

### **Water and Sewer Revenue Bonds - Series 2019**

The District has issued \$20,000,000 in non-taxable water and sewer revenue bonds, Series 2019. The funds are to provide the District financing for certain water and sewer improvement projects under the debt agreement dated June 28, 2019. Interest payments are made semi-annually at an average interest rate of 4.07% beginning June 1, 2019. The annual loan principal payments of between \$395,000 to \$1,050,000 begin June 1, 2022 and continue through June 1, 2049.

### **Water and Sewer Revenue Bonds - Series 2018**

The District has issued \$8,535,000 in non-taxable water and sewer revenue bonds, Series 2018. The funds are to provide the District financing for certain water and sewer improvement projects under the debt agreement dated November 1, 2018. Interest payments are made semi-annually at an average interest rate of 3.66% beginning June 1, 2019. The annual loan principal payments of between \$190,000 to \$495,000 begin June 1, 2022 and continue through June 1, 2048.

### **Water and Sewer Revenue Bonds - Series 2016**

The District has issued \$27,015,000 in non-taxable water and sewer revenue bonds, Series 2016. The funds are to provide the District financing for certain water and sewer improvement projects under the debt agreement dated December 22, 2016. Interest payments are made semi-annually at an average interest rate of 4.30% beginning June 1, 2017. The annual loan principal payments of between \$240,000 to \$2,045,000 begin June 1, 2020 and continue through June 1, 2046.

### **Local Government Improvement Revenue Bonds - Series 2016 V-E-1**

The Public Building Authority of Sevier County, Tennessee issued \$25,000,000 in Local Government Public Improvement Bonds, Series 2016 V-E-1. The bonds are to provide the District financing for certain water and sewer improvement projects under a loan agreement dated December 23, 2016. Interest payments are made monthly beginning June 1, 2017. This loan has a variable rate based upon an index rate agreement dated December 23, 2016 that calculates monthly interest at 70% of the London Interbank Offered Rate (LIBOR) plus 55 basis points. This debt issue was unrated. The variable interest rate as of June 30, 2020 and 2019 was 0.67% and 2.26%. The annual loan principal payments of between \$95,000 to \$5,890,000 began June 1, 2018 and continue through June 1, 2046.

### **Water and Sewer Revenue Bonds - Series 2015**

The District issued \$9,995,000 in non-taxable water and sewer revenue bonds, Series 2015. The funds are to provide the District financing for certain water and sewer improvement projects under the debt agreement dated December 22, 2015. Interest payments are made semi-annually at an average interest rate of 2.86% beginning June 1, 2016. The annual loan principal payments of between \$120,000 to \$925,000 begin June 1, 2020 and continue through June 1, 2045.

### **Revenue Bonds - Build America Bonds (BABS) - Series 2010**

The District has issued \$35,000,000 in taxable water and sewer revenue bonds, Series 2010 (Federally Taxable – Build America Bonds – Direct Subsidy). The funds are to provide the District financing for certain water and sewer improvement projects under the agreement dated November 30, 2010. Interest payments are made semi-annually at a gross interest rate of 6.83%, or at a net rate of 4.44% after subsidies. The annual loan principal payments of between \$250,000 to \$3,800,000 begin June 1, 2021 and continues through June 1, 2045. Beginning in fiscal year 2026 there is a mandatory redemption of bonds with various maturity dates. The District receives a direct subsidy of 35% from the United States Government that reduces its interest costs. The District has no assurance that the United States Government will continue to make the direct subsidy payments at a gross interest rate of 6.83% or that the United States Congress will not attempt to reduce the amount of the direct subsidy payments. Interest subsidies received by the District during 2020 and 2019 were \$826,324 and \$826,324, respectively. During FY 2020 and 2019, due to the U.S. Congressional budget sequestration, the interest rate subsidy was reduced by 5.9% and 6.2%.

## **NOTE 6 - REVENUE BONDS (Continued)**

### **Loan Payable to Public Building Authority of Sevier County - Series 2009 V-B-1**

The Public Building Authority of Sevier County, Tennessee issued \$35,425,000 in Local Government Public Improvement Bonds, Series 2009 V-B-1. The bonds are to provide refunding of Series 1997 I-A-1, 2000 II-D-2, and 2005 IV-C-1 Bonds. Interest payments are made the first of each month. Monthly payments include a reimbursement to the letter of credit provider. One monthly payment each quarter includes additional interest and swap payments and fees, in addition to the LOC reimbursement. The variable interest rate as of June 30, 2020 and 2019 was 0.64% and 1.80%. The annual loan principal payments of between \$795,000 to \$2,395,000 began June 1, 2010 and are due on June 1 of each year through 2035. The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt totaling \$634,946. This difference is reported in the accompanying financial statements as a deferred bond refunding loss and is being charged to operations through the year 2035 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 \$1,237,925. No economic gain or loss was obtained since the transaction exchanged old variable rate debt with new variable rate debt. The amount of the reacquisition price recorded as part of the bond interest expense was \$30,721 and \$31,795 for 2020 and 2019.

Under its loan agreement, the Public Building Authority, at the request of the District, has entered into an interest rate swap agreement for all of the outstanding Local Government Improvement Revenue Bonds, Series II-D-2. Based on the loan agreement and swap agreement, the District owes interest at an effective fixed rate of 4.37% and 5.23% at June 30, 2020 and 2019, respectively (see Note 7).

## **NOTE 7 - INTEREST RATE SWAP**

Under its loan agreement, the Public Building Authority of Sevier County, TN (the "Authority"), at the request of the District, has entered into an interest rate swap agreement for all of the outstanding Local Government Improvement Revenue Bonds, Series II-D-2. Interest rate swaps are classified as hedging derivative instruments if the hedging instrument meets the effectiveness criteria established by Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The swap met that criteria in fiscal year 2014 and was classified as a cash flow hedge. In fiscal year 2015, the swap did not meet the hedge criteria and has therefore since been classified as an investment derivative.

### **Objective of the Interest Rate Swap**

To protect the District against the potential of rising interest rates and to balance its mixture of variable and fixed rate debt, the District requested the Authority, on its behalf, to enter into an interest rate swap in connection with its \$12.5 million Series II-D-2 variable-rate bonds. The intention of the swap was to effectively change the District's variable interest rate on the bonds to a synthetic fixed rate. The Series II-D-2 bonds have since been refunded with a portion of the proceeds of the Series V-B-1 bonds and the interest rate swap is now associated with the Series V-B-1 bonds.

**NOTE 7 - INTEREST RATE SWAP (Continued)**

**Terms**

Under the swap, the Authority pays the counterparty a fixed payment of 4.40% and receives a variable payment computed as 63.50% of the Five-Year London Interbank Offered Rate (LIBOR). The swap has a notional amount of \$12.5 million and the associated variable-rate bond has a \$12.5 million principal amount. At no time will the notional amount on interest rate swap agreement exceed the outstanding principal of the Series V-B-1 Bonds. The bonds' variable rates have historically approximated the Securities Industry and Financial Markets Association Index™ (the "SIFMA"). The bonds and the related swap agreement mature on June 1, 2030. As of June 30, 2020 and 2019, rates were as follows:

	<u>2020</u>	<u>2019</u>
Interest Rate Swap:		
Fixed Payment to Counterparty	4.40 %	4.40 %
Variable Payment from Counterparty	<u>(0.21)</u>	<u>(1.12)</u>
Net Interest Rate Swap Payments	4.19	3.28
Variable-Rate Bond Coupon Payments	<u>0.18</u>	<u>1.95</u>
Synthetic Interest Rate on Bonds	<u><u>4.37 %</u></u>	<u><u>5.23 %</u></u>

**Fair Value**

As of June 30, 2020 and 2019, the swap had a negative fair value of \$(3,843,410) and \$(3,174,840), respectively. The negative fair value of the swap may be countered by reductions in total interest payments required under the variable-rate bond, creating lower synthetic rates. Because the rates on the District's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value model calculates future cash flows by projecting forward rates and then discounts those cash flows at their present value.

**Credit Risk**

As of June 30, 2020 and 2019, the District was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the District would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty, Raymond James Financial Products ("RJFP" formerly Morgan Keegan Financial Products) was rated "Baa1/BBB+" by Moody's and Standard and Poor's, respectively as of June 30, 2020 and 2019 with its Credit Support Provider, Deutsche Bank, rated "A3/BBB+/BBB+" by Moody's, Standard & Poor's and Fitch, respectively.

**Termination Risk**

The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an "additional termination provision." The Authority or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination, the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value. Likewise, if the swap has a positive fair value at termination, the counterparty would be liable to the Authority for a payment equal to the swap's fair value.

**Interest Rate Risk**

The District is exposed to interest rate risk on the interest rate swap. The bonds' variable rates have historically approximated the SIFMA. As the SIFMA swap index decreases, the District's net payments on the swap increase.

**Basis Risk**

As noted above, the swap exposes the District to basis risk should SIFMA increase to above 63.5% of LIBOR, thus increasing the synthetic rate on the bonds. If a change occurs that results in the SIFMA to be below 63.5% of LIBOR, then the synthetic rate on the bonds will decrease.

**Rollover Risk**

The District is not exposed to rollover risk because the maturity dates for the hedged variable rate bonds and the interest rate swap agreement are the same.

**NOTE 7 - INTEREST RATE SWAP (Continued)**

**Swap Payments and Associated Debt**

As of June 30, 2020, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term are as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Fiscal Year Ending June 30,	Variable Rate Bonds		Net Interest	Total
	Principal	Interest	Rate Swap Payment	
2021	\$ 0	\$ 22,500	\$ 524,108	\$ 546,608
2022	0	22,500	524,108	546,608
2023	0	22,500	524,108	546,608
2024	0	22,500	524,108	546,608
2025	0	22,500	524,108	546,608
2025-2029	12,500,000	73,926	1,722,008	14,295,934
	<u>\$ 12,500,000</u>	<u>\$ 186,426</u>	<u>\$ 4,342,548</u>	<u>\$ 17,028,974</u>

**Derivative Instrument**

As of June 30, 2020 and 2019, the District had the following derivative instrument outstanding:

Instrument	Type	Objective	Original Notional Amount	Effective Date	Maturity Date	Terms
\$12,500,000 Sw ap	Interest Rate Sw ap	Variable to Synthetic Fixed Rate Sw ap	\$12,500,000	8/28/2009	6/1/2030	Pay 4.40% and receive 63.5% of five year LIBOR.

The fair value balance and notional amount outstanding at June 30, 2020 and 2019, classified by type and changes in fair value for 2020 and 2019 are reported in the financial statements as follows:

Type	Change in Fair Value		Fair Value		Notional Amount
	Classification	Amount	Classification	Amount	
Investment Derivative: Pay Fixed Interest Rate Sw ap:					
2020	Investment (Loss)	\$ (668,570)	Debt	\$ (3,843,410)	\$ 12,500,000
2019	Investment (Loss)	\$ (444,607)	Debt	\$ (3,174,840)	\$ 12,500,000

The interest rate swap agreement described above did not meet criteria to be an effective hedge; therefore, these swaps are classified as an investment derivative.

**NOTE 8 - RETIREMENT PLANS**

**A. Single-Employer Pension Plan - West Knox Utility District Defined Benefit Plan**

**General Information about the Defined Benefit Pension Plan**

*Plan Description* - The District's single-employer defined benefit pension plan, West Knox Utility District Defined Benefit Pension Plan (the "DB" 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 retirement plan and assets are held in trust with Commercial Bank and Trust Company. The DB Plan is administered by USI Consulting Group.

*Benefits Provided* - The DB 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 a life annuity with ten years certain, with several other options for retirement benefit payments, including several annuity choices or a lump sum payment. Vesting begins at 20% per year after one year of service. An employee becomes fully vested after five years of service and normal retirement age is 65.

Article V.A. of the DB Plan document also includes a provision for supplemental retirement accounts for certain designated personnel. Designated personnel are determined by the Board of Commissioners. Contribution credits are added to the balance of the supplemental retirement account equal to 10% of the participant's annual rate of salary. Interest is also credited to the balance of the supplemental retirement account at an annual rate of 5%. The account balance can be paid out in the form of a lump sum or under any other form of benefit permitted by the Plan. If a participant terminates employment prior to their early retirement date, the supplemental retirement account is forfeited.

**General Information about the Defined Benefit Pension Plan (Continued)**

The District's Board of Commissioners has the authority to amend or change the Plan and its benefit terms. The Plan does not issue separate financial statements.

The District's Board of Commissioners amended the Plan on November 21, 2013 to provide another option that can be chosen, whereby the beneficiary of a participant who dies after annuity benefit payments under the Plan begin will be entitled to a death benefit equal to the excess, if any, of the lump sum value of the participant's total accrued benefit compared to the total amount of benefit payments made to the participant prior to their death. However, the District's Board of Commissioners amended the Plan on October 25, 2018 to limit the optional lump sum form of benefit payment to 33-1/3% of the vested accrued benefit accrued after October 25, 2018. This amendment also modified the Actuarial Equivalent used to calculate the present value of the lump sum portion of a benefit payment. The lump sum value will now be based on the applicable interest rate or 4%, whichever produces the lower distribution amount. Effective January 1, 2018, the District's Board of Commissioners froze the plan to new participants. New employees hired by the District after December 31, 2017 are required to participate in the defined contribution retirement plan (see section D).

*Employees Covered by Benefit Terms* - At June 30, 2020 and 2019, the following number of employees were covered by the benefit terms:

	2020	2019
Inactive Employees, or Beneficiaries, Currently Receiving Benefits	5	4
Inactive Employees, Entitled to, but not yet Receiving Benefits	12	12
Active Employees	62	66
Total	79	82

*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 the years ended June 30, 2020 and 2019, the District's contributions were approximately 33% and 22%, respectively, of annual covered payroll.

**NOTE 8 - RETIREMENT PLANS (Continued)**

**A. Single-Employer Pension Plan - West Knox Utility District Defined Benefit Plan**

**Net Pension Liability**

The District's net pension liability was measured as of June 30, 2020 and 2019, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of July 1, 2019 and 2018.

*Actuarial Assumptions* - The total pension liability in the July 1, 2019 and 2018 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial Cost Method: Entry Age Normal
- Amortization Method: Level Percentage of Payroll, Closed
- Remaining Amortization Period: 24 Years (2019), 25 (2018)
- Asset Valuation Method: Fair Market Value
- Investment Rate of Return: 7.25% per Annum
- Discount Rate: 7.25%
- Salary Increases: 4.00% per Annum
- Lump Sums: 50% Election Rate; 4.25% Present Value Rate
- Retirement Age: 50% Unreduced Early Retirement 50% Normal Retirement Age
- Cost of Living Increase: 0.00% (2019 and 2018)
- Mortality: RP-14 Blue Collar Mortality Table with Scale MP-19 (2019) and MP-18 (2018) projected on a fully generational basis

The actuarial assumptions used in the July 1, 2019 and 2018 valuations were based on the results of actual experience with the plan for the past five years.

*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 2.10% and 2.29% per annum for the years ending June 30, 2020 and 2019, respectively. The target allocation and best estimates of average long-term expected real rates of return, net of 2.10% and 2.29% inflation, for each major asset class as of June 30, 2020 and 2019 are summarized in the following table:

Asset Class	Target Allocation	Average Long-Term Expected Real Rate of Return	
		2020	2019
Domestic Equity	28%	6.71%	8.93%
International Equity	15%	7.95%	10.49%
Fixed Income	32%	1.70%	4.59%
Market Neutral/Alternative	19%	3.92%	6.61%
Real Estate	5%	5.69%	7.94%
Cash & Other	1%	0.18%	3.07%
Total	100%		

*Rates of Return (Loss)* - The annual money-weighted rates of return (losses) on the Plan's investments, net of investment expenses for the fiscal years 2020 and 2019 was 0.28% and 5.09%, respectively.

**NOTE 8 - RETIREMENT PLANS (Continued)**

**A. Single-Employer Pension Plan - West Knox Utility District Defined Benefit Plan (Continued)**

**Net Pension Liability (Continued)**

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

*Tennessee State Law for Local Government Sponsored Defined Benefit Plans* - In May 2014, the Tennessee General Assembly passed "The Public Employee Defined Benefit Financial Security Act of 2014", Tennessee Code Section 9-3-501, which will require 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 FY 2020.

Changes in the net pension liability (asset) for the measurement periods ending June 30, 2020 and 2019 are shown below:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
<b>For the Fiscal Year Ended June 30, 2020</b>			
<b>Balances at June 30, 2019</b>	\$ 12,911,952	\$ 8,675,026	\$ 4,236,926
Changes for the Year:			
Service Cost	274,169	0	274,169
Interest	940,408	0	940,408
Difference between Expected and Actual Experience	473,338	0	473,338
Changes of Assumptions	(31,637)	0	(31,637)
Contributions - Employer	0	1,098,000	(1,098,000)
Net Investment Income (Loss)	0	25,099	(25,099)
Benefit Payments - Annuities	(287,000)	(287,000)	0
Benefit Payments - Lump Sum	(150,617)	(150,617)	0
Administrative Expenses	0	(23)	23
Net Changes	<u>1,218,661</u>	<u>685,459</u>	<u>533,202</u>
<b>Balances at June 30, 2020</b>	<u>\$ 14,130,613</u>	<u>\$ 9,360,485</u>	<u>\$ 4,770,128</u>
<b>For the Fiscal Year Ended June 30, 2019</b>			
<b>Balances at June 30, 2018</b>	\$ 12,564,081	\$ 7,809,018	\$ 4,755,063
Changes for the Year:			
Service Cost	253,077	0	253,077
Interest	919,228	0	919,228
Changes of benefit terms	(951,309)	0	(951,309)
Difference between Expected and Actual Experience	5,350	0	5,350
Changes of Assumptions	382,654	0	382,654
Contributions - Employer	0	720,000	(720,000)
Net Investment Income	0	410,204	(410,204)
Benefit Payments - Annuities	(230,295)	(230,295)	0
Benefit Payments - Lump Sum	(30,834)	(30,834)	0
Administrative Expenses	0	(3,067)	3,067
Net Changes	<u>347,871</u>	<u>866,008</u>	<u>(518,137)</u>
<b>Balances at June 30, 2019</b>	<u>\$ 12,911,952</u>	<u>\$ 8,675,026</u>	<u>\$ 4,236,926</u>

**NOTE 8 - RETIREMENT PLANS (Continued)**

**A. Single-Employer Pension Plan - West Knox Utility District Defined Benefit Plan (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 June 30, 2020 and 2019, calculated using the discount rate of 7.25%, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

Net Pension Liability	1% Decrease (6.25%)	Current Discount Rate	1% Increase (8.25%)
2020	\$ 6,475,913	\$ 4,770,128	\$ 3,328,704
2019	5,724,170	4,236,926	2,800,170

**Pension Expense and Deferred Outflows of Resources and Deferred Inflow of Resources Related to Plan**

For the years ended June 30, 2020 and 2019, the District recognized (negative) pension expense of \$924,883 and \$(118,749), respectively for the Plan. At June 30, 2020 and 2019, the District reported deferred outflows of resources and deferred inflows of resources related to the Plan from the following sources:

	2020		2019	
	Deferred Outflows of Resources	Deferred Inflows Resources	Deferred Outflows of Resources	Deferred Inflows Resources
Differences Between Expected and Actual Experience	\$ 936,267	\$ 575,744	\$ 657,355	\$ 803,148
Changes of Assumptions	576,430	27,150	730,689	0
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	580,068	0	198,656	0
Total	<u>\$ 2,092,765</u>	<u>\$ 602,894</u>	<u>\$ 1,586,700</u>	<u>\$ 803,148</u>

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

For the Years Ended June 30,	
2021	\$ 244,256
2022	283,427
2023	329,644
2024	357,407
2025	188,381
Thereafter	<u>86,756</u>
Total	<u>\$ 1,489,871</u>

**Payable to Pension Plan**

At June 30, 2020 and 2019, there was no employer contribution payable.

**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 multi-year 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.

**NOTE 8 - RETIREMENT PLANS (Continued)**

**B. Agent Multiple-Employer Defined Benefit Pension Plan - Tennessee Consolidated Retirement System (TCRS)**

**Plan Description** - Former employees of the District who retired prior to July 1, 1991 are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the TCRS. TCRS was created by state statute under Tennessee Code Annotate (TCA) Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of TCRS. TCRS issues a publicly available financial report that can be obtained at [https://treasury.tn.gov/Retirement/Boards-and-Governance/Reportingand-Investment-Policies\\_](https://treasury.tn.gov/Retirement/Boards-and-Governance/Reportingand-Investment-Policies_). The District withdrew from TCRS on July 1, 1991. Active employees of the District as of that date transferred their account balances to the West Knox Utility District Defined Benefit Plan (see section A).

**Benefits Provided** - TCA Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. The chief legislative body may adopt the benefit terms permitted by state statute. Members are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Reduced benefits for early retirement are available at age 55 for members who are vested. Members vest with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLA's) after retirement. A COLA is granted each July for annuitants retired prior to the 2<sup>nd</sup> of July in the previous year. A COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

**Employees Covered by Benefit Terms** - At the measurement date of June 30, 2019 and 2018, the following employees were covered by the benefit terms:

	2019	2018
Inactive Employees, or Beneficiaries, Currently Receiving Benefits	4	4
Inactive Employees, Entitled to, but not yet Receiving Benefits	0	0
Active Employees	0	0
Total	<u>4</u>	<u>4</u>

Effective July 1, 1991, this plan was closed to new participants and the District's eligible full-time employees were enrolled in the District's single-employer defined benefit plan.

**Contributions** - Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. The District makes employer contributions at the rate set by the TCRS Board of Trustees as determined by an actuarial valuation. Based upon the District withdrawing from TCRS as of July 1, 1991, the employer contributions were fully funded at that time and no contributions are expected in the near term.

**NOTE 8 - RETIREMENT PLANS (Continued)**

**B. Agent Multiple-Employer Defined Benefit Pension Plan - TCRS (Continued)**

The District's net pension liability (asset) was measured as of June 30, 2019 and 2018, and the total pension liability used to calculate net pension liability (asset) was determined by an actuarial valuation as of those dates.

**Actuarial Assumptions** - The total pension liability as of the June 30, 2019 and 2018 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary Increases	Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4.00%
Investment Rate of Return	7.25%, net of pension plan investment expenses, including inflation
Cost-of-Living Adjustment	2.25%

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

The actuarial assumptions used in the June 30, 2019 and 2018 actuarial valuations were based on the results of an actuarial experience study performed for the period July 1, 2012 through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2016 actuarial experience study. A blend of future capital market projections and historical market returns was used in a building-block method in which a best-estimate of future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. The best-estimates are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.50%. The best-estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Average Long-Term Expected Real Rate of Return
U.S. Equity	31%	5.69%
Developed Market International Equity	14%	5.29%
Emerging Market International Equity	4%	6.36%
Private Equity and Strategic Lending	20%	5.79%
U.S. Fixed Income	20%	2.01%
Real Estate	10%	4.32%
Short-Term Securities	1%	0.00%
Total	100%	

**NOTE 8 - RETIREMENT PLANS (Continued)**

**B. Agent Multiple-Employer Defined Benefit Pension Plan - TCRS (Continued)**

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.25% for 2019 and 2018 based on a blending of the factors described above.

**Discount Rate** - The discount rate used to measure the total pension liability was 7.25% for 2019 and 2018. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that employer contributions from the District will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Changes in Net Pension Liability (Asset)**

Changes in the net pension liability (asset) for the measurement periods ending June 30, 2019 and 2018 are shown below:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
<b><u>For the Fiscal Year Ended June 30, 2020</u></b>			
<b>Balances at June 30, 2018</b>	\$ 49,394	\$ 571,986	\$ (522,592)
Changes for the Year			
Interest	3,021	0	3,021
Difference between Expected and Actual Experience	10,424	0	10,424
Net Investment Income	0	42,014	(42,014)
Benefit Payments - Annuities	(15,447)	(15,447)	0
Net Changes	<u>(2,002)</u>	<u>26,567</u>	<u>(28,569)</u>
<b>Balances at June 30, 2019</b>	<u>\$ 47,392</u>	<u>\$ 598,553</u>	<u>\$ (551,161)</u>
<b><u>For the Fiscal Year Ended June 30, 2019</u></b>			
<b>Balances at June 30, 2017</b>	\$ 51,822	\$ 542,830	\$ (491,008)
Changes for the Year			
Interest	3,204	0	3,204
Difference between Expected and Actual Experience	9,637	0	9,637
Net Investment Income	0	44,425	(44,425)
Benefit Payments - Annuities	(15,269)	(15,269)	0
Net Changes	<u>(2,428)</u>	<u>29,156</u>	<u>(31,584)</u>
<b>Balances at June 30, 2018</b>	<u>\$ 49,394</u>	<u>\$ 571,986</u>	<u>\$ (522,592)</u>

**NOTE 8 - RETIREMENT PLANS (Continued)**

**B. Agent Multiple-Employer Defined Benefit Pension Plan - TCRS (Continued)**

**Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate** - The following presents the net pension liability (asset) of the District calculated using the discount rate of 7.25%, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1% lower (6.25%) or 1% higher (8.25%) than the current rate:

Net Pension Liability (Asset)	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
2019	\$ <u>(549,913)</u>	\$ <u>(551,161)</u>	\$ <u>(552,339)</u>
2018	\$ <u>(521,222)</u>	\$ <u>(522,592)</u>	\$ <u>(523,880)</u>

**Pension Income and Deferred Inflows of Resources**

For the fiscal years ended June 30, 2019 and 2018, the District recognized (negative) pension expense of \$(23,393) and \$(29,690) for the TCRS Plan. For the fiscal years ended June 30, 2019 and 2018, the District reported deferred outflows of resources and deferred inflows of resources as follows:

	2020		2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	\$ <u>0</u>	\$ <u>7,023</u>	\$ <u>0</u>	\$ <u>1,847</u>

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

For the Years ended June 30,	
2021	\$ (321)
2022	(5,134)
2023	(1,347)
2024	<u>(221)</u>
Total	\$ <u>(7,023)</u>

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

**Payable to the Pension Plan**

Since the District has fully funded this Plan in prior years, as of June 30, 2020 and 2019, there is no employer contribution payable.

**Required Supplementary Information**

The District has presented as required supplementary information (RSI) following the notes to the financial statements, multiyear trend information about whether the net pension liability (asset) assets is increasing or decreasing over time relative to the plan's fiduciary net position and if the District has made its actuarial determined contributions as required by the TCRS.

**NOTE 8 - RETIREMENT PLANS (Continued)**

**C. Aggregate Defined Benefit Pension Plans Note Disclosures**

The aggregate defined benefit plan disclosures for the two pension plans as of and for the years ended June 30, 2020 and 2019 are as follows:

Plan	Net Pension Liability (Asset)	Deferred Outflows	Deferred Inflows	Pension Expense (Reduction)
<b>2020</b>				
WKUD Defined Benefit Plan	\$ 4,770,128	\$ 2,092,765	\$ 602,894	\$ 924,883
TCRS Defined Benefit Plan	<u>(551,161)</u>	<u>0</u>	<u>7,023</u>	<u>(23,393)</u>
Total	<u>\$ 4,218,967</u>	<u>\$ 2,092,765</u>	<u>\$ 609,917</u>	<u>\$ 901,490</u>
<b>2019</b>				
WKUD Defined Benefit Plan	\$ 4,236,926	\$ 1,586,700	\$ 803,148	\$ (118,749)
TCRS Defined Benefit Plan	<u>(522,592)</u>	<u>0</u>	<u>1,847</u>	<u>(29,690)</u>
Total	<u>\$ 3,714,334</u>	<u>\$ 1,586,700</u>	<u>\$ 804,995</u>	<u>\$ (148,439)</u>

**D. Single Employer Defined Contribution Plan**

On January 1, 2018, the District's Board of Commissioners established the West Knox Utility District Defined Contribution Retirement Plan (the "DC Plan"), a single-employer defined contribution retirement plan for full-time employees who are automatically enrolled in the Plan after a 90-day probationary period and are over the age of 21. The DC Plan requires a mandatory employee contribution of 3% of annual compensation and the District will make a mandatory non-elective employer contribution of 12% of employees' annual compensation. Participants are immediately vested in the employee contributions and related investment earnings. Participants vest in the employer contributions at 25% per year and are 100% vested after completing four years of credited service. The Plan's investments are in trust at Wells Fargo Bank. Forfeited non-vested amounts are used to reduce employer contributions, or to pay Plan expenses. Plan expenses were \$88,134 and \$50,097 as of June 30, 2020 and 2019, respectively. During 2020 and 2019 there were no forfeitures. As of June 30, 2020 and 2019 there were 14 and 14 active participants, respectively.

**E. Single Employer Deferred Compensation Plan**

On January 1, 2018, the District's Board of Commissioners established the West Knox Utility District 457(b) Deferred Compensation Plan (the "457 Plan"), a single-employer defined contribution retirement plan for full-time employees who are eligible to enroll in the Plan after a 90-day probationary period and are over the age of 21. The 457 Plan is funded 100% by employee deferral contributions subject to annual IRS limits. The Plan's investments are in trust at Wells Fargo Bank. As of June 30, 2020 and 2019 and there were 11 and 7 active participants, respectively.

**F. Other**

The defined benefit pension plans and the defined contribution plans are sponsored by a governmental entity; therefore, these plans are not subject to the statutory provisions of the Employee Retirement and Income Security Act of 1974 (ERISA). In addition, the two defined benefit plans are not covered by the Pension Benefit Guaranty Corporation, a U.S. Government Agency.

**NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

**General Information About the OPEB Plan**

*Plan Description* - In addition to the retirement benefits described in Note 8, the District’s Board of Commissioners approved a postretirement medical insurance plan for employees.

*Benefits Provided* - The District offers the Plan to provide partial payment of health insurance premiums through COBRA for eligible retirees age 62 and over and their dependents for a maximum length of 18 months. The District pays the following percentages of the premium based on years of service: 0% for 0-15 years of service, 50% for 15-20 years of service, and 75% for 20 plus years of service. Insurance coverage is the only postemployment benefit provided to retirees. The Plan is funded on a pay-as-you-go basis and there are no assets accumulating in a trust that meets the criteria of paragraph 4 of GASB Statement No. 75.

*Employees Covered by Benefit Terms* – At the measurement dates of June 30, 2020 and 2019, the following employees of the District were covered by the benefit terms of the Plan:

	<u>2020</u>	<u>2019</u>
Inactive Employees, or Beneficiaries, Currently Receiving Benefits	0	0
Inactive Employees, Entitled to, but not yet Receiving Benefits	0	0
Active Employees	<u>80</u>	<u>80</u>
Total	<u><u>80</u></u>	<u><u>80</u></u>

The contribution requirements are established and may be amended by the Board of Commissioners. The Plan is currently being funded on a pay-as-you-go basis, whereby amounts paid for retirees and their matching payments are the only contributions. For the fiscal year ended June 30, 2020, the District paid \$5,436 to the Plan for OPEB benefits as they came due (\$5,610 for the year ended June 30, 2019).

***Total OPEB Liability***

*Actuarial Assumptions* - The total OPEB liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Discount Rate	2.21% in 2020 (3.50% in 2019)
Annual Payroll Increase	2.50%
Healthcare Cost Trend Rates	7.50% for 2020 (8.00% for 2019), grading down to an ultimate trend rate of 5.0% in 2024

**NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)**

**Total OPEB Liability (Continued)**

Actuarial valuations of an ongoing plan involve estimates of value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. The entry age normal actuarial cost method is used in this valuation. Under this method, the actuarial present value of projected benefits of each individual included in the actuarial valuation is allocated on a level basis over future earnings of the individual between entry age and assumed exit ages.

The actuarial demographic assumptions used in the July 1, 2018 actuarial valuation were based on the results of past experience. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. The mortality rates employed in this valuation are taken from the RP-2000 Combined Male and Female Fully Generational Mortality Table with projection scale AA.

*Discount Rate* - The discount rate used to measure the total OPEB liability as of June 30, 2020 was 2.21% (3.50% as of June 30, 2019). This rate reflects the interest rate derived from yields on 20-year, tax-exempt general obligation municipal bonds, prevailing on the measurement date, with an average rating of AA/Aa as shown on the Bond Buyer's 20-Year Municipal GO index.

**Changes in the Total OPEB Liability**

	Total OPEB Liability
<b><u>Balances at June 30, 2018</u></b>	\$ <u>141,027</u>
Changes for the Year	
Service Cost	8,937
Interest	4,384
Differences between Expected and Actual Experience	(39,774)
Changes in Assumptions	9,266
Benefit Payments	<u>(5,610)</u>
Net Changes	<u>(22,797)</u>
<b><u>Balances at June 30, 2019</u></b>	<u>118,230</u>
Changes for the Year	
Service Cost	9,723
Interest	4,384
Changes in Assumptions	13,388
Benefit Payments	<u>(5,436)</u>
Net Changes	<u>22,059</u>
<b><u>Balances at June 30, 2020</u></b>	<u>\$ <u>140,289</u></u>

*Changes in Assumptions* - The discount rate was changed from 3.50% as of June 30, 2019 to 2.21% as of June 30, 2020. This change in assumption increased the total OPEB liability.

*Sensitivity of Total OPEB Liability to Changes in the Discount 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 discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate.

**NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)**

**Changes in the Total OPEB Liability (Continued)**

<u>Total OPEB Liability</u>	<u>1% Decrease (1.21%)</u>	<u>Discount Rate (2.21%)</u>	<u>1% Increase (3.21%)</u>
2020	\$ <u>151,225</u>	\$ <u>140,289</u>	\$ <u>129,829</u>
	<u>1% Decrease (2.50%)</u>	<u>Discount Rate (3.50%)</u>	<u>1% Increase (4.50%)</u>
2019	\$ <u>127,808</u>	\$ <u>118,230</u>	\$ <u>109,220</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.

<u>Total OPEB Liability</u>	<u>1% Decrease (6.50% decreasing to 4.00%)</u>	<u>Healthcare Cost Trend Rates (7.50% decreasing to 5.00%)</u>	<u>1% Increase (8.50% decreasing to 6.00%)</u>
2020	\$ <u>122,079</u>	\$ <u>140,289</u>	\$ <u>162,300</u>
	<u>1% Decrease (7.00% decreasing to 4.00%)</u>	<u>Healthcare Cost Trend Rates (8.00% decreasing to 5.00%)</u>	<u>1% Increase (9.00% decreasing to 6.00%)</u>
2019	\$ <u>104,557</u>	\$ <u>118,230</u>	\$ <u>134,550</u>

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

*OPEB Expense* - For the fiscal year ended June 30, 2020, the District recognized OPEB expense of \$10,707 (\$7,733 for the year ended June 30, 2019).

*Deferred Outflows of Resources and Deferred Inflows of Resources* - For the fiscal years ended June 30, 2020 and 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB benefits from the following sources:

	<u>2020</u>		<u>2019</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Experience	\$ 0	\$ 26,582	\$ 0	\$ 33,178
Changes in Assumptions	<u>17,392</u>	<u>1,379</u>	<u>7,729</u>	<u>1,908</u>
Total	<u>\$ 17,392</u>	<u>\$ 27,961</u>	<u>\$ 7,729</u>	<u>\$ 35,086</u>

**NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)**

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

<u>For the Years ended June 30,</u>		
2021	\$	(3,400)
2022		(3,400)
2023		(3,192)
2024		(2,871)
2025		2,034
Thereafter		<u>260</u>
Total	\$	<u><u>(10,569)</u></u>

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

**NOTE 10 - NET POSITION**

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

	<u>2020</u>	<u>2019</u>
Net Investment in Capital Assets:		
Net Capital Assets	\$ 233,137,813	\$ 223,381,739
Less: Revenue Bonds - Net of Discounts, Premiums and Deferred Refunding Losses	(164,353,652)	(166,624,250)
Plus: Debt Proceeds to be Used for Capital Assets	6,340,141	37,938,055
Less: Reclassification from Restricted for Capital Assets Activity	<u>(1,487,368)</u>	<u>(7,638,106)</u>
	<u>73,636,934</u>	<u>87,057,438</u>
Restricted for Capital Assets Activity:		
Restricted Cash and Cash Equivalents	1,268,004	17,313,240
Restricted Investments	5,072,137	20,624,815
Less: Accounts Payable for Capital Assets	(1,487,368)	(7,638,106)
Less: Debt Proceeds to be Used for Capital Assets	(6,340,141)	(37,938,055)
Reclassified to Net Investment in Capital Assets	<u>1,487,368</u>	<u>7,638,106</u>
	<u>0</u>	<u>0</u>
Restricted for Pensions	551,161	522,592
Unrestricted	<u>34,147,827</u>	<u>16,879,118</u>
Total Net Position	<u>\$ 108,335,922</u>	<u>\$ 104,459,148</u>

**NOTE 11 - PRIOR PERIOD ADJUSTMENT**

During 2020, the District found that its OPEB Plan should have previously been recorded in its financial statements and disclosed in its Notes to the Financial Statements. See Note 9 for additional information about the District's OPEB Plan. The cumulative effect of recording the OPEB Plan in the District's financial statements has been reported as a restatement of beginning net position for the year ending June 30, 2019.

The following financial statement line items were affected by the restatement:

	As Originally Reported 2019	As Restated 2019	Effect of Change
<b>BALANCE SHEET</b>			
Current Assets	\$ 64,016,356	\$ 64,016,356	\$ 0
Noncurrent Assets	223,904,891	223,904,891	0
Deferred Outflows of Resources	<u>1,863,631</u>	<u>1,871,360</u>	<u>7,729</u>
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ <u>289,784,878</u></b>	<b>\$ <u>289,792,607</u></b>	<b>\$ <u>7,729</u></b>
Current Liabilities	\$ 12,257,201	\$ 12,257,201	\$ 0
Noncurrent Liabilities	168,943,107	169,061,337	118,230
Deferred Inflows of Resources	3,979,835	4,014,921	35,086
Net Position	<u>104,604,735</u>	<u>104,459,148</u>	<u>(145,587)</u>
<b>Total Liabilities, Deferred Inflows, and Net Position</b>	<b>\$ <u>289,784,878</u></b>	<b>\$ <u>289,792,607</u></b>	<b>\$ <u>7,729</u></b>
<b>STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION</b>			
Operating Revenues	\$ 26,076,932	\$ 26,076,932	\$ 0
Operating Expenses	<u>(18,404,045)</u>	<u>(18,406,168)</u>	<u>(2,123)</u>
<b>Operating Income</b>	<b>7,672,887</b>	<b>7,670,764</b>	<b>(2,123)</b>
Nonoperating Revenues (Expenses)	(5,068,576)	(5,068,576)	0
Capital Contributions	<u>1,935,855</u>	<u>1,935,855</u>	<u>0</u>
<b>Change in Net Position</b>	<b>4,540,166</b>	<b>4,538,043</b>	<b>(2,123)</b>
<b>Net Position - Beginning of Year</b>	<b><u>100,064,569</u></b>	<b><u>99,921,105</u></b>	<b><u>(143,464)</u></b>
<b>Net Position - End of Year</b>	<b>\$ <u>104,604,735</u></b>	<b>\$ <u>104,459,148</u></b>	<b>\$ <u>(145,587)</u></b>

**NOTE 12 - NET WATER REVENUES**

Net water revenues earned during 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
Gross Water Revenues	\$ 10,992,669	\$ 9,673,655
Less: Provision for Bad Debt Expense	<u>(203,093)</u>	<u>(186,578)</u>
<b>Net Water Revenues</b>	<b>\$ <u>10,789,576</u></b>	<b>\$ <u>9,487,077</u></b>

**NOTE 13 - CAPITAL CONTRIBUTIONS**

Capital contributions during 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
Non-Cash Capital Contributions from: Donated Lines by Developers	\$ <u>2,876,640</u>	\$ <u>1,935,855</u>

**NOTE 14 - RISK MANAGEMENT**

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

**NOTE 15 - ECONOMIC CONCENTRATION**

The majority of the District's customers reside in the northwestern portion of Knox County, Tennessee and a significant number of the District's customers are employed with various federal government contractors located in Oak Ridge, Tennessee. These contractors operate several U.S. Department of Energy (DOE) facilities and have contracts that are vital to scientific research and development, national defense and hazardous waste management. DOE operations are contingent upon annual U.S. congressional appropriations.

The District's ten largest customers approximate 8% and 7% of water and wastewater net revenues for 2020 and 2019, respectively. These customers are primarily rental properties, various corporations and a hospital.

**NOTE 16 - REGULATORY ISSUES**

On January 2, 2018, West Knox Utility District received a letter from Tennessee Riverkeeper stating their intent to file suit against the District, seeking, among other things, a judgment declaring the discharges related to overflows and effluent violations to be illegal. Tennessee Riverkeeper will also seek an injunction prohibiting the District from discharging pollutants and from operating in violation of the CWA and state law. A Compliance Review Meeting ("CRM") was held on January 25, 2018 with the District and Tennessee Department of Environment and Conservation (TDEC) at the Knoxville Environmental Field Office. Topics of discussion included the letter received by West Knox Utility District from Tennessee Riverkeeper, and the EPA Administrative Order (AO) closed in September 2016. The District received a letter in February 2018 from TDEC stating that they planned to pursue formal enforcement against the District. The District has received the Consent Order (CO) draft on July 3, 2018.

An Agreed to CO was executed on October 16, 2018 requiring the District to establish and maintain the capacity, collection, and treatment protocols for all new developments within 2 years. Further, certification of adequate capacity must be made by a registered professional engineer for each wastewater extension, tracking of the capacity studies, and the requirement that developments within the boundary of the district be subject to inspection.

Additional requirements include that the District submit an annual CMOM report summarizing progress made on each item in the EPA approved CMOM, initiate reporting on an electronic monthly operating report, achieve substantial compliance with the permit on or before December 31, 2021, and submit a final report of all corrective actions to bring the plant into compliance with the permit.

The agreement also included a civil penalty of up to \$34,000 broken out as follows: an upfront civil penalty of \$6,800, or the combination of a Supplemental Environmental Project (SEP) and a penalty of \$1,700, with additional penalties to be assessed if the District fails to comply with one or more of the above requirements.

**REQUIRED SUPPLEMENTARY INFORMATION**

**WEST KNOX UTILITY DISTRICT  
PENSION TRUST FUND**

**SCHEDULES OF CHANGES IN THE DISTRICT'S NET PENSION LIABILITY  
AND RELATED RATIOS  
SINGLE-EMPLOYER PLAN - WKUD DEFINED BENEFIT PLAN**

**For the Years Ended June 30,**

	2020	2019	2018	2017	2016	2015	2014
<b>Total Pension Liability</b>							
Service Cost	\$ 274,169	\$ 253,077	\$ 225,046	\$ 303,182	\$ 286,353	\$ 275,339	\$ 327,590
Interest	940,408	919,228	898,067	867,851	946,685	852,188	774,716
Changes of Benefit Terms	0	(951,309)	0	0	0	0	0
Differences between Expected and Actual Experience	473,338	5,350	580,975	376,284	(1,532,910)	(204,492)	0
Changes of Assumptions	(31,637)	382,654	195,120	0	0	641,644	0
Benefit Payments	(437,617)	(261,129)	(1,898,086)	(1,280,675)	(344,348)	(193,224)	(332,940)
<b>Net Change in Total Pension Liability</b>	<b>1,218,661</b>	<b>347,871</b>	<b>1,122</b>	<b>266,642</b>	<b>(644,220)</b>	<b>1,371,455</b>	<b>769,366</b>
<b>Total Pension Liability - Beginning</b>	<b>12,911,952</b>	<b>12,564,081</b>	<b>12,562,959</b>	<b>12,296,317</b>	<b>12,940,537</b>	<b>11,569,082</b>	<b>10,799,716</b>
<b>Total Pension Liability - Ending (a)</b>	<b>\$ 14,130,613</b>	<b>\$ 12,911,952</b>	<b>\$ 12,564,081</b>	<b>\$ 12,562,959</b>	<b>\$ 12,296,317</b>	<b>\$ 12,940,537</b>	<b>\$ 11,569,082</b>
<b>Plan Fiduciary Net Position</b>							
Contributions - Employer	\$ 1,098,000	\$ 720,000	\$ 1,080,000	\$ 1,170,000	\$ 990,000	\$ 1,002,000	\$ 840,000
Net Investment Income (Loss)	25,099	410,204	562,525	732,379	(70,346)	121,395	686,171
Benefit Payments	(437,617)	(261,129)	(1,898,086)	(1,280,675)	(344,348)	(193,224)	(332,940)
Administrative Expense	(23)	(3,067)	(8,142)	(7,286)	(2,323)	(1,613)	(1,415)
<b>Net Change in Plan Fiduciary Net Position</b>	<b>685,459</b>	<b>866,008</b>	<b>(263,703)</b>	<b>614,418</b>	<b>572,983</b>	<b>928,558</b>	<b>1,191,816</b>
<b>Plan Fiduciary Net Position - Beginning</b>	<b>8,675,026</b>	<b>7,809,018</b>	<b>8,072,721</b>	<b>7,458,303</b>	<b>6,885,320</b>	<b>5,956,762</b>	<b>4,764,946</b>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<b>\$ 9,360,485</b>	<b>\$ 8,675,026</b>	<b>\$ 7,809,018</b>	<b>\$ 8,072,721</b>	<b>\$ 7,458,303</b>	<b>\$ 6,885,320</b>	<b>\$ 5,956,762</b>
<b>Net Pension Liability - Ending (a) - (b)</b>	<b>\$ 4,770,128</b>	<b>\$ 4,236,926</b>	<b>\$ 4,755,063</b>	<b>\$ 4,490,238</b>	<b>\$ 4,838,014</b>	<b>\$ 6,055,217</b>	<b>\$ 5,612,320</b>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	<b>66.24%</b>	<b>67.19%</b>	<b>62.15%</b>	<b>64.26%</b>	<b>60.65%</b>	<b>53.21%</b>	<b>51.49%</b>
<b>Covered Payroll</b>	<b>\$ 3,312,845</b>	<b>\$ 3,255,578</b>	<b>\$ 3,294,366</b>	<b>\$ 2,950,106</b>	<b>\$ 2,694,442</b>	<b>\$ 2,752,316</b>	<b>\$ 2,698,662</b>
<b>Net Pension Liability as a Percentage of Covered Payroll</b>	<b>143.99%</b>	<b>130.14%</b>	<b>144.34%</b>	<b>152.21%</b>	<b>179.56%</b>	<b>220.00%</b>	<b>207.97%</b>

Notes: A. This schedule is first required for the fiscal year ended June 30, 2014. Future years will be added to this schedule until 10 years of information is available.

B. This plan was frozen to employees hired after December 31, 2017.

**WEST KNOX UTILITY DISTRICT**

**PENSION TRUST FUND**

**SCHEDULES OF THE DISTRICT'S PENSION CONTRIBUTIONS  
SINGLE-EMPLOYER PLAN - WKUD DEFINED BENEFIT PLAN**

**For the Years Ended June 30,**

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially Determined Contribution (ADC)	\$ 584,736	\$ 629,455	\$ 599,266	\$ 603,158	\$ 804,412	\$ 692,994	\$ 768,824
Contributions in Relation to the Actuarially Determined Contribution	<u>1,098,000</u>	<u>720,000</u>	<u>1,080,000</u>	<u>1,170,000</u>	<u>990,000</u>	<u>1,002,000</u>	<u>840,000</u>
Contribution Deficiency (Excess)	<u>\$ (513,264)</u>	<u>\$ (90,545)</u>	<u>\$ (480,734)</u>	<u>\$ (566,842)</u>	<u>\$ (185,588)</u>	<u>\$ (309,006)</u>	<u>\$ (71,176)</u>
Covered Payroll	\$ 3,312,845	\$ 3,255,578	\$ 3,294,366	\$ 2,950,106	\$ 2,694,442	\$ 2,752,316	\$ 2,698,662
Contributions as a Percentage of Covered Payroll	33.14%	22.12%	32.78%	39.66%	36.74%	36.41%	31.13%

Notes: A. This schedule is first required for the fiscal year ended June 30, 2014. Future years will be added to this schedule until 10 years of information is available.

B. During 2016 plan experience related to the unreduced subsidized early retirement benefit was much different than assumed. Had the actual experience more closely matched expectations at the beginning of the year, the ADC would have been approximately \$505,000.

**Actuarial Methods & Assumptions:**

Valuation Dates: July 1, 2019, 2018, 2017, 2016, 2015, 2014 and 2013

Actuarial determined contribution rates are calculated as of June 30, 2019, 2018, 2017, 2016, 2015, 2014 and 2013.

Methods and Assumptions used to calculate the Actuarially Determined Contribution:

Actuarial Cost Method: Entry Age Normal

Amortization Method: Level Percentage of payroll, closed, Unfunded Accrued Liability amortized over 30 years starting July 1, 2014. Gains/losses due to assumption changes are amortized over 30 years. Actuarial gains/losses are amortized over 10 years.

Asset Valuation Method: Fair Market Value of Assets

Inflation: 0.0%

Salary Increases: 4.0% (2020, 2019, 2018, 2017, 2016) & 3.0% (2015, 2014) Average, including inflation

Investment Rate of Return: 7.25%

Retirement Age: 33.33% Retire at the initial attainment of unreduced early retirement (Rule of 90) eligibility, the remaining retirement at normal retirement age (2020, 2019)

50% Retire at the initial attainment of unreduced early retirement (Rule of 90) eligibility, the remaining retirement at normal retirement age (2018, 2017, 2016)

Normal Retirement Age (2015 and 2014)

Mortality: RP-14 Blue Collar Mortality Table with Scale MP-19 projected on a fully generational basis (2020, 2019) TCRS Mortality Assumptions (2018, 2017, 2016) IRS 2014 Combined Static Mortality Table (2015 and 2014)

**WEST KNOX UTILITY DISTRICT**

**PENSION TRUST FUND**

**SCHEDULES OF INVESTMENT RETURNS (LOSSES)  
SINGLE-EMPLOYER PLAN - WKUD DEFINED BENEFIT PLAN**

**For the Years Ended June 30,**

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual Money-Weighted Rate of Return (Loss), Net of Investment Expenses	<u>0.28%</u>	<u>5.09%</u>	<u>6.80%</u>	<u>10.35%</u>	<u>-0.98%</u>	<u>1.91%</u>	<u>13.59%</u>

Note: This schedule was first required for the fiscal year ended June 30, 2014. Future years will be added to this schedule until 10 years of information is available.

WEST KNOX UTILITY DISTRICT

SCHEDULES OF CHANGES IN THE DISTRICT'S NET PENSION LIABILITY  
AND RELATED RATIOS BASED ON PARTICIPATION IN THE  
PUBLIC EMPLOYEE PENSION PLAN OF TCRS

For the Years Ended June 30,

	2019	2018	2017	2016	2015	2014
<b>Total Pension Liability</b>						
Interest	\$ 3,021	\$ 3,204	\$ 3,129	\$ 3,297	\$ 5,507	\$ 5,729
Differences between Expected and Actual Experience	10,424	9,637	10,118	9,507	(19,190)	9,424
Change of Assumptions	0	0	4,405	0	0	0
Benefit Payments	(15,447)	(15,269)	(15,091)	(15,006)	(16,556)	(19,677)
<b>Net Change in Total Pension Liability</b>	(2,002)	(2,428)	2,561	(2,202)	(30,239)	(4,524)
<b>Total Pension Liability - Beginning</b>	49,394	51,822	49,261	51,463	81,702	86,226
<b>Total Pension Liability - Ending (a)</b>	<u>\$ 47,392</u>	<u>\$ 49,394</u>	<u>\$ 51,822</u>	<u>\$ 49,261</u>	<u>\$ 51,463</u>	<u>\$ 81,702</u>
<b>Plan Fiduciary Net Position</b>						
Net Investment Income	\$ 42,014	\$ 44,425	\$ 56,014	\$ 13,161	\$ 15,299	\$ 73,216
Benefit Payments	(15,447)	(15,269)	(15,091)	(15,006)	(16,556)	(19,677)
Administrative Expense	0	0	0	0	0	(33)
<b>Net Change in Plan Fiduciary Net Position</b>	26,567	29,156	40,923	(1,845)	(1,257)	53,506
<b>Plan Fiduciary Net Position - Beginning</b>	571,986	542,830	501,907	503,752	505,009	451,503
<b>Plan Fiduciary Net Position - Ending (b)</b>	<u>\$ 598,553</u>	<u>\$ 571,986</u>	<u>\$ 542,830</u>	<u>\$ 501,907</u>	<u>\$ 503,752</u>	<u>\$ 505,009</u>
<b>Net Pension Liability (Asset) - Ending (a) - (b)</b>	<u>\$ (551,161)</u>	<u>\$ (522,592)</u>	<u>\$ (491,008)</u>	<u>\$ (452,646)</u>	<u>\$ (452,289)</u>	<u>\$ (423,307)</u>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	1262.98%	1158.01%	1047.49%	1018.87%	978.86%	618.11%
<b>Covered Payroll</b>	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
<b>Net Pension Liability as a Percentage of Covered Payroll</b>	N/A	N/A	N/A	N/A	N/A	N/A

NOTES:

- This schedule was first required for the fiscal year ended June 30, 2014. Future years will be added to this schedule until 10 years of information is available.
- This plan is frozen and no active District employees participate in this plan. All active District employees participate in West Knox Utility District. Defined Benefit Plan, which was frozen as of December 31, 2017.
- Schedule of District's Pension Contributions is not applicable for TCRS plan. This plan has been fully funded by the District since July 1, 1991; there were no actuarially determined contributions calculated for the years presented.
- The amount presented for each fiscal year is based upon the measurement period which is the TCRS prior fiscal year end.
- Changes in Assumptions:* In 2017, amounts reported as changes in assumptions resulted from changes to the inflation rate, investment rate of return, cost-of-living adjustment, salary growth and mortality improvements.

WEST KNOX UTILITY DISTRICT

SCHEDULES OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS

For the Years Ended June 30,

	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>Total OPEB Liability</b>			
Service Cost	\$ 9,723	\$ 8,937	\$ 8,178
Interest	4,384	4,384	5,124
Differences between Expected and Actual Experience	0	(39,774)	0
Change in Assumptions	13,388	9,266	(2,966)
Benefit Payments	<u>(5,436)</u>	<u>(5,610)</u>	<u>(8,415)</u>
<b>Net Change in Total OPEB Liability</b>	22,059	(22,797)	1,921
<b>Total OPEB Liability - Beginning</b>	<u>118,230</u>	<u>141,027</u>	<u>139,106</u>
<b>Total OPEB Liability - Ending</b>	<u>\$ 140,289</u>	<u>\$ 118,230</u>	<u>\$ 141,027</u>
<b>Covered Payroll</b>	\$ 4,022,603	\$ 3,924,491	\$ 3,063,597
<b>Total OPEB Liability as a Percentage of Covered Payroll</b>	3.49%	3.01%	4.60%

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.

**SUPPLEMENTARY INFORMATION SECTION**

**WEST KNOX UTILITY DISTRICT**  
**SCHEDULE OF DEBT SERVICE REQUIREMENTS**

**June 30, 2020**

Fiscal Year Ending June 30,	\$9,995,000 Water and Sewer Revenue Bonds Series 2015		\$35,425,000 Public Improvement Revenue Bonds Series 2009-V-B-1		\$35,000,000 Water and Sewer Revenue Bonds (BABS) - Series 2010		\$25,000,000 Local Government Improvement Revenue Bonds Series 2016 V-E-1		\$27,015,000 Water and Sewer Revenue Bonds Series 2016	
	Principal	Interest	Principal	Interest	Principal	Interest (a)	Principal	Interest (b)	Principal	Interest
2021	\$ 125,000	\$ 326,525	\$ 1,210,000	\$ 1,109,037	\$ 250,000	\$ 1,591,618	\$ 685,000	\$ 924,400	\$ 240,000	\$ 1,050,431
2022	125,000	320,275	1,270,000	1,057,613	250,000	1,584,623	655,000	897,000	320,000	1,038,431
2023	125,000	317,775	1,335,000	1,003,638	250,000	1,577,376	650,000	870,800	370,000	1,022,431
2024	125,000	315,275	1,400,000	946,900	250,000	1,569,792	635,000	844,800	425,000	1,003,931
2025	125,000	312,650	1,470,000	887,400	250,000	1,562,039	625,000	819,400	480,000	982,681
2026	150,000	310,025	1,545,000	824,925	250,000	1,554,034	615,000	794,400	510,000	958,681
2027	150,000	306,650	1,620,000	759,263	250,000	1,545,775	605,000	769,800	565,000	933,181
2028	150,000	303,275	1,700,000	690,413	250,000	1,536,169	630,000	745,600	595,000	904,931
2029	150,000	299,525	1,785,000	618,162	250,000	1,526,562	585,000	720,400	690,000	887,081
2030	150,000	295,775	1,875,000	542,300	250,000	1,516,955	560,000	697,000	760,000	866,381
2031	175,000	291,275	1,970,000	462,612	250,000	1,506,001	590,000	674,600	755,000	841,681
2032	300,000	286,025	2,070,000	378,888	250,000	1,495,046	535,000	651,000	745,000	816,200
2033	300,000	277,325	2,170,000	290,913	250,000	1,484,091	520,000	629,600	815,000	790,125
2034	300,000	268,625	2,280,000	198,687	250,000	1,473,136	530,000	608,800	860,000	761,600
2035	325,000	259,625	2,395,000	101,787	250,000	1,462,181	525,000	587,600	905,000	730,425
2036	550,000	249,063	0	0	2,550,000	1,451,226	525,000	566,600	945,000	696,488
2037	550,000	231,188	0	0	2,675,000	1,339,485	500,000	545,600	1,035,000	661,050
2038	600,000	213,312	0	0	2,775,000	1,222,268	565,000	525,600	1,040,000	609,300
2039	625,000	192,312	0	0	2,900,000	1,093,185	1,250,000	503,000	1,045,000	557,300
2040	650,000	170,437	0	0	3,025,000	958,287	1,360,000	453,000	1,040,000	505,050
2041	700,000	147,688	0	0	3,150,000	817,575	1,450,000	398,600	1,045,000	453,050
2042	775,000	123,188	0	0	3,275,000	668,925	535,000	340,600	2,045,000	400,800
2043	825,000	96,063	0	0	3,475,000	514,376	590,000	319,200	2,025,000	319,000
2044	900,000	66,156	0	0	3,625,000	350,389	685,000	295,600	2,005,000	238,000
2045	925,000	33,531	0	0	3,800,000	179,324	815,000	268,200	1,985,000	157,800
2046	0	0	0	0	0	0	5,890,000	235,600	1,960,000	78,400
2047	0	0	0	0	0	0	0	0	0	0
2048	0	0	0	0	0	0	0	0	0	0
2049	0	0	0	0	0	0	0	0	0	0
2050	0	0	0	0	0	0	0	0	0	0
2051	0	0	0	0	0	0	0	0	0	0
2052	0	0	0	0	0	0	0	0	0	0
2053	0	0	0	0	0	0	0	0	0	0
2054	0	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>\$ 9,875,000</b>	<b>\$ 6,013,563</b>	<b>\$ 26,095,000</b>	<b>\$ 9,872,538</b>	<b>\$ 35,000,000</b>	<b>\$ 31,580,438</b>	<b>\$ 23,110,000</b>	<b>\$ 15,686,800</b>	<b>\$ 25,205,000</b>	<b>\$ 18,264,431</b>

Notes: (a) The interest related to the BABS is net of the 35% subsidy payment from the U.S. Government.  
(b) Variable rate - the interest assumes a long-term rate of 4.0%.

**THE WEST KNOX UTILITY DISTRICT OF KNOX COUNTY**  
**SCHEDULE OF DEBT SERVICE REQUIREMENTS (Continued)**

**June 30, 2020**

Fiscal Year Ending June 30,	\$8,535,000 Water and Sewer Revenue Bonds Series 2018		\$20,000,000 Water and Sewer Revenue Bonds Series 2019		\$15,000,000 Local Government Improvement Revenue Bonds Series V-F-1		Total Principal	Total Interest	Total Debt Service
	Principal	Interest	Principal	Interest	Principal	Interest (c)			
2021	\$ 0	\$ 321,619	\$ 0	\$ 687,450	\$ 0	\$ 562,500	\$ 2,510,000	\$ 6,573,580	\$ 9,083,580
2022	190,000	321,619	395,000	687,450	230,000	562,500	3,435,000	6,469,511	9,904,511
2023	200,000	314,019	415,000	667,700	300,000	553,875	3,645,000	6,327,614	9,972,614
2024	205,000	306,018	435,000	646,950	300,000	542,625	3,775,000	6,176,291	9,951,291
2025	215,000	297,818	460,000	625,200	300,000	531,375	3,925,000	6,018,563	9,943,563
2026	225,000	289,218	480,000	602,200	300,000	520,125	4,075,000	5,853,608	9,928,608
2027	235,000	280,219	505,000	578,200	325,000	508,875	4,255,000	5,681,963	9,936,963
2028	240,000	273,169	530,000	552,950	325,000	496,688	4,420,000	5,503,195	9,923,195
2029	245,000	265,969	555,000	526,450	325,000	484,500	4,585,000	5,328,649	9,913,649
2030	255,000	258,619	585,000	498,700	325,000	472,313	4,760,000	5,148,043	9,908,043
2031	260,000	250,650	610,000	475,300	375,000	460,125	4,985,000	4,962,244	9,947,244
2032	270,000	242,200	630,000	450,900	375,000	446,062	5,175,000	4,766,321	9,941,321
2033	280,000	233,088	650,000	432,000	375,000	432,000	5,360,000	4,569,142	9,929,142
2034	290,000	223,287	670,000	412,500	375,000	417,937	5,555,000	4,364,572	9,919,572
2035	300,000	213,138	690,000	392,400	400,000	403,875	5,790,000	4,151,031	9,941,031
2036	310,000	202,637	710,000	371,700	400,000	388,875	5,990,000	3,926,589	9,916,589
2037	320,000	191,400	730,000	350,400	400,000	373,875	6,210,000	3,692,998	9,902,998
2038	335,000	179,800	755,000	328,500	400,000	358,875	6,470,000	3,437,655	9,907,655
2039	345,000	166,400	775,000	305,850	0	343,875	6,940,000	3,161,922	10,101,922
2040	360,000	152,600	800,000	282,600	0	343,875	7,235,000	2,865,849	10,100,849
2041	375,000	138,200	825,000	258,600	0	343,875	7,545,000	2,557,588	10,102,588
2042	390,000	123,200	850,000	233,850	0	343,875	7,870,000	2,234,438	10,104,438
2043	405,000	107,600	875,000	208,350	0	343,875	8,195,000	1,908,464	10,103,464
2044	420,000	91,400	1,000,000	182,100	0	343,875	8,635,000	1,567,520	10,202,520
2045	440,000	74,600	1,000,000	152,100	0	343,875	8,965,000	1,209,430	10,174,430
2046	455,000	57,000	1,000,000	122,100	0	343,875	9,305,000	836,975	10,141,975
2047	475,000	38,800	1,000,000	92,100	275,000	343,875	1,750,000	474,775	2,224,775
2048	495,000	19,800	1,020,000	62,100	275,000	333,563	1,790,000	415,463	2,205,463
2049	0	0	1,050,000	31,500	500,000	323,250	1,550,000	354,750	1,904,750
2050	0	0	0	0	1,505,000	304,500	1,505,000	304,500	1,809,500
2051	0	0	0	0	1,565,000	248,063	1,565,000	248,063	1,813,063
2052	0	0	0	0	1,620,000	189,375	1,620,000	189,375	1,809,375
2053	0	0	0	0	1,685,000	128,625	1,685,000	128,625	1,813,625
2054	0	0	0	0	1,745,000	65,437	1,745,000	65,437	1,810,437
<b>Total</b>	<b>\$ 8,535,000</b>	<b>\$ 5,634,087</b>	<b>\$ 20,000,000</b>	<b>\$ 11,218,200</b>	<b>\$ 15,000,000</b>	<b>\$ 13,204,688</b>	<b>\$ 162,820,000</b>	<b>\$ 111,474,745</b>	<b>\$ 274,294,745</b>

Notes: (c) Variable rate - the interest assumes a long-term rate of 3.75%.

**WEST KNOX UTILITY DISTRICT**  
**SCHEDULE OF CHANGES IN LONG-TERM DEBT BY INDIVIDUAL ISSUE**  
**June 30, 2020**

	Original Amount of Issue	Interest Rate	Date of Issue	Final Maturity Date	Outstanding July 1, 2019	Issued During Period	Paid and/or Matured During Period	Refunded During Period	Outstanding June 30, 2020
<b>Bonds Payable</b>									
V-B-1 Local Gov't Public Improvement Revenue Bonds	\$ 35,425,000	Variable	%	8/1/2009	\$ 26,095,000	\$ 0	\$ 0	\$ 0	\$ 26,095,000
2010 Water and Sewer Revenue Bonds	35,000,000	4.15 - 7.00		11/30/2010	35,000,000	0	0	0	35,000,000
2015 Water and Sewer Revenue Bonds	9,995,000	2.00 - 5.00		12/22/2015	9,995,000	0	120,000	0	9,875,000
2016 Water and Sewer Revenue Refunding & Improvement Bonds	27,015,000	3.00 - 5.00		12/22/2016	27,015,000	0	1,810,000	0	25,205,000
V-E-1 Local Gov't Public Improvement Revenue Bonds	25,000,000	Variable		12/23/2016	23,375,000	0	265,000	0	23,110,000
2018 Water and Sewer Revenue Bonds	8,535,000	3.00 - 4.00		11/1/2018	8,535,000	0	0	0	8,535,000
2019 Water and Sewer Revenue Bonds	20,000,000	3.00 - 5.00		6/28/2019	20,000,000	0	0	0	20,000,000
V-F-1 Local Gov't Public Improvement Revenue Bonds	15,000,000	Variable		6/28/2019	15,000,000	0	0	0	15,000,000
Total Bonds Payable					<u>165,015,000</u>	<u>0</u>	<u>2,195,000</u>	<u>0</u>	<u>162,820,000</u>
<b>Total</b>					<u>\$ 165,015,000</u>	<u>\$ 0</u>	<u>\$ 2,195,000</u>	<u>\$ 0</u>	<u>\$ 162,820,000</u>

**WEST KNOX UTILITY DISTRICT**  
**SCHEDULES OF WATER RATES AND STATISTICS**

**June 30, 2020 and 2019**

1. As of June 30, 2020 and 2019, the District serviced water and wastewater customers as shown below. Hotels, motels and apartments are billed on a commercial, per unit basis.

2020	Water Customers	Billing Units	Wastewater Customers	Billing Units
Residential	25,029	25,047	20,534	20,552
Commercial	1,025	1,025	675	675
Multi-Space Units	40	3,463	40	3,463
Total	<u>26,094</u>	<u>29,535</u>	<u>21,249</u>	<u>24,690</u>
<hr/>				
2019				
Residential	24,203	24,206	19,774	19,132
Commercial	1,018	1,020	671	640
Multi-Space Units	40	3,606	40	3,606
Total	<u>25,261</u>	<u>28,832</u>	<u>20,485</u>	<u>23,378</u>

2. Monthly Water Rate Schedule - (Effective July 1, 2019)

	2020	2019
(a) Residential Water Rate:		
Customer Charge	\$13.05 minimum bill \$3.71 per 1,000 Gal.	\$13.05 minimum bill \$3.46 per 1,000 Gal.
(b) Commercial, Municipal, Public Schools, Hospital Service Rate:		
Customer Charge	\$21.00 minimum bill \$3.71 per 1,000 Gal.	\$21.00 minimum bill \$3.46 per 1,000 Gal.
(c) Hotel, Motel per Unit or Space:		
Customer Charge	\$6.11 minimum bill \$3.71 per 1,000 Gal.	\$6.11 minimum bill \$3.46 per 1,000 Gal.

3. Monthly Wastewater Rate Schedule - (Effective July 1, 2019)

	2020	2019
(a) Residential Rate:		
1st	\$23.27 minimum bill	\$23.27 minimum bill
Next	12,000 Gal. - \$7.54 per 1,000 Gal.	12,000 Gal. - \$6.79 per 1,000 Gal.
All over	13,000 Gal. - No Charge	13,000 Gal. - No Charge
(b) Commercial, Municipal, Public Schools, Hospital Rate:		
1st	Based upon Meter Size	Based upon Meter Size
All over	\$7.54 per 1,000 Gal.	\$6.79 per 1,000 Gal.
(c) Hotel, Motel per Unit or Space:		
1st	\$16.92 minimum bill	\$16.92 minimum bill
All over	\$7.54 per 1,000 Gal.	\$6.79 per 1,000 Gal.
(d) Industrial Rate determined on an individual basis.		

	2020	2019
4. Wastewater Treated (Per Thousand Gallons)	1,580,566	1,404,760

# WEST KNOX UTILITY DISTRICT

## AWWA WATER AUDIT REPORTING WORKSHEET

### For the Year Ended June 30, 2020

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

WAS v5.0  
American Water Works Association  
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[?](#) Click to access definition

[+](#) Click to add a comment

Water Audit Report for: **West Knox Utility District (0000371)**

Reporting Year: **2020** 7/2019 - 6/2020

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

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

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

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

**WATER SUPPLIED**

Volume from own sources:	+	?	8	2,341.407	MG/Yr
Water imported:	+	?	n/a	0.000	MG/Yr
Water exported:	+	?	n/a	0.000	MG/Yr

WATER SUPPLIED: 2,341.407 MG/Yr

**Master Meter and Supply Error Adjustments**

Pcnt:	+	?	1	Value:	
	+	?	n/a	MG/Yr	
	+	?	10	MG/Yr	
	+	?	n/a	MG/Yr	

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

---

**AUTHORIZED CONSUMPTION**

Billed metered:	+	?	10	1,727.675	MG/Yr
Billed unmetered:	+	?	n/a	0.000	MG/Yr
Unbilled metered:	+	?	10	43.836	MG/Yr
Unbilled unmetered:	+	?	?	29.268	MG/Yr

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

AUTHORIZED CONSUMPTION: 1,800.779 MG/Yr

Click here: [?](#) for help using option buttons below

Pcnt:	+	?	1	Value:	
	+	?	n/a	MG/Yr	

Use buttons to select percentage of water supplied OR value

Pcnt:	+	?	1	Value:	
	+	?	n/a	MG/Yr	
	+	?	10	MG/Yr	
	+	?	n/a	MG/Yr	

---

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

540.628 MG/Yr

**Apparent Losses**

Unauthorized consumption:	+	?	?	5.854	MG/Yr
Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed					
Customer metering inaccuracies:	+	?	10	64.252	MG/Yr
Systematic data handling errors:	+	?	?	4.319	MG/Yr

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

Apparent Losses: 74.424 MG/Yr

Pcnt:	+	?	1	Value:	
	+	?	n/a	MG/Yr	
	+	?	10	MG/Yr	
	+	?	n/a	MG/Yr	

---

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

Real Losses = Water Losses - Apparent Losses: 466.204 MG/Yr

WATER LOSSES: 540.628 MG/Yr

---

**NON-REVENUE WATER**

NON-REVENUE WATER: 613.732 MG/Yr

= Water Losses + Unbilled Metered + Unbilled Unmetered

---

**SYSTEM DATA**

Length of mains:	+	?	9	403.3	miles
Number of active AND inactive service connections:	+	?	9	26,741	
Service connection density:	?	?	?	66	conn./mile main

Are customer meters typically located at the curbside or property line? Yes (length of service line, beyond the property boundary, that is the responsibility of the utility)

Average length of customer service line: 0 (Average length of customer service line has been set to zero and a data grading score of 10 has been applied)

Average operating pressure:	+	?	9	150.0	psi
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**COST DATA**

Total annual cost of operating water system:	+	?	10	\$11,412,593	\$/Year
Customer retail unit cost (applied to Apparent Losses):	+	?	10	\$11.25	\$/1000 gallons (US)
Variable production cost (applied to Real Losses):	+	?	10	\$457.16	\$/Million gallons <input type="checkbox"/> Use Customer Retail Unit Cost to value real losses

---

WATER AUDIT DATA VALIDITY SCORE: \*\*\* YOUR SCORE IS: 87 out of 100 \*\*\*

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

**PRIORITY AREAS FOR ATTENTION:**

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

1: Volume from own sources

2: Unauthorized consumption

3: Systematic data handling errors

**WEST KNOX UTILITY DISTRICT**  
**AWWA WATER AUDIT REPORTING WORKSHEET (Continued)**  
**For the Year Ended June 30, 2020**

AWWA Free Water Audit Software: System Attributes and Performance Indicators		WAS v5.0 American Water Works Association. Copyright © 2014, All Rights Reserved.
Water Audit Report for: <input type="text" value="West Knox Utility District (0000371)"/>		
Reporting Year: <input type="text" value="2020"/> <input type="text" value="7/2019 - 6/2020"/>		
*** YOUR WATER AUDIT DATA VALIDITY SCORE IS: 87 out of 100 ***		
<b>System Attributes:</b>		
	Apparent Losses:	<input type="text" value="74.424"/> MG/Yr
	+ Real Losses:	<input type="text" value="466.204"/> MG/Yr
	= <b>Water Losses:</b>	<input type="text" value="540.628"/> MG/Yr
	<input type="text" value="?"/> Unavoidable Annual Real Losses (UARL):	<input type="text" value="339.08"/> MG/Yr
	Annual cost of Apparent Losses:	<input type="text" value="\$837,274"/>
	Annual cost of Real Losses:	<input type="text" value="\$213,130"/> Valued at <b>Variable Production Cost</b> <small>Return to Reporting Worksheet to change this assumption</small>
<b>Performance Indicators:</b>		
Financial:	{	Non-revenue water as percent by volume of Water Supplied: <input type="text" value="26.2%"/>
		Non-revenue water as percent by cost of operating system: <input type="text" value="9.5%"/> Real Losses valued at Variable Production Cost
Operational Efficiency:	{	Apparent Losses per service connection per day: <input type="text" value="7.63"/> gallons/connection/day
		Real Losses per service connection per day: <input type="text" value="47.76"/> gallons/connection/day
		Real Losses per length of main per day*: <input type="text" value="N/A"/>
		Real Losses per service connection per day per psi pressure: <input type="text" value="0.32"/> gallons/connection/day/psi
From Above, Real Losses = Current Annual Real Losses (CARL):		<input type="text" value="466.20"/> million gallons/year
	<input type="text" value="?"/> Infrastructure Leakage Index (ILI) [CARL/UARL]:	<input type="text" value="1.37"/>
<small>* This performance indicator applies for systems with a low service connection density of less than 32 service connections/mile of pipeline</small>		

## STATISTICAL SECTION

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

<u>Contents</u>	<u>Pages</u>
Financial Trends	
These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time .....	53-55
Revenue Capacity	
These schedules contain information to help the reader assess the District's operating revenues and customer statistics .....	56-61
Debt Capacity	
This schedule presents 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.....	62-63
Demographic and Economic Information	
These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place.....	64-65
Operating Information	
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.....	66-68

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

**WEST KNOX UTILITY DISTRICT**  
**NET POSITION BY COMPONENT**  
**Last Ten Fiscal Years**

Fiscal Year	Net Investment in Capital Assets	Restricted			Unrestricted	Total
		Capital Activity	Debt Service	Pensions		
2020	\$ 73,636,934	\$ 0	\$ 0	\$ 551,161	\$ 34,147,827	\$ 108,335,922
2019	87,057,438	0	0	522,592	16,879,118	104,459,148
2018	73,657,081	0	0	491,008	25,773,016	99,921,105
2017	70,455,998	0	0	452,646	22,648,421	93,557,065
2016	75,637,610	0	67,346	452,289	11,131,345	87,288,590
2015	69,589,656	0	42,549	423,307	12,583,194	82,638,706
2014	62,874,634	0	391,779	0	18,460,030	81,726,443
2013	57,684,980	0	2,008,705	0	17,522,193	77,215,878
2012	57,113,801	0	1,997,699	0	16,169,090	75,280,590
2011	56,393,854	0	3,449,387	0	19,717,854	79,561,095

## WEST KNOX UTILITY DISTRICT

## CHANGES IN NET POSITION

## Last Ten Fiscal Years

	2020	2019	2018	2017	2016
Operating Revenues					
Water, Net	\$ 10,789,576	\$ 9,487,077	\$ 9,195,039	\$ 9,609,490	\$ 9,089,180
Wastewater	16,180,046	14,253,528	13,051,070	13,303,536	12,123,653
Connection Fees	1,481,283	983,807	1,180,754	950,074	945,437
Low Pressure Pump Fees	789,450	375,000	171,150	107,100	30,600
Customer Forfeited Discounts	288,068	352,785	507,151	340,649	297,708
Service Fees	140,700	146,565	158,336	130,075	129,075
Wastewater Inspection Fees	17,580	12,035	15,900	11,675	14,225
Miscellaneous	229,841	466,135	352,573	303,529	282,617
Total Operating Revenues	<u>29,916,544</u>	<u>26,076,932</u>	<u>24,631,973</u>	<u>24,756,128</u>	<u>22,912,495</u>
Operating Expenses:					
Water Purification & Supply	1,473,656	1,171,594	1,366,020	1,206,442	1,164,483
Wastewater Collection & Treatment	4,752,955	3,578,095	3,837,316	3,172,119	3,036,124
Water Treatment & Distribution	3,936,095	3,451,334	2,939,754	3,287,313	2,879,875
Wastewater CMOM Program	1,257,520	1,247,631	1,414,184	1,591,203	1,560,603
Shop & General Maintenance	302,950	278,583	327,055	422,083	389,611
Customer Accounting	358,761	157,447	136,472	136,867	131,648
Administrative & General	3,092,193	2,659,965	2,925,821	2,313,634	2,102,988
Depreciation	5,756,766	5,861,519	5,878,528	5,604,703	5,375,093
Total Operating Expenses	<u>20,930,896</u>	<u>18,406,168</u>	<u>18,825,150</u>	<u>17,734,364</u>	<u>16,640,425</u>
Operating Income	<u>8,985,648</u>	<u>7,670,764</u>	<u>5,806,823</u>	<u>7,021,764</u>	<u>6,272,070</u>
Non-Operating Revenues (Expenses):					
Investment Income, Net	1,052,950	1,149,793	781,765	73,202	187,435
Interest Expense	(5,636,465)	(4,917,374)	(4,134,864)	(3,644,922)	(2,642,317)
Change in Fair Value of Derivative - Interest					
Rate Swap	(668,570)	(444,607)	578,958	993,190	(905,655)
Debt Issuance Expense	0	(712,442)	0	(468,987)	(245,259)
Other	(2,733,429)	(143,946)	32,207	11,478	26,286
Total Non-Operating Revenues (Expenses), Net	<u>(7,985,514)</u>	<u>(5,068,576)</u>	<u>(2,741,934)</u>	<u>(3,036,039)</u>	<u>(3,579,510)</u>
Increase (Decrease) in Net Position					
Before Capital Contributions	<u>1,000,134</u>	<u>2,602,188</u>	<u>3,064,889</u>	<u>3,985,725</u>	<u>2,692,560</u>
Capital Contributions:					
Cash Contributions	0	0	200,914	117,499	173,054
Developers Contributions of Capital Assets	2,876,640	1,935,855	3,241,701	2,165,251	1,784,270
Total Capital Contributions	<u>2,876,640</u>	<u>1,935,855</u>	<u>3,442,615</u>	<u>2,282,750</u>	<u>1,957,324</u>
Change in Net Position	<u>\$ 3,876,774</u>	<u>\$ 4,538,043</u>	<u>\$ 6,507,504</u>	<u>\$ 6,268,475</u>	<u>\$ 4,649,884</u>

**WEST KNOX UTILITY DISTRICT**  
**CHANGES IN NET POSITION (Continued)**

**Last Ten Fiscal Years**

	2015	2014	2013	2012	2011
Operating Revenues					
Water, Net	\$ 8,611,641	\$ 7,881,838	\$ 7,417,294	\$ 7,226,168	\$ 6,579,910
Wastewater	10,875,487	9,577,125	8,731,351	8,018,859	6,627,587
Connection Fees	893,658	836,668	550,392	486,860	561,677
Low Pressure Pump Fees	43,350	5,100	2,550	10,200	10,200
Customer Forfeited Discounts	285,589	258,507	258,370	237,367	179,705
Service Fees	120,201	111,675	102,125	91,025	90,425
Wastewater Inspection Fees	13,600	11,730	7,775	5,250	8,075
Miscellaneous	199,593	242,788	182,748	151,066	161,405
<b>Total Operating Revenues</b>	<b>21,043,119</b>	<b>18,925,431</b>	<b>17,252,605</b>	<b>16,226,795</b>	<b>14,218,984</b>
Operating Expenses:					
Water Purification & Supply	1,103,041	1,114,272	1,154,874	1,132,055	954,279
Wastewater Collection & Treatment	2,438,755	2,220,697	2,821,772	2,325,821	2,147,830
Water Treatment & Distribution	2,894,879	2,547,171	2,393,421	2,445,654	2,203,916
Wastewater CMOM Program	1,545,363	1,465,689	1,415,128	1,302,429	1,008,816
Shop & General Maintenance	333,439	470,839	375,418	306,275	318,855
Customer Accounting	121,724	122,870	141,547	132,195	131,543
Administrative & General	2,089,427	1,880,540	2,072,488	2,211,369	1,861,405
Depreciation	5,269,866	4,601,380	4,179,182	3,916,042	3,853,377
<b>Total Operating Expenses</b>	<b>15,796,494</b>	<b>14,423,458</b>	<b>14,553,830</b>	<b>13,771,840</b>	<b>12,480,021</b>
<b>Operating Income</b>	<b>5,246,625</b>	<b>4,501,973</b>	<b>2,698,775</b>	<b>2,454,955</b>	<b>1,738,963</b>
Non-Operating Revenues (Expenses):					
Investment Income, Net	55,893	136,580	234,383	279,997	3,591
Interest Expense	(2,067,955)	(1,714,150)	(1,722,259)	(2,047,737)	(1,850,135)
Change in Fair Value of Derivative - Interest					
Rate Swap	(3,396,726)	0	0	0	0
Debt Issuance Expense	0	0	0	0	0
Other	0	4,225	9,615	(29,891)	0
<b>Total Non-Operating Revenues (Expenses), Net</b>	<b>(5,408,788)</b>	<b>(1,573,345)</b>	<b>(1,478,261)</b>	<b>(1,797,631)</b>	<b>(1,846,544)</b>
<b>Increase (Decrease) in Net Position</b>					
Before Capital Contributions	(162,163)	2,928,628	1,220,514	657,324	(107,581)
Capital Contributions:					
Cash Contributions	0	0	0	59,090	900,339
Developers Contributions of Capital Assets	1,074,426	1,216,660	714,774	1,745,692	839,805
<b>Total Capital Contributions</b>	<b>1,074,426</b>	<b>1,216,660</b>	<b>714,774</b>	<b>1,804,782</b>	<b>1,740,144</b>
<b>Change in Net Position</b>	<b>\$ 912,263</b>	<b>\$ 4,145,288</b>	<b>\$ 1,935,288</b>	<b>\$ 2,462,106</b>	<b>\$ 1,632,563</b>

**WEST KNOX UTILITY DISTRICT  
CUSTOMER STATISTICS AND RATES**

**Last Ten Fiscal Years**

Fiscal Year	Customer Billing		Water		Wastewater	
	Units		Minimum Bill	Rates per 1,000 Gallons	Minimum Bill	Rates per 1,000 Gallons
	Water	Wastewater				
2020	29,535	24,690	\$ 13.05	\$ 3.71	\$ 23.27	\$ 7.54
2019	28,832	23,378	13.05	3.46	23.27	6.79
2018	29,170	23,162	13.05	3.46	23.27	6.79
2017	28,335	22,484	13.05	3.46	22.27	6.34
2016	26,555	21,819	13.05	3.46	22.27	5.84
2015	26,139	21,547	13.05	3.21	22.27	4.84
2014	26,347	21,562	11.30	3.21	21.27	4.09
2013	25,743	21,022	11.30	3.21	21.27	3.84
2012	25,474	20,734	11.30	3.21	19.77	3.84
2011	25,368	20,509	10.55	3.21	16.27	3.84

- Notes:** (a) Rates are based upon a single family residence.  
 (b) Minimum bill is based upon the first 1,500 gallons of water purchased for the fiscal year 2010 and 2011.  
 (c) Minimum bills are based upon the first 1,000 gallons of water purchased for the fiscal year 2012.  
 (d) Effective August 1, 2012 the minimum bill is based upon the first 500 gallons of water purchased and effective July 1, 2013 the gallons were reduced to zero.  
 (e) The water and wastewater rates are per 1,000 gallons.

**WEST KNOX UTILITY DISTRICT**  
**WATER PRODUCED, SOLD AND CONSUMED**  
**Last Ten Fiscal Years**

Fiscal Year	Gallons of Water (In Thousands)			Percent Lost
	Water Pumped	Water Sold and Consumed	Water Unbilled	
2020	2,341,407	1,724,661	616,746	26.34
2019	2,207,280	1,645,933	561,347	25.43
2018	2,148,591	1,572,336	576,255	26.82
2017	2,159,268	1,671,373	487,895	22.60
2016	2,157,867	1,741,200	416,667	19.31
2015	2,073,434	1,751,511	321,923	15.53
2014	1,893,113	1,692,922	200,191	10.57
2013	1,968,943	1,781,663	168,633	8.56
2012	2,023,431	1,854,798	221,495	10.95
2011	1,970,355	1,748,860	130,756	6.64

**WEST KNOX UTILITY DISTRICT**

**ANNUAL TAP SALES**

**Last Ten Fiscal Years**

<u>Fiscal Year</u>	<u>Water Meter Taps Sold</u>	<u>Wastewater Taps Sold</u>	<u>Total Taps</u>
2020	771	653	1,424
2019	497	444	941
2018	779	717	1,496
2017	561	465	1,026
2016	621	575	1,196
2015	593	544	1,137
2014	509	471	980
2013	356	318	674
2012	227	206	433
2011	315	317	632

**WEST KNOX UTILITY DISTRICT**  
**NUMBER OF WATER AND SEWER CUSTOMERS BY TYPE**

**Last Ten Fiscal Years**

<u>Fiscal Year</u>	<u>Residential</u>	<u>Commercial</u>	<u>Hotel/Motel</u>	<u>Total</u>
<b>Water</b>				
2020	25,029	1,025	40	26,094
2019	24,203	1,018	40	25,261
2018	24,781	1,129	40	25,950
2017	24,067	878	62	25,007
2016	22,341	1,028	60	23,429
2015	21,847	893	60	22,800
2014	21,334	886	44	22,264
2013	20,783	871	42	21,696
2012	20,531	854	42	21,427
2011	20,474	839	5	21,318
<b>Wastewater</b>				
2020	20,534	675	40	21,249
2019	19,774	671	40	20,485
2018	19,132	645	58	19,835
2017	18,501	613	59	19,173
2016	18,041	592	58	18,691
2015	17,566	582	40	18,188
2014	17,054	577	40	17,671
2013	16,529	564	38	17,131
2012	16,258	549	36	16,843
2011	16,044	538	5	16,587

**WEST KNOX UTILITY DISTRICT**  
**WATER AND WASTEWATER RATES (\*)**

**Last Ten Fiscal Years**

**Water Rates**

<b>Base Rate</b>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
(First 1,500 Gallons) (c)(d)(e)(f)										
Residential	\$13.05	\$13.05	\$13.05	\$13.05	\$13.05	\$13.05	\$11.30	\$11.30	\$11.30	\$10.55
Commercial	21.00	21.00	21.00	21.00	16.00	16.00	14.25	14.25	14.25	14.25
Hotel/Motel (per unit)	6.11	6.11	6.11	6.11	6.11	6.11	4.36	4.37	4.37	4.36

**Usage Rates**

(Per 1,000 Gallons)										
Residential	\$3.71	\$3.46	\$3.46	\$3.46	\$3.46	\$3.21	\$3.21	\$3.21	\$3.21	\$3.21
Commercial	3.71	3.46	3.46	3.46	3.46	3.21	3.21	3.21	3.21	3.21
Hotel/Motel (per unit)	3.71	3.46	3.46	3.46	3.46	3.21	3.21	3.21	3.21	3.21

**Wastewater Rates**

<b>Base Rate</b>										
(First 1,500 Gallons) (c)(d)(e)(f)										
Residential	\$23.27	\$23.27	\$23.27	\$22.27	\$22.27	\$22.27	\$21.27	\$21.27	\$19.77	\$16.27
Commercial	(b)	(b)	(b)	30.80	30.80	30.80	29.80	29.80	28.30	24.80
Hotel/Motel (per unit)	16.92	16.92	16.92	16.92	16.92	16.92	15.92	14.42	14.42	10.92

**Usage Rates**

(Per 1,000 Gallons)										
Residential										
1,500 to 13,000	\$7.54	\$6.79	\$6.79	\$6.34	\$5.84	\$4.84	\$4.09	\$3.84	\$3.84	\$3.84
Commercial										
All Over 1,500	\$7.54	\$6.79	\$6.79	\$6.34	\$5.84	\$4.84	\$4.09	\$3.84	\$3.84	\$3.84
Hotel/Motel										
All Over 1,500	\$7.54	\$6.79	\$6.79	\$6.34	\$5.84	\$4.84	\$4.09	\$3.84	\$3.84	\$3.84

- \*Notes:** (a) Rates must be approved by the Board of Commissioners.  
 (b) Commercial water and wastewater rates will be based on meter size.  
 (c) Effective 2010, the minimum bill was reduced from 2,500 to 1,500 gallons.  
 (d) Effective 2011, the minimum bill was reduced from 1,500 to 1,000 gallons.  
 (e) Effective 2012, the minimum bill was reduced from 1,000 to 500 gallons.  
 (f) Effective 2013, the minimum bill was reduced from 500 to 0 gallons.

**WEST KNOX UTILITY DISTRICT**

**TEN LARGEST CUSTOMERS**

**Current Fiscal Year and Nine Years Ago**

Customer	Type of Business	FY2020		FY2011	
		(a) Total Annual Sales	Percentage of Total Sales	(a) Total Annual Sales	Percentage of Total Sales
Parkwest Medical Center	Medical	\$ 564,411	2.09 %	\$ 300,534	2.28 %
Woodlands West Apartments	Rental Real Estate	320,346	1.19	243,943	1.85
Goldelm at Metropolitan	Rental Real Estate	262,925	0.97	197,229	1.49
Country Club Apartments	Rental Real Estate	192,335	0.71	114,630	0.87
Knoxville Community Development	Rental Real Estate	161,975	0.60	N/A	N/A
Brendon Park Apartments	Rental Real Estate	153,555	0.57	132,523	1.00
Holiday Inn - Cedar Bluff Rd.	Hospitality	137,955	0.51	102,319	0.77
Knox County Board of Education	School System	137,900	0.51	N/A	N/A
SCBP Knoxville Associates	Rental Real Estate	117,609	0.44	N/A	N/A
Blue Beacon Truck Wash	Semi-Truck Washing	105,756	0.39	N/A	N/A
Warren House Apartments	Rental Real Estate	N/A	N/A	89,821	0.68
Cedar Bluff Apartments	Rental Real Estate	N/A	N/A	85,003	0.64
Hampton Inn - Cedar Bluff Rd.	Hospitality	N/A	N/A	49,444	0.37
Tennessee Veterans Home	Medical	N/A	N/A	45,735	0.35
<b>Total</b>		<u>\$ 2,154,767</u>	<u>7.99 %</u>	<u>\$ 1,361,181</u>	<u>10.31 %</u>

Note: (a) Sales include only water and wastewater net revenues.

(b) Goldelm at Metropolitan Apartments was formerly known as Sunchase Apartments.

(c) The Element at Cedar Bluff Apartments was formerly known as Warren House Apartments.

**WEST KNOX UTILITY DISTRICT**  
**OUTSTANDING DEBT PER CUSTOMER**

**Last Ten Fiscal Years**

Fiscal Year	Revenue Bonds	Notes Payable	Total (a)	Number of Customers (b)	Outstanding Debt per Customer
2020	\$ 164,599,862	\$ 0	\$ 164,599,862	29,535	\$ 5,573
2019	166,901,181	0	166,901,181	28,832	5,789
2018	123,567,102	1,350,000	124,917,102	29,170	4,282
2017	126,239,820	1,350,000	127,589,820	28,335	4,503
2016	75,401,917	3,039,906	78,441,823	26,555	2,954
2015	66,392,971	3,140,714	69,533,685	26,139	2,660
2014	67,024,542	3,248,347	70,272,889	26,347	2,667
2013	67,960,277	3,695,695	71,655,972	25,743	2,784
2012	68,851,141	3,784,222	72,635,363	25,474	2,851
2011	69,699,187	3,790,530	73,489,717	25,368	2,897

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

(b) Number of customers is based upon water customer billing units.

(c) No debt to personal income ratio is shown because personal income for the District's service area is not available.

**WEST KNOX UTILITY DISTRICT**  
**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
				Principal	(c) Interest Paid	Total	
2020	\$ 30,669,741	\$ 15,174,130	\$ 15,495,611	\$ 2,195,000	\$ 5,713,590	\$ 7,908,590	1.96
2019	26,844,371	12,542,526	14,301,845	1,245,000	4,959,903	6,204,903	2.30
2018	25,540,856	12,946,622	12,594,234	2,625,000	4,144,916	6,769,916	1.86
2017	25,302,311	12,129,661	13,172,650	2,166,232	3,503,196	5,669,428	2.32
2016	23,205,213	11,265,332	11,939,881	1,017,926	2,536,212	3,554,138	3.36
2015	21,092,830	10,526,628	10,566,202	636,852	1,995,094	2,631,946	4.01
2014	19,076,456	9,882,078	9,194,378	940,015	1,637,920	2,577,935	3.57
2013	17,775,859	10,374,648	7,401,211	894,932	1,647,020	2,541,952	2.91
2012	17,062,739	9,855,798	7,206,941	853,326	2,477,826	3,331,152	2.16
2011	14,558,877	8,626,644	5,932,233	813,327	2,034,247	2,847,574	2.08

- Notes:** (a) Includes operating revenues, interest income received less accretion and cash contributions from developers.  
 (b) Does not include depreciation expense.  
 (c) Interest includes interest paid, paying agent's fees and service charges net of capitalized construction period interest.  
 (d) Does not include notes payable.

**WEST KNOX UTILITY DISTRICT**  
**DEMOGRAPHIC AND ECONOMIC STATISTICS**

**Last Ten Calendar Years**

Calendar Year	Population (c)	Personal Income (Thousands of Dollars) (d)	Per Capita Personal Income	Unemployment Rate (e)	
				County	State
2019	469,363	\$ N/A	\$ N/A	3.5%	3.9%
2018	464,819	23,142,739	49,738	3.6%	4.1%
2017	459,396	22,243,142	48,160	2.9%	3.3%
2016	455,696	21,121,133	46,305	3.7%	3.6%
2015	453,519	20,241,530	44,849	4.8%	5.6%
2014	448,664	19,297,297	43,012	5.7%	6.6%
2013	441,311	18,466,333	41,533	5.6%	7.9%
2012	440,725	18,149,825	41,127	6.3%	8.0%
2011	436,104	16,961,829	38,894	6.9%	9.2%
2010	432,226	15,222,567	35,219	7.0%	9.5%

- Notes:**
- (a) N/A = Data not available.
  - (b) Demographic and economic information is for Knox County, Tennessee. This information for the District's service area is not available.
  - (c) Population – U.S. Bureau of the Census.
  - (d) Income – Bureau of Economic Analysis, U.S. Department of Commerce.
  - (e) Unemployment Rates – Tennessee Department of Labor and Workforce Development for June.

**WEST KNOX UTILITY DISTRICT**

**PRINCIPAL EMPLOYERS**

**Current Calendar Year and Nine Years Ago**

Employer (a)	Industry	2020		2011	
		Number of Employees	% of Total Knox County Workforce	Number of Employees	% of Total Knox County Workforce
Covenant Health	Health Care	9,792	3.98 %	9,000	3.92 %
The University of Tennessee	Education	9,384	3.81	9,326	4.06
Knox County Schools	Education	7,949	3.23	6,945	3.02
Walmart	Retail	6,863	2.79	4,336	1.89
University Health Systems	Health Care	5,458	2.22	3,802	1.65
State of Tennessee	Government	3,286	1.33	3,750	1.63
McDonalds	Fast Food	3,113	1.26	N/A	N/A
K-VA-T Food Stores	Retail Grocery	3,104	1.26	3,983	1.73
Tennova Healthcare	Health Care	2,900	1.18	N/A	N/A
The Kroger Co.	Retail Store	2,651	1.08	2,544	1.11
Mercy Health Partners	Health Care	N/A	N/A	5,700	2.48
Knox County	Government	N/A	N/A	3,037	1.32
Total		<u>54,500</u>	<u>22.13 %</u>	<u>52,423</u>	<u>22.81 %</u>

Notes: (a) Only Knox County presented.

Source: Knoxville Area Chamber Partnership

**WEST KNOX UTILITY DISTRICT**  
**NUMBER OF EMPLOYEES BY ACTIVITY**

**Last Ten Fiscal Years**

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
<b>WATER</b>										
Water Plant Operations	8	8	9	9	10	9	9	7	7	7
Water Plant Maintenance	4	3	2	2	2	2	2	2	2	2
Water Systems Maintenance	18	19	17	17	16	13	14	12	12	12
	<u>30</u>	<u>30</u>	<u>28</u>	<u>28</u>	<u>28</u>	<u>24</u>	<u>25</u>	<u>21</u>	<u>21</u>	<u>21</u>
<b>SEWER</b>										
Sewer Plant Operations	4	3	3	3	3	3	2	2	2	2
Sewer Plant Maintenance	10	9	8	10	9	10	9	8	8	8
Sewer Systems Maintenance (CMOM)	11	13	13	10	11	13	12	16	16	16
	<u>25</u>	<u>25</u>	<u>24</u>	<u>23</u>	<u>23</u>	<u>26</u>	<u>23</u>	<u>26</u>	<u>26</u>	<u>26</u>
<b>ENGINEERING/ INSPECTION/CONSTRUCTION</b>										
Engineering	6	6	5	1	1	1	1	1	1	1
Inspections	2	2	2	2	2	2	1	2	2	2
Construction	2	2	2	2	2	2	2	1	1	1
	<u>10</u>	<u>10</u>	<u>9</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>
<b>ADMINISTRATION</b>										
Billing/Customer Service	8	8	7	8	8	7	7	6	6	6
Meter Reading	4	3	3	3	3	2	2	2	2	2
Human Resources	1	1	1	1	1	1	1	1	1	1
Finance & Accounting	2	2	1	1	1	1	1	1	1	1
Executive Administration	2	2	2	2	2	2	2	2	2	2
	<u>17</u>	<u>16</u>	<u>14</u>	<u>15</u>	<u>15</u>	<u>13</u>	<u>13</u>	<u>12</u>	<u>12</u>	<u>12</u>
<b>TOTAL EMPLOYEES</b>	<u>82</u>	<u>81</u>	<u>75</u>	<u>71</u>	<u>71</u>	<u>68</u>	<u>65</u>	<u>63</u>	<u>63</u>	<u>63</u>

Source: The District's payroll records.

**WEST KNOX UTILITY DISTRICT**  
**ANNUAL WASTEWATER PLANT FLOWS AND CAPACITY**  
**IN MILLIONS OF GALLONS**

**Last Ten Fiscal Years**

<u>Fiscal Year</u>	<u>Annual Wastewater Plant Flow</u>	<u>Annual Design Flow</u>	<u>Unused Plant Capacity</u>	<u>Percent of Plant Utilization</u>
2020	1,580.57	2,190.00	609.43	72.2 %
2019	1,404.76	1,460.00	55.24	96.2
2018	1,373.12	1,460.00	86.88	94.0
2017	1,387.87	1,460.00	72.13	95.1
2016	1,489.60	1,460.00	(29.60)	102.0
2015	1,312.59	1,460.00	147.41	89.9
2014	1,334.20	1,460.00	125.80	91.4
2013	1,327.64	1,460.00	132.36	90.9
2012	1,524.81	1,460.00	(64.81)	104.4
2011	1,432.23	1,460.00	27.77	98.1

Note: Flows expressed in millions of gallons.

Source: Monthly operating reports to the Tennessee Department of Environment and Conservation.

**WEST KNOX UTILITY DISTRICT**  
**OPERATING AND CAPITAL INDICATORS**  
**Last Ten Fiscal Years**

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Area in Square Miles:	72	72	72	72	72	72	72	72	72	72
Water System:										
Miles of Water Mains	408	398	394	396	389	390	389	387	384	383
Number of Treatment Plants	2	2	2	2	2	2	2	2	2	2
Number of Service Connections	26,094	25,261	25,950	25,007	23,429	22,800	22,264	21,696	21,427	21,318
Number of Fire Hydrants	1,473	1,473	1,473	1,435	1,373	1,354	1,195	1,195	1,195	1,195
Daily Average Consumption in Gallons	6.41 million	6.05 million	5.9 million	5.9 million	5.9 million	5.7 million	5.19 million	4.84 million	5.54 million	5.39 million
Maximum Daily Capacity of Plants in Gallons	18.00 million	12.48 million	12.48 million	12.48 million						
Wastewater System:										
Miles of Sanitary Sewers	312	295	292	296	289	286	282	280	276	264
Number of Treatment Plants	1	1	1	1	1	1	1	1	1	1
Number of Service Connections	21,249	20,485	19,835	19,173	18,691	18,188	17,671	17,131	16,843	16,587
Daily Average Treatment in Gallons	4.33 million	3.85 million	3.77 million	3.80 million	4.08 million	3.60 million	3.66 million	3.64 million	4.18 million	3.92 million
Maximum Daily Capacity of Treatment Plant in Gallons	6 million	4 million								

Notes: During 2014 the District completed its upgrade of the Daugherty Water Treatment Plant.  
During 2020 the District completed its construction of the Melton Hill Lake Wastewater Treatment Plant.

Source: Various water and wastewater monthly operational reports and engineering records.

**COMPLIANCE SECTION**

**PARSONS & WRIGHT**

CERTIFIED PUBLIC ACCOUNTANTS

Joe Savage  
Rebecca Hutsell  
Steven Jones

Stephen J. Parsons - Retired  
William R. Scandlyn - 1988 - 1999  
Earl O. Wright - 1988 - 2002

**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  
The West Knox Utility District of Knox County  
Knoxville, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of West Knox Utility District of Knox County (“the District”), which comprise the proprietary fund balance sheet and the statement of fiduciary net position – pension trust fund, as of and for the year ended June 30, 2020, and the related proprietary fund statement of revenues, expenses, and changes in net position and cash flows and the statements of changes in fiduciary net position – pension trust fund, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements, and have issued our report thereon dated December 17, 2020.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, 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*.

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**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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**Parsons & Wright**

Parsons & Wright  
Certified Public Accountants  
Kingston, Tennessee

December 17, 2020

**WEST KNOX UTILITY DISTRICT**  
**SCHEDULE OF DISPOSITION OF PRIOR YEAR AUDIT FINDINGS**  
**For the Year Ended June 30, 2020**

There were no prior findings to report.