

OFFICIAL STATEMENT

NEW ISSUE
BOOK-ENTRY-ONLY

Rating: S&P: "AA"
(See "MISCELLANEOUS-Rating")

In the opinion of Bond Counsel, based on existing law and assuming compliance with certain tax covenants of the City, interest on the Bonds will be excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account in determining the adjusted current earnings of certain corporations for purposes of the alternative minimum tax on corporations. For an explanation of certain tax consequences under federal law which may result from the ownership of the Bonds, see the discussion under the heading "LEGAL MATTERS - Tax Matters" herein. Under existing law, the Bonds and the income therefrom will be exempt from all state, county and municipal taxation in the State of Tennessee, except inheritance, transfer and estate taxes, and Tennessee franchise and excise taxes. (See "LEGAL MATTERS - Tax Matters" herein).

\$6,240,000

CITY OF MANCHESTER, TENNESSEE **General Obligation Refunding Bonds, Series 2016A**

Dated: July 20, 2016

Due: August 1 (as indicated below)

The City of Manchester, Tennessee (the "City") is issuing its \$6,240,000 General Obligation Refunding Bonds, Series 2016A (the "Bonds") book-entry-only Bonds in denominations of \$5,000 and authorized integral multiples thereof. The Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC") except as otherwise described herein. DTC will act as securities depository of the Bonds. So long as Cede & Co. is the registered owner of the Bonds, as the nominee for DTC, principal and interest with respect to the Bonds shall be payable to Cede & Co., as nominee for DTC, which will, in turn, remit such principal and interest to the DTC participants for subsequent disbursements to the beneficial owners of the Bonds. Individual purchases of the Bonds will be made in book-entry-only form, in denominations of \$5,000 or integral multiples thereof and will bear interest at the annual rates as shown below. Interest on the Bonds is payable semi-annually from the date thereof commencing on February 1, 2017 and thereafter on each August 1 and February 1 by check or draft mailed to the owners thereof as shown on the books and records of Regions Bank, Nashville, Tennessee, the registration and paying agent (the "Registration Agent"). In the event of discontinuation of the book-entry system, principal of and interest on the Bonds are payable at the designated corporate trust office of the Registration Agent.

The Bonds shall be payable from and secured by unlimited ad valorem taxes to be levied on all taxable property within the corporate limits of the City. For the prompt payment of principal and interest on the Bonds, the full faith and credit of the Issuer are irrevocably pledged. The Bonds shall be additionally payable from, although not secured by, revenues received by the City from the operation of the water treatment and distribution facility of Duck River Utility Commission.

Bonds maturing August 1, 2022 and thereafter are subject to optional redemption prior to maturity on or after August 1, 2021.

<u>Due</u> <u>(Aug 1)</u>	<u>Amount*</u>	<u>Interest</u>		<u>CUSIPs**</u>	<u>Due</u> <u>(Aug 1)</u>	<u>Amount*</u>	<u>Interest</u>		<u>CUSIPs**</u>
		<u>Rate</u>	<u>Yield</u>				<u>Rate</u>	<u>Yield</u>	
2017	\$ 390,000	2.00%	0.65%	562400 QK0	2024	\$ 450,000	2.00%	1.35%	c 562400 QS3
2018	400,000	2.00	0.75	562400 QL8	2025	460,000	2.00	1.45	c 562400 QT1
2019	405,000	2.00	0.85	562400 QM6	2026	465,000	2.00	1.55	c 562400 QU8
2020	415,000	2.00	0.95	562400 QN4	2027	475,000	2.00	1.65	c 562400 QV6
2021	425,000	2.00	1.05	562400 QP9	2028	485,000	2.00	1.75	c 562400 QW4
2022	430,000	2.00	1.15	c 562400 QQ7	2029	495,000	2.00	1.90	c 562400 QX2
2023	440,000	2.00	1.25	c 562400 QR5	2030	505,000	2.00	2.00	562400 QY0

c = Yield to call on August 1, 2021.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire OFFICIAL STATEMENT to obtain information essential to make an informed investment decision.

The Bonds are offered when, as and if issued by the City, subject to the approval of the legality thereof by Bass, Berry & Sims PLC, Nashville, Tennessee, bond counsel, whose opinion will be delivered with the Bonds. Certain legal matters will be passed upon from Gerald Ewell, Jr, counsel to the City. It is expected that the Bonds, will be available for delivery through the facilities of DTC, New York, New York, on or about July 20, 2016.

Cumberland Securities Company, Inc.
Financial Advisor

June 20, 2016

This Official Statement speaks only as of its date, and the information contained herein is subject to change.

This Official Statement may contain forecasts, projections, and estimates that are based on current expectations but are not intended as representations of fact or guarantees of results. If and when included in this Official Statement, the words "expects," "forecasts," "projects," "intends," "anticipates," "estimates," and analogous expressions are intended to identify forward-looking statements as defined in the Securities Act of 1933, as amended, and any such statements inherently are subject to a variety of risks and uncertainties, which could cause actual results to differ materially from those contemplated in such forward-looking statements. These forward-looking statements speak only as of the date of this Official Statement. The Issuer disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Issuer's expectations with regard thereto or any change in events, conditions, or circumstances on which any such statement is based.

This Official Statement and the Appendices hereto contain brief descriptions of, among other matters, the Issuer, the Bonds, the Resolution, the Disclosure Certificate (as defined herein), and the security and sources of payment for the Bonds. Such descriptions and information do not purport to be comprehensive or definitive. The summaries of various constitutional provisions and statutes, the Resolution, the Disclosure Certificate, and other documents are intended as summaries only and are qualified in their entirety by reference to such documents and laws, and references herein to the Bonds are qualified in their entirety to the forms thereof included in the Resolution.

The Bonds have not been registered under the Securities Act of 1933, as amended, and the Resolution has not been qualified under the Trust Indenture Act of 1939, in reliance on exemptions contained in such acts. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation, or sale.

No dealer, broker, salesman, or other person has been authorized by the Issuer or the Underwriter to give any information or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations should not be relied upon as having been authorized by the Issuer or the Underwriter. Except where otherwise indicated, all information contained in this Official Statement has been provided by the Issuer. The information set forth herein has been obtained by the Issuer from sources which are believed to be reliable but is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation of the Underwriter. The information contained herein is subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create an implication that there has been no change in the affairs of the Issuer, or the other matters described herein since the date hereof or the earlier dates set forth herein as of which certain information contained herein is given.

In connection with this offering, the Underwriter may over-allot or effect transactions which stabilize or maintain the market prices of the Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

** These CUSIP numbers have been assigned by Standard & Poor's CUSIP Service Bureau, a division of the McGraw-Hill Companies, Inc., and are included solely for the convenience of the Bond holders. The City is not responsible for the selection or use of these CUSIP numbers, nor is any representation made as to their correctness on the Bonds or as indicated herein.

CITY OF MANCHESTER, TENNESSEE

OFFICIALS

Lonnie Norman	<i>Mayor</i>
Bridget Anderson	<i>Finance Director</i>
Gerald Ewell, Jr.	<i>City Attorney</i>

ALDERMEN

Ryan French, Vice Mayor
Russell Bryan
Roxanne Patton
Tim Pauley
Lana Sain
Cheryl Swan

UNDERWRITER

Robert W. Baird & Co. Incorporated
Milwaukee, Wisconsin

BOND COUNSEL

Bass, Berry & Sims PLC
Nashville, Tennessee

REGISTRATION AND PAYING AGENT

Regions Bank
Nashville, Tennessee

FINANCIAL ADVISOR

Cumberland Securities Company, Inc.
Knoxville, Tennessee

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COMMISSION**

SUMMARY STATEMENT

The information set forth below is provided for convenient reference and does not purport to be complete and is qualified in its entirety by the information and financial statements appearing elsewhere in this *Official Statement*. This Summary Statement shall not be reproduced, distributed or otherwise used except in conjunction with the remainder of this *Official Statement*.

Issuer	City of Manchester, Tennessee (the “City”, “Municipality” or “Issuer”). See APPENDIX B contained herein.
The Bonds.....	\$6,240,000 General Obligation Refunding Bonds, Series 2016A (the “Bonds”).
Security	The Bonds shall be payable from unlimited ad valorem taxes to be levied on all taxable property within the corporate limits of the City. For the prompt payment of principal of and interest on the Bonds, the full faith and credit of the City are irrevocably pledged. The Bonds shall be additionally payable from, although not secured by, the payments received by the City from the water treatment and distribution facilities of the Duck River Utility Commission (the “Commission”).
Purpose	The Bonds are being issued for the purpose of (i) refinancing a portion of the Outstanding Series 2006 Bonds, as described herein; and (ii) payment of the costs related to the issuance and sale of the Bonds.
Optional Redemption	The Bonds are subject to redemption at a price of par plus accrued interest on August 1, 2021, in whole or in part, and at anytime thereafter at the price of par plus accrued interest to the redemption date. See the section entitled “SECURITIES OFFERED-Optional Redemption.”
Tax Matters.....	In the opinion of Bond Counsel, based on existing law and assuming compliance with certain tax covenants of the City, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account in determining the adjusted current earnings of certain corporations for purposes of the alternative minimum tax on corporations. Interest on the Bonds will be exempt from certain taxation in Tennessee, all as more fully described in the section entitled “LEGAL MATTERS-Tax Matters” and APPENDIX A (form of opinion) included herein.
Bank Qualification	The Bonds are designated or deemed designated as “qualified tax-exempt obligations” within the meaning of Section 265 of the Internal Revenue Code of 1986, as amended. See the section entitled “LEGAL MATTERS - Tax Matters” for additional information.
Rating.....	S&P: “AA”. See the section entitled “MISCELLANEOUS - Rating” for more information.
Registration and Paying Agent	Regions Bank, Nashville, Tennessee (the “Registration Agent”).
Bond Counsel	Bass, Berry & Sims PLC, Nashville, Tennessee.
Financial Advisor	Cumberland Securities Company, Inc., Knoxville, Tennessee. See the section entitled “MISCELLANEOUS - Financial Advisor; Related Parties; Other”, herein.
Underwriter.....	Robert W. Baird & Co., Incorporated, Milwaukee, Wisconsin.
Book Entry Only	The Bonds will be issued under the Book Entry System except as otherwise described herein. For additional information, see the section entitled “BASIC DOCUMENTATION – Book Entry System”.

GeneralThe Bonds are being issued in full compliance with applicable provisions of Title 9, Chapter 21, *Tennessee Code Annotated*, as supplemented and revised. See the section entitled SECURITIES OFFERED herein. The Bonds will be issued with CUSIP numbers and delivered through the facilities of the Depository Trust Company, New York, New York.

DisclosureIn accordance with Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 as amended, the City will provide the Municipal Securities Rulemaking Board (“MSRB”) through the operation of the Electronic Municipal Market Access system (“EMMA”) and the State Information Depository (“SID”) established in Tennessee, if any, annual financial statements and other pertinent credit information, including the Comprehensive Annual Financial Reports. For additional information, see the section entitled “MISCELLANEOUS - Continuing Disclosure” for additional information

Other Information.....The information in the OFFICIAL STATEMENT is deemed “final” within the meaning of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 as of the date which appears on the cover hereof. For more information concerning the City, or the OFFICIAL STATEMENT, contact Lonnie Norman, Mayor, P.O. Box 209, 200 West Fort Street, Manchester, TN 37309, Telephone: (931) 728-4652; or the City's Financial Advisor, Cumberland Securities Company, Inc., Knoxville, Tennessee, Telephone: (865) 988-2663.

GENERAL FUND BALANCES

Summary of Changes In Fund Balances
(In Thousands)

For the Fiscal Year Ended June 30

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Beginning Fund Balance	\$2,900,246	\$2,867,946	\$2,935,206	\$3,356,231	\$3,070,981
Revenues	11,724,381	11,969,016	11,926,595	11,829,605	11,969,016
Expenditures	8,209,718	8,121,578	7,894,132	8,532,868	8,121,578
Excess of Revenues					
Over (under) Expenditures	3,514,664	3,847,438	4,032,464	3,296,737	3,847,438
Other Financing Sources:					
Loan Proceeds & Other Sources	-	-	-	11,356,068	-
Transfers In	2,500	-	-	-	-
Transfers Out	(3,549,464)	(3,780,178)	(3,611,439)	(14,938,055)	(3,780,178)
Excess of Revenues					
Over (Under) Expenditures	(33,300)	67,260	421,025	(285,250)	67,260
Ending Fund Balance	\$2,867,946	\$2,935,206	\$3,356,231	\$3,070,981	\$2,935,206

Source: City of Manchester Financial Statements with Report of Certified Public Accountants.

\$6,240,000
CITY OF MANCHESTER, TENNESSEE
General Obligation Refunding Bonds, Series 2016A

SECURITIES OFFERED

AUTHORITY AND PURPOSE

This OFFICIAL STATEMENT which includes the Summary Statement hereof and Appendices hereto is furnished in connection with the offering by the City of Manchester, Tennessee (the “City” or “Issuer”) of its \$6,240,000 General Obligation Refunding Bonds, Series 2016A (the “Bonds”).

The Bonds are authorized to be issued pursuant to the provisions of Title 9, Chapter 21, *Tennessee Code Annotated*, as amended, and other applicable provisions of the law and pursuant to resolutions adopted by the Board of Mayor and Aldermen of the City (the “Board”). The bond resolution (the “Resolution”) was adopted by the Board on March 1, 2016.

The Bonds are being issued for the purpose of (i) refinancing a portion of the Outstanding Series 2006 Bonds, as described below; and (ii) payment of the costs related to the issuance and sale of the bonds referenced therein.

REFUNDING PLAN

The Bonds are refinancing \$6,270,000 of the remaining outstanding Water and Sewer Revenue and Tax Refunding Bonds, Series 2006, dated November 29, 2006, maturing August 1, 2017 and thereafter on August 1, 2016 at par plus accrued interest (the “Outstanding Series 2006 Bonds”). The Outstanding Series 2006 Bonds were used to refinance the (i) City’s Water and Sewer Revenue and Tax Bond, Series 2002 and its Water and Sewer Revenue and Tax Bond, Series 2006, the proceeds of which were used to finance the construction of improvements, renovations and equipping of the City’s water and sewer system (the “City System”), and (ii) the City’s Loan Agreement with The Public Building Authority of Coffee County, Tennessee (the “Authority”) dated as of December 1, 2002 funded from the Authority’s Utility Revenue and Tax Bonds, Series 2002, dated December 30, 2002, the proceeds of which were used to finance the construction of improvements, renovations and extensions to the water treatment and distribution facilities (the “Facilities”) of the Duck River Utility Commission (the “Commission”) which was formed by pursuant to an agreement under the Interlocal Cooperation Act, Sections 12-9-101 et seq., Tennessee Code Annotated, with the City of Tullahoma, Tennessee for the purpose of providing the City and the City of Tullahoma with potable water. The City has authorized and expects to refund the balance of the Outstanding Series 2006 Bonds later this year.

As required by Title 9, Chapter 21, Part 9 of *Tennessee Code Annotated* as supplemented and revised, a plan of refunding (the “Plan”) for the Outstanding Series 2006 Bonds was submitted to the Director of the Office of State and Local Finance for review.

DESCRIPTION OF THE BONDS

The Bonds will be dated and bear interest from the date of issuance July 20, 2016. Interest on the Bonds will be payable semi-annually on August 1 and February 1, commencing February 1, 2017. The Bonds are issuable in registered book-entry form only and in \$5,000 denominations or integral multiples thereof as shall be requested by each respective registered owner.

The Bonds shall be signed by the Mayor and shall be attested by the City Recorder. No Bond shall be valid until it has been authenticated by the manual signature of an authorized representative of the Registration Agent and the date of authentication noted thereon.

SECURITY

The Bonds shall be payable from unlimited ad valorem taxes to be levied on all taxable property within the corporate limits of the City. For the prompt payment of principal of and interest on the Bonds, the full faith and credit of the City are irrevocably pledged. The Bonds shall be additionally payable from, although not secured by, the payments received by the City from the operation of the Facilities.

The City through its governing body, shall annually levy and collect a tax on all taxable property within the City, in addition to all other taxes authorized by law, sufficient to pay the principal of and interest on the Bonds when due. Principal and interest on the Bonds falling due at any time when there are insufficient funds from such tax shall be paid from the current funds of the City and reimbursement therefore shall be made out of taxes provided by the Resolution when the same shall have been collected.

The Bonds will not be obligations of the State of Tennessee.

QUALIFIED TAX-EXEMPT OBLIGATIONS

Under the Internal Revenue Code of 1986, as amended (the “Code”), in the case of certain financial institutions, no deduction from income under the federal tax law will be allowed for that portion of such institution's interest expense which is allocable to tax-exempt interest received on account of tax-exempt obligations acquired after August 7, 1986. The Code, however, provides that certain “qualified tax-exempt obligations,” as defined in the Code, will be treated as if acquired on August 7, 1986. Based on an examination of the Code and the factual representations and covenants of the City as to the Bonds, Bond Counsel has determined that the Bonds upon issuance will be “qualified tax-exempt obligations” within the meaning of the Code.

OPTIONAL REDEMPTION OF THE BONDS

The Bonds maturing August 1, 2017 through August 1, 2021 are not subject to redemption prior to maturity. The Bonds maturing August 1, 2022 and thereafter shall be subject to

redemption, in whole or in part, at a price of par plus accrued interest to the redemption date, on August 1, 2021 and at any time thereafter. If less than all of the Bonds shall be called for redemption, the maturities to be redeemed shall be selected by the Governing Body in its discretion. If less than all of the Bonds within a single maturity shall be called for redemption, the Bonds within the maturity to be redeemed shall be selected as follows:

(a) if the Bonds are being held under a Book-Entry System by DTC, or a successor Depository, the Bonds to be redeemed shall be determined by DTC, or such successor Depository, by lot or such other manner as DTC, or such successor Depository, shall determine; or

(b) if the Bonds are not being held under a Book-Entry System by DTC, or a successor Depository, the Bonds within the maturity to be redeemed shall be selected by the Registration Agent by lot or such other random manner as the Registration Agent in its discretion shall determine.

NOTICE OF REDEMPTION

Notice of call for redemption shall be given by the Registration Agent on behalf of the City not less than twenty (20) nor more than sixty (60) days prior to the date fixed for redemption by sending an appropriate notice to the registered owners of the Bonds to be redeemed by first-class mail, postage prepaid, at the addresses shown on the Bond registration records of the Registration Agent as of the date of the notice; but neither failure to mail such notice nor any defect in any such notice so mailed shall affect the sufficiency of the proceedings for redemption of any of the Bonds for which proper notice was given. An optional redemption notice may state that it is conditioned upon the deposit of moneys in an amount equal to the amount necessary to effect the redemption with the Registration Agent no later than the redemption date (“Conditional Redemption”). As long as DTC, or a successor Depository, is the registered owner of the Bonds, all redemption notices shall be mailed by the Registration Agent to DTC, or such successor Depository, as the registered owner of the Bonds, as and when above provided, and neither the City nor the Registration Agent shall be responsible for mailing notices of redemption to DTC Participants or Beneficial Owners. Failure of DTC, or any successor Depository, to provide notice to any DTC Participant or Beneficial Owner will not affect the validity of such redemption. The Registration Agent shall mail said notices as and when directed by the City pursuant to written instructions from an authorized representative of the City (other than for a mandatory sinking fund redemption, notices of which shall be given on the dates provided herein) given at least forty-five (45) days prior to the redemption date (unless a shorter notice period shall be satisfactory to the Registration Agent). From and after the redemption date, all Bonds called for redemption shall cease to bear interest if funds are available at the office of the Registration Agent for the payment thereof and if notice has been duly provided as set forth herein. In the case of a Conditional Redemption, the failure of the City to make funds available in part or in whole on or before the redemption date shall not constitute an event of default, and the Registration Agent shall give immediate notice to the Depository or the affected Bondholders that the redemption did not occur and that the Bonds called for redemption and not so paid remain outstanding.

BASIC DOCUMENTATION

REGISTRATION AGENT

The Registration Agent, Regions Bank, Nashville, Tennessee, its successor or the City will make all interest payments with respect to the Bonds on each interest payment date directly to Cede & Co., as nominee of DTC, the registered owner as shown on the Bond registration records maintained by the Registration Agent, except as described below.

So long as Cede & Co. is the Registered Owner of the Bonds, as nominee of DTC, references herein to the Bondholders, Holders or Registered Owners of the Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners of the Bonds. For additional information, see the following section.

BOOK-ENTRY-ONLY SYSTEM

The Registration Agent, its successor or the Issuer will make all interest payments with respect to the Bonds on each interest payment date directly to Cede & Co., as nominee of DTC, the registered owner as shown on the Bond registration records maintained by the Registration Agent as of the close of business on the fifteenth day of the month next preceding the interest payment date (the “Regular Record Date”) by check or draft mailed to such owner at its address shown on said Bond registration records, without, except for final payment, the presentation or surrender of such registered Bonds, and all such payments shall discharge the obligations of the Issuer in respect of such Bonds to the extent of the payments so made, except as described above. Payment of principal of the Bonds shall be made upon presentation and surrender of such Bonds to the Registration Agent as the same shall become due and payable.

So long as Cede & Co. is the Registered Owner of the Bonds, as nominee of DTC, references herein to the Bondholders, Holders or Registered Owners of the Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners of the Bonds.

The Bonds, when issued, will be registered in the name of Cede & Co., DTC’s partnership nominee, except as described above. When the Bonds are issued, ownership interests will be available to purchasers only through a book-entry system maintained by DTC (the “Book-Entry-Only System”). One fully-registered bond certificate will be issued for each maturity, in the entire aggregate principal amount of the Bonds and will be deposited with DTC.

DTC and its Participants. DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and

other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a S&P rating of AA+. The DTC Rules applicable to its Participants are on file with the U.S. Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchase of Ownership Interests. Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

Payments of Principal and Interest. Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Registration Agent on the payable date in accordance with their respective holdings shown on DTC's records, unless DTC has reason to believe it will not receive payment on such date. Payments by Direct and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with municipal securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, the Issuer or the Registration Agent subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal, tender price and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Registration Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the beneficial owners shall be the responsibility of Direct and Indirect Participants.

Notices. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them,

subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as practicable after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

NONE OF THE ISSUER, THE UNDERWRITER, THE BOND COUNSEL, THE FINANCIAL ADVISOR OR THE REGISTRATION AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENT TO, OR THE PROVIDING OF NOTICE FOR, SUCH PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES.

Transfers of Bonds. To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

None of the Issuer, the Bond Counsel, the Registration Agent, the Financial Advisor or the Underwriter will have any responsibility or obligation, legal or otherwise, to any party other than to the registered owners of any Bond on the registration books of the Registration Agent.

DISCONTINUANCE OF BOOK-ENTRY-ONLY SYSTEM

In the event that (i) DTC determines not to continue to act as securities depository for the Bonds or (ii) to the extent permitted by the rules of DTC, the Issuer determines to discontinue the Book-Entry-Only System, the Book-Entry-Only System shall be discontinued. Upon the occurrence of the event described above, the Issuer will attempt to locate another qualified

securities depository, and if no qualified securities depository is available, Bond certificates will be printed and delivered to Beneficial Owners.

No Assurance Regarding DTC Practices. The foregoing information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Issuer believes to be reliable, but the Issuer, the Bond Counsel, the Registration Agent, the Financial Advisor and the Underwriter do not take any responsibility for the accuracy thereof. So long as Cede & Co. is the registered owner of the Bonds as nominee of DTC, references herein to the holders or registered owners of the Bonds will mean Cede & Co. and will not mean the Beneficial Owners of the Bonds. None of the Issuer, the Bond Counsel, the Registration Agent, the Financial Advisor or the Underwriter will have any responsibility or obligation to the Participants, DTC or the persons for whom they act with respect to (i) the accuracy of any records maintained by DTC or by any Direct or Indirect Participant of DTC, (ii) payments or the providing of notice to Direct Participants, the Indirect Participants or the Beneficial Owners or (iii) any other action taken by DTC or its partnership nominee as owner of the Bonds.

For more information on the duties of the Registration Agent, please refer to the Resolution. Also, please see the section entitled "SECURITIES OFFERED – Redemption."

DISPOSITION OF BOND PROCEEDS

The proceeds of the sale of the Bonds shall be applied by the City as follows:

- (a) an amount, which together with investment earnings thereon and legally available funds of the City shall be deposited with the paying agent for the Outstanding Series 2006 Bonds or with an escrow agent under a refunding escrow agreement which is hereby authorized for said purpose to be entered into by the Mayor and the Finance Director, and used to pay principal of and interest on a portion of Outstanding Series 2006 Bonds as described herein within ninety days of the issuance of the Bonds; and
- (b) the remainder of the proceeds of the sale of the Bonds shall be used to pay the costs of issuance of the Bonds, including necessary legal, accounting and fiscal expenses, printing, engraving, advertising and similar expenses, bond insurance premium, if any, administrative and clerical costs, rating agency fees, Registration Agent fees, and other miscellaneous expenses incurred in connection with the issuance and sale of the Bonds.

DISCHARGE AND SATISFACTION OF BONDS

If the City shall pay and discharge the indebtedness evidenced by any of the Bonds in any one or more of the following ways:

1. By paying or causing to be paid, by deposit of sufficient funds as and when required with the Registration Agent, the principal of and interest on such Bonds as and when the same become due and payable;

2. By depositing or causing to be deposited with any trust company or financial institution whose deposits are insured by the Federal Deposit Insurance Corporation or similar federal agency and which has trust powers (“an Agent”; which Agent may be the Registration Agent) in trust or escrow, on or before the date of maturity or redemption, sufficient money or Defeasance Obligations, as hereafter defined, the principal of and interest on which, when due and payable, will provide sufficient moneys to pay or redeem such Bonds and to pay interest thereon when due until the maturity or redemption date (provided, if such Bonds are to be redeemed prior to maturity thereof, proper notice of such redemption shall have been given or adequate provision shall have been made for the giving or such notice);
3. By delivering such Bonds to the Registration Agent for cancellation by it;

and if the City shall also pay or cause to be paid all other sums payable hereunder by the City with respect to such Bonds, or make adequate provision therefor, and by resolution of the Governing Body instruct any such escrow agent to pay amounts when and as required to the Registration Agent for the payment of principal of and interest on such Bonds when due, then and in that case the indebtedness evidenced by such Bonds shall be discharged and satisfied and all covenants, agreements and obligations of the City to the holders of such Bonds shall be fully discharged and satisfied and shall thereupon cease, terminate and become void.

If the City shall pay and discharge the indebtedness evidenced by any of the Bonds in the manner provided in either clause (a) or clause (b) above, then the registered owners thereof shall thereafter be entitled only to payment out of the money or Defeasance Obligations (defined herein) deposited as aforesaid.

Except as otherwise provided in this section, neither Defeasance Obligations nor moneys deposited with the Registration Agent nor principal or interest payments on any such Defeasance Obligations shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal and interest on said Bonds; provided that any cash received from such principal or interest payments on such Defeasance Obligations deposited with the Registration Agent, (A) to the extent such cash will not be required at any time for such purpose, shall be paid over to the City as received by the Registration Agent and (B) to the extent such cash will be required for such purpose at a later date, shall, to the extent practicable, be reinvested in Defeasance Obligations maturing at times and in amounts sufficient to pay when due the principal and interest to become due on said Bonds on or prior to such redemption date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall be paid over to the City, as received by the Registration Agent. For the purposes hereof, Defeasance Obligations shall mean direct obligations of, or obligations, the principal of and interest on which are guaranteed by, the United States of America, or any agency thereof, obligations of any agency or instrumentality of the United States or any other obligations at the time of the purchase thereof are permitted investments under Tennessee law for the purposes described herein, which bonds or other obligations shall not be subject to redemption prior to their maturity other than at the option of the registered owner thereof.

REMEDIES OF BONDHOLDERS

Under Tennessee law, any Bondholder has the right, in addition to all other rights:

(1) By mandamus or other suit, action or proceeding in any court of competent jurisdiction to enforce its rights against the City, including, but not limited to, the right to require the City to assess, levy and collect taxes adequate to carry out any agreement as to, or pledge of, such taxes, fees, rents, tolls, or other charges, and to require the City to carry out any other covenants and agreements, or

(2) By action or suit in equity, to enjoin any acts or things which may be unlawful or a violation of the rights of such Bondholder.

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LEGAL MATTERS

LITIGATION

There are no suits threatened or pending challenging the legality or validity of the Bonds or the right of the City to sell or issue the Bonds. See the subsection entitled Closing Certificates for additional information.

TAX MATTERS

Federal

General. Bass, Berry & Sims PLC, Nashville, Tennessee, is Bond Counsel for the Bonds. Their opinion under existing law, relying on certain statements by the City and assuming compliance by the City with certain covenants, is that interest on the Bonds:

- is excluded from a bondholder's federal gross income under the Internal Revenue Code of 1986 (the "Code"),
- is not a preference item for a bondholder under the federal alternative minimum tax, and
- is included in the adjusted current earnings of a corporation under the federal corporate alternative minimum tax.

The Code imposes requirements on the Bonds that the City must continue to meet after the Bonds are issued. These requirements generally involve the way that Bond proceeds must be invested and ultimately used. If the City does not meet these requirements, it is possible that a bondholder may have to include interest on the Bonds in its federal gross income on a retroactive basis to the date of issue. The City has covenanted to do everything necessary to meet these requirements of the Code.

A bondholder who is a particular kind of taxpayer may also have additional tax consequences from owning the Bonds. This is possible if a bondholder is:

- an S corporation,
- a United States branch of a foreign corporation,
- a financial institution,
- a property and casualty or a life insurance company,
- an individual receiving Social Security or railroad retirement benefits,
- an individual claiming the earned income credit, or
- a borrower of money to purchase or carry the Bonds.

If a bondholder is in any of these categories, it should consult its tax advisor.

Bond Counsel is not responsible for updating its opinion in the future. It is possible that future events or changes in applicable law could change the tax treatment of the interest on the Bonds or affect the market price of the Bonds. See also "Changes in Federal and State Tax Law" below in this heading.

Bond Counsel expresses no opinion on the effect of any action taken or not taken in reliance upon an opinion of other counsel on the federal income tax treatment of interest on the Bonds, or under State, local or foreign tax law.

Bond Premium. If a bondholder purchases a Bond for a price that is more than the principal amount, generally the excess is "bond premium" on that Bond. The tax accounting treatment of bond premium is complex. It is amortized over time and as it is amortized a bondholder's tax basis in that Bond will be reduced. The holder of a Bond that is callable before its stated maturity date may be required to amortize the premium over a shorter period, resulting in a lower yield on such Bonds. A bondholder in certain circumstances may realize a taxable gain upon the sale of a Bond with bond premium, even though the Bond is sold for an amount less than or equal to the owner's original cost. If a bondholder owns any Bonds with bond premium, it should consult its tax advisor regarding the tax accounting treatment of bond premium.

Qualified Tax-Exempt Obligations. Under the Code, in the case of certain financial institutions, no deduction from income under the federal tax law will be allowed for that portion of such institution's interest expense which is allocable to tax-exempt interest received on account of tax-exempt obligations acquired after August 7, 1986. The Code, however, provides that certain "qualified tax-exempt obligations", as defined in the Code, will be treated as if acquired on August 7, 1986. Based on an examination of the Code and the factual representations and covenants of the City as to the Bonds, Bond Counsel has determined that the Bonds upon issuance will be "qualified tax-exempt obligations" within the meaning of the Code.

Information Reporting and Backup Withholding. Information reporting requirements apply to interest on tax-exempt obligations, including the Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with a Form W-9, "Request for Taxpayer Identification Number and Certification," or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Bonds from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's Federal income tax once the required information is furnished to the Internal Revenue Service.

State Taxes

Under existing law, the Bonds and the income therefrom are exempt from all present state, county and municipal taxes in Tennessee except (a) inheritance, transfer and estate taxes,

(b) Tennessee excise taxes on interest on the Bonds during the period the Bonds are held or beneficially owned by any organization or entity, or other than a sole proprietorship or general partnership doing business in the State of Tennessee, and (c) Tennessee franchise taxes by reason of the inclusion of the book value of the Bonds in the Tennessee franchise tax base of any organization or entity, other than a sole proprietorship or general partnership, doing business in the State of Tennessee.

CHANGES IN FEDERAL AND STATE TAX LAW

From time to time, there are presidential proposals, proposals of various federal committees, and legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to herein or adversely affect the marketability or market value of the Bonds or otherwise prevent holders of the Bonds from realizing the full benefit of the tax exemption of interest on the Bonds. Further, such proposals may impact the marketability or market value of the Bonds simply by being proposed. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value, marketability or tax status of the Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Bonds would be impacted thereby. Purchasers of the Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Bonds, and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any proposed or pending legislation, regulatory initiatives or litigation.

Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

CLOSING CERTIFICATES

Upon delivery of the Bonds, the City will execute in a form satisfactory to Bond Counsel, certain closing certificates including the following: (i) a certificate as to the *Official Statement*, in final form, signed by the Mayor acting in his official capacity to the effect that to the best of his knowledge and belief, and after reasonable investigation, (a) neither the *Official Statement*, in final form, nor any amendment or supplement thereto, contains any untrue statements of material fact or omits to state any material fact necessary to make statements therein, in light of the circumstances in which they are made, misleading, (b) since the date of the *Official Statement*, in final form, no event has occurred which should have been set forth in such a memo or supplement, (c) there has been no material adverse change in the operation or the affairs of the City since the date of the *Official Statement*, in final form, and having attached thereto a copy of the *Official Statement*, in final form, and (d) there is no litigation of any nature pending or threatened seeking to restrain the issuance, sale, execution and delivery of the Bonds, or contesting the validity of the Bonds or any proceeding taken pursuant to which the Bonds were authorized; (ii) certificates as to the delivery and payment, signed by the Mayor acting in his official capacity, evidencing delivery of and

payment for the Bonds; (iii) a signature identification and incumbency certificate, signed by the Mayor and Finance Director acting in their official capacities certifying as to the due execution of the Bonds; and, (iv) a Continuing Disclosure Certificate regarding certain covenants of the City concerning the preparation and distribution of certain annual financial information and notification of certain material events, if any.

APPROVAL OF LEGAL PROCEEDINGS

Certain legal matters relating to the authorization and the validity of the Bonds are subject to the approval of Bass, Berry & Sims PLC, Nashville, Tennessee, bond counsel. Bond counsel has not prepared the *Preliminary Official Statement* or the *Official Statement*, in final form, or verified their accuracy, completeness or fairness. Accordingly, bond counsel expresses no opinion of any kind concerning the *Preliminary Official Statement* or *Official Statement*, in final form, except for the information in the section entitled “LEGAL MATTERS - Tax Matters.” The opinion of Bond Counsel will be limited to matters relating to authorization and validity of the Bonds and to the tax-exemption of interest on the Bonds under present federal income tax laws, both as described above. The legal opinion will be delivered with the Bonds and the form of the opinion is included in APPENDIX A. For additional information, see the section entitled “MISCELLANEOUS – “Competitive Public Sale”, “Additional Information” and “Continuing Disclosure.”

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MISCELLANEOUS

RATING

S&P Global Ratings (“S&P”) has given the Bonds the rating of “AA”, respectively.

There is no assurance that such rating will continue for any given period of time or that the rating may not be suspended, lowered or withdrawn entirely by S&P, if circumstances so warrant. Due to the ongoing uncertainty regarding the economy of the United States of America, including, without limitation, matters such as the future political uncertainty regarding the United States debt limit, obligations issued by state and local governments, such as the Bonds, could be subject to a rating downgrade. Additionally, if a significant default or other financial crisis should occur in the affairs of the United States or of any of its agencies or political subdivisions, then such event could also adversely affect the market for and ratings, liquidity, and market value of outstanding debt obligations, including the Bonds. Any such downward change in or withdrawal of the rating may have an adverse effect on the secondary market price of the Bonds.

The rating reflects only the views of S&P and any explanation of the significance of such rating should be obtained from S&P.

COMPETITIVE PUBLIC SALE

The Bonds were offered for sale at competitive public bidding on June 20, 2016. Details concerning the public sale were provided to potential bidders and others in the *Preliminary Official Statement* that was dated June 9, 2016.

The successful bidder for the Bonds was an account led by Robert W. Baird & Co., Incorporated, Milwaukee, Wisconsin (the “Underwriters”) who contracted with the City, subject to the conditions set forth in the Official Notice of Sale and Official Bid Form to purchase the Bonds at a purchase price of \$6,347,008.80 (consisting of the par amount of the Bonds, plus a reoffering premium of \$152,772.25 less an underwriter’s discount of \$45,763.45) or 101.715% of par.

FINANCIAL ADVISOR; RELATED PARTIES; OTHER

Financial Advisor. Cumberland Securities Company, Inc., Knoxville, Tennessee, has served as financial advisor (the “Financial Advisor”) to the City for purposes of assisting with the development and implementation of a bond structure in connection with the issuance of the Bonds. The Financial Advisor has not been engaged by the City to compile, create, or interpret any information in the PRELIMINARY OFFICIAL STATEMENT and OFFICIAL STATEMENT relating to the City, including without limitation any of the City’s financial and operating data, whether historical or projected. Any information contained in the PRELIMINARY OFFICIAL STATEMENT and OFFICIAL STATEMENT concerning the City, any of its affiliates or contractors and any outside parties has not been independently verified by the Financial Advisor, and inclusion of such information is not, and should not be construed as, a representation by the Financial Advisor as to its accuracy or completeness or otherwise. The Financial Advisor is not a public accounting firm and has not been engaged by the City to review

or audit any information in the PRELIMINARY OFFICIAL STATEMENT and OFFICIAL STATEMENT in accordance with accounting standards.

Regions Bank. Regions Bank (the “Bank”) is a wholly-owned subsidiary of Regions Financial Corporation. The Bank provides, among other services, commercial banking, investments and corporate trust services to private parties and to State and local jurisdictions, including serving as registration, paying agent or filing agent related to debt offerings. The Bank will receive compensation for its role in serving as Registration and Paying Agent for the Bonds. In instances where the Bank serves the City in other normal commercial banking capacities, it will be compensated separately for such services.

Official Statements. Certain information relative to the location, economy and finances of the Issuer is found in the PRELIMINARY OFFICIAL STATEMENT, in final form and the OFFICIAL STATEMENT, in final form. Except where otherwise indicated, all information contained in this Official Statement has been provided by the Issuer. The information set forth herein has been obtained by the Issuer from sources which are believed to be reliable but is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation of, the Financial Advisor or the Underwriter. The information contained herein is subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create an implication that there has been no change in the affairs of the Issuer, or the other matters described herein since the date hereof or the earlier dates set forth herein as of which certain information contained herein is given.

Cumberland Securities Company, Inc. distributed the PRELIMINARY OFFICIAL STATEMENT, in final form, and the OFFICIAL STATEMENT, in final form on behalf of the City and will be compensated and/or reimbursed for such distribution and other such services.

Bond Counsel. From time to time, Bass, Berry & Sims PLC represents the Bank on legal matters unrelated to the City.

Other. Among other services, Cumberland Securities Company, Inc. and the Bank may also assist local jurisdictions in the investment of idle funds and may serve in various other capacities, including Cumberland Securities Company’s role as serving as the City’s Dissemination Agent. If the City chooses to use one or more of these other services provided by Cumberland Securities Company, Inc. and/or the Bank, then Cumberland Securities Company, Inc. and/or the Bank may be entitled to separate compensation for the performance of such services.

DEBT RECORD

There is no record of default on principal or interest payments of the Issuer. Additionally, no agreements or legal proceedings of the Issuer relating to securities have been declared invalid or unenforceable.

ADDITIONAL DEBT

The City has authorized the issue of up to \$5,000,000 of General Obligation Bonds for various City projects including but not limited to improvement to the City's Water and Sewer System and refunding bonds in an amount necessary to refinance the remaining Outstanding Series 2006 Bonds and the Series Z-4-A Loan Agreement.

CONTINUING DISCLOSURE

The City will at the time the Bonds are delivered execute a Continuing Disclosure Certificate under which it will covenant for the benefit of holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the City by not later than twelve months after the end of each fiscal year commencing with the fiscal year ending June 30, 2016 (the "Annual Report"), and to provide notice of the occurrence of certain significant events not later than ten business days after the occurrence of the events and notice of failure to provide any required financial information of the City. The Annual Report (and audited financial statements if filed separately) and notices described above will be filed by the City with the Municipal Securities Rulemaking Board ("MSRB") at www.emma.msrb.org and with any State Information Depository which may be established in Tennessee (the "SID"). The specific nature of the information to be contained in the Annual Report or the notices of events is summarized below. These covenants have been made in order to assist the Underwriters in complying with U.S. Securities and Exchange Commission Rule 15c2-12(b), as it may be amended from time to time (the "Rule").

Five-Year History of Filing. In the past five years, the City has filed its Annual Reports at www.emma@msrb.org under the base CUSIP Number 562400 which is the base CUSIP Number for the City; however, the City inadvertently failed to also file such Annual Reports under the CUSIP Number of certain conduit issuers of bonds for which the City was an obligated person. The City has now additionally filed its Annual Reports for all outstanding bonds for which it is an obligated person under the conduit issuer's CUSIP Number. While it is believed that all appropriate filings were made with respect to the ratings of the City's outstanding bond issues, some of which were insured by the various municipal bond insurance companies, no absolute assurance can be made that all such rating changes of the bonds or various insurance companies which insured some transaction were made or made in a timely manner as required by Rule 15c2-12. With the exception of the foregoing, for the past five years, the City has complied in all material respects with its existing continuing disclosure agreements in accordance with Rule 15c2-12.

Content of Annual Report. The City's Annual Report shall contain or incorporate by reference the General Purpose Financial Statements of the City for the fiscal year, prepared in accordance with generally accepted auditing standards, provided, however, if the City's audited financial statements are not available by the time the Annual Report is required to be filed, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained herein, and the audited financial statements shall be filed when available. The Annual Report shall also include in a similar format the following information included in APPENDIX B entitled "SUPPLEMENTAL INFORMATION STATEMENT."

1. Summary of bonded indebtedness as of the end of such fiscal year as shown on page B-9;
2. The indebtedness and debt ratio as of the end of such fiscal year, together with information about the property tax base as shown on pages B-10 and B-11;
3. Information about the Bonded Debt Service Requirements – General Obligation Debt Service Fund as of the end of such fiscal year as shown on page B-12;
4. Information about the Bonded Debt Service Requirements – Water and Sewer Debt Service Fund as of the end of such fiscal year as shown on page B-13;
5. Information about the Bonded Debt Service Requirements – Duck River Debt Service Fund as of the end of such fiscal year as shown on page B-14;
6. The fund balances and retained earnings for the fiscal year as shown on page B-16;
7. Summary of Revenues, Expenditures and Changes in Fund Balances - General Fund for the fiscal year as shown on page B-17;
8. The estimated assessed value of property in the City for the tax year ending in such fiscal year and the total estimated actual value of all taxable property for such year as shown on page B-23;
9. Property tax rates and tax collections of the City for the tax year ending in such fiscal year as well as the uncollected balance for such fiscal year as shown on page B-23; and
10. The ten largest taxpayers as shown on page B-24.

Any or all of the items listed above may be incorporated by reference from other documents, including OFFICIAL STATEMENTS in final form for debt issues of the City or related public entities, which have been submitted to each of the MSRB or the U.S. Securities and Exchange Commission. If the document incorporated by reference is an OFFICIAL STATEMENT, in final form, it will be available from the MSRB. The City shall clearly identify each such other document so incorporated by reference.

Reporting of Significant Events. The City will file notice regarding material events with the MSRB and the SID, if any, as follows:

1. Upon the occurrence of a Listed Event (as defined in (3) below), the City shall in a timely manner, but in no event more than ten (10) business days after the occurrence of such event, file a notice of such occurrence with the MSRB and SID, if any.
2. For Listed Events where notice is only required upon a determination that such event would be material under applicable Federal securities laws, the City shall

determine the materiality of such event as soon as possible after learning of its occurrence.

3. The following are the Listed Events:
 - a. Principal and interest payment delinquencies;
 - b. Non-payment related defaults, if material;
 - c. Unscheduled draws on debt service reserves reflecting financial difficulties;
 - d. Unscheduled draws on credit enhancements reflecting financial difficulties;
 - e. Substitution of credit or liquidity providers, or their failure to perform;
 - f. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;
 - g. Modifications to rights of Bondholders, if material;
 - h. Bond calls, if material, and tender offers;
 - i. Defeasances;
 - j. Release, substitution, or sale of property securing repayment of the securities, if material;
 - k. Rating changes;
 - l. Bankruptcy, insolvency, receivership or similar event of the obligated person;
 - m. The consummation of a merger, consolidation or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
 - n. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

Termination of Reporting Obligation. The City's obligations under the Continuing Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds.

Amendment; Waiver. Notwithstanding any other provision of the Continuing Disclosure Certificate, the City may amend the Continuing Disclosure Certificate, and any provision of the Continuing Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions concerning the Annual Report and Reporting of Significant Events it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or beneficial owners of the Bonds.

In the event of any amendment or waiver of a provision of the Continuing Disclosure Certificate, the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Default. In the event of a failure of the City to comply with any provision of the Continuing Disclosure Certificate, any Bondholder or any beneficial owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under the Continuing Disclosure Certificate. A default under the Continuing Disclosure Certificate shall not be deemed an event of default, if any, under the Resolution, and the sole remedy under the Continuing Disclosure Certificate in the event of any failure of the City to comply with the Continuing Disclosure Certificate shall be an action to compel performance.

ADDITIONAL INFORMATION

Use of the words "shall," "must," or "will" in the PRELIMINARY OFFICIAL STATEMENT and OFFICIAL STATEMENT in summaries of documents or laws to describe future events or continuing obligations is not intended as a representation that such event will

occur or obligation will be fulfilled but only that the document or law contemplates or requires such event to occur or obligation to be fulfilled.

Any statements made in the PRELIMINARY OFFICIAL STATEMENT and OFFICIAL STATEMENT involving estimates or matters of opinion, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates or matters of opinion will be realized. Neither the PRELIMINARY OFFICIAL STATEMENT and OFFICIAL STATEMENT nor any statement which may have been made orally or in writing is to be construed as a contract with the owners of the Bonds.

The references, excerpts and summaries contained herein of certain provisions of the laws of the State of Tennessee, and any documents referred to herein, do not purport to be complete statements of the provisions of such laws or documents, and reference should be made to the complete provisions thereof for a full and complete statement of all matters of fact relating to the Bonds, the security for the payment of the Bonds, and the rights of the holders thereof.

The PRELIMINARY OFFICIAL STATEMENT and OFFICIAL STATEMENT, in final form, and any advertisement of the Bonds, is not to be construed as a contract or agreement between the City and the purchasers of any of the Bonds. Any statements or information printed in this PRELIMINARY OFFICIAL STATEMENT or the OFFICIAL STATEMENT, in final form, involving matters of opinions or of estimates, whether or not expressly so identified, is intended merely as such and not as representation of fact.

The City has deemed this OFFICIAL STATEMENT as “final” as of its date within the meaning of Rule 15c2-12.

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CERTIFICATION OF ISSUER

On behalf of the City, we hereby certify that to the best of our knowledge and belief, the information contained herein as of this date is true and correct in all material respects, and does not contain an untrue statement of material fact or omit to state a material fact required to be stated where necessary to make the statement made, in light of the circumstance under which they were made, not misleading.

/s/ Lonnie Norman
City Mayor

ATTEST:

/s/ Bridget Anderson
Finance Director

FORM OF LEGAL OPINION

(Form of Bond Counsel Opinion)

Bass, Berry & Sims PLC
150 Third Avenue South
Nashville, Tennessee 37201

July 20, 2016

Board of Mayor and Aldermen
City of Manchester, Tennessee
Manchester, Tennessee

Robert W. Baird & Co., Incorporated
Milwaukee, Wisconsin

Ladies and Gentlemen:

We have acted as bond counsel to the City of Manchester, Tennessee (the "Issuer") in connection with the issuance of \$6,240,000 General Obligation Refunding Bonds, Series 2016A, dated the date hereof (the "Bonds"). We have examined the law and such certified proceedings and other papers as we deemed necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify such facts by independent investigation.

Based on our examination, we are of the opinion, as of the date hereof, as follows:

1. The Bonds have been duly authorized, executed and issued in accordance with the constitution and laws of the State of Tennessee and constitute valid and binding general obligations of the Issuer.

2. The resolution of the Board of Mayor and Aldermen of the Issuer authorizing the Bonds has been duly and lawfully adopted, is in full force and effect and is a valid and binding agreement of the Issuer enforceable in accordance with its terms.

3. The principal of and interest on the Bonds are payable from unlimited ad valorem taxes to be levied on all taxable property within the corporate limits of the Issuer. For the prompt payment of principal of and interest on the Bonds, the Issuer has irrevocably pledged its full faith and credit.

4. Interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account in determining the adjusted current earnings of certain corporations for purposes of the alternative minimum tax on corporations. The opinion set forth in the preceding sentence is subject to the condition that the Issuer comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. Failure to comply with certain of such requirements could cause interest on the Bonds to be so included in gross income retroactive to the date of issuance of the Bonds. The Issuer has

covenanted to comply with all such requirements. Except as set forth in this Paragraph 4 and Paragraph 6 below, we express no opinion regarding other federal tax consequences arising with respect to the Bonds.

5. Under existing law, the Bonds and the income therefrom are exempt from all present state, county and municipal taxes in Tennessee except (a) inheritance, transfer and estate taxes, (b) Tennessee excise taxes on all or a portion of the interest on any of the Bonds during the period such Bonds are held or beneficially owned by any organization or entity, other than a sole proprietorship or general partnership, doing business in the State of Tennessee, and (c) Tennessee franchise taxes by reason of the inclusion of the book value of the Bonds in the Tennessee franchise tax base of any organization or entity, other than a sole proprietorship or general partnership doing business in the State of Tennessee.

6. The Bonds are "qualified tax-exempt obligations" within the meaning of Section 265 of the Code.

It is to be understood that the rights of the owners of the Bonds and the enforceability of the Bonds and the resolution authorizing the Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and that their enforcement may be subject to the exercise of judicial discretion in accordance with general principles of equity.

We express no opinion herein as to the accuracy, adequacy or completeness of the Official Statement relating to the Bonds.

This opinion is given as of the date hereof, and we assume no obligation to update or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Yours truly,

Bass, Berry & Sims PLC

SUPPLEMENTAL INFORMATION STATEMENT

GENERAL INFORMATION

LOCATION

The City of Manchester, (the “City”) is the county seat of Coffee County (the “County”), Tennessee, is located in the south central portion of the State of Tennessee. The County is bounded on the north by Cannon County and on the south by Franklin County. To the east the County is bordered by Warren and Grundy County and to the west by Bedford and Moore counties. Manchester is in the north central section of the County and is located directly on Interstate 24, a main artery between the cities of Chattanooga and Nashville. The City of Tullahoma is located primarily in Coffee County with a portion in Franklin County.

GENERAL

The County land area is approximately 278,000 acres, or 435 square miles, in size. The majority of the County lies along the Highland Rim, a natural division of the state, at an average elevation of 1,050 feet above sea level. The general relief of the Highland Rim is gently rolling to rolling and has traditionally been a fertile farming area producing a variety of crops such as hay, corn, potatoes, cotton, tobacco and fruits. Farming accounts for about 72% of the County's land use. Aside from farming, livestock, poultry and dairy products are a major industry.

Tullahoma was designated a Micropolitan Statistical Area (the “mSA”) that had a population of 93,024 according to the 2010 US Census. An mSA is defined by the U.S. Census Bureau as a non-urban community that is anchored by a town of no more than 50,000 residents. The mSA includes Coffee, Franklin and Moore Counties. According to the 2010 Census, Coffee County has a population of 52,796 and Manchester has 10,102. The 2010 Census puts the City of Tullahoma's population at 18,655.

GOVERNMENT

A Board of Mayor and Aldermen govern the City. Aldermen are elected for three-year overlapping terms on an at-large basis. Their primary responsibility is to represent the citizens of the community through the establishment of policies. These policies may take the form of ordinances, resolutions or motions that establish the laws, proceedings, and service levels for the City. The Mayor, whose term expires in August 2003, is elected for a four-year term. The Board of Mayor and Aldermen constitute the Legislative Branch or governing body of the City.

The Board of Mayor and Aldermen appoints a City Manager whose responsibilities include executive and administrative supervision over all departments. The City Manager is the chief executive officer of the City, a direct representative of the Board of Mayor and Aldermen acting on behalf of and in absence of the Board of Mayor and Aldermen. The City Manager assists the Board of Mayor and Aldermen in carrying out their responsibilities outlined in the City Charter but does not substitute or release the Board of Mayor and Aldermen of ultimate responsibility.

TRANSPORTATION

Interstate 24 runs through the County with 4 exits in Manchester. Transportation is also provided by US Highway 41 and State Highways 53, 55 and 130. Rail service is provided by CSX Transportation. The County has a community airport, the Tullahoma Regional / Northern Field Airport with a 5,001-foot runway. The Nashville International Airport located about 70 miles away is the closest commercial airport to the County.

EDUCATION

The *Coffee County School System* has seven elementary grade schools, one middle school and two high schools. The fall 2014 enrollment was 4,575 students with about 292 teachers. The *City of Manchester* has a school system made up of two elementary grade schools and one grade middle school. Fall 2014 student population was 1,328 with 98 teachers. The *City of Tullahoma* also has a school system with four elementary schools, two middle schools and one high school. Total fall 2014 enrollment for this system was 3,513 with 225 teachers.

Source: Tennessee Department of Education.

There are five colleges within a 35-mile radius:

Middle Tennessee State University in Murfreesboro was founded in 1911 as one of three state normal schools for teacher training. MTSU is now the oldest and largest public university in Middle Tennessee, and is a Tennessee Board of Regents Institution. The campus consists of 137 buildings on 504 acres and had a fall 2014 enrollment of 23,006. MTSU offers Bachelor degrees in eight areas: Arts, Business Administration, Fine Arts, Music, Science, Science in Nursing, Social Work, and University Studies. The College of Graduate Studies confers Master's degrees in ten areas, the Specialist in Education degree, the Doctor of Arts degree, and the Doctor of Philosophy degree.

Source: Middle Tennessee State University and TN Higher Education Commission.

Motlow State Community College is an accredited public comprehensive community college that had a fall 2014 enrollment of 4,793 students. The college was founded in 1969 and is located in Tullahoma in Coffee County, Tennessee. The associate degree program offers students an opportunity to earn an Associate of Arts or Associate of Science degree designed for transfer to a four-year-college or university. Motlow State has offices and classrooms in Fayetteville, McMinnville and Smyrna.

Source: Motlow State Community College and TN Higher Education Commission.

Sewanee: The University of the South. The University of the South, popularly known as Sewanee, is a private school located on a 13,000-acre campus atop Tennessee's Cumberland Plateau in Franklin County. Founded by leaders of the Episcopal Church in 1857, Sewanee continues to be owned by 28 Episcopal dioceses in 12 states and is committed to an academic curriculum which focuses on the liberal arts as the most enlightening and valuable form of undergraduate education. The University consists of a College of Arts and Sciences which offers 36 majors, 27 minors, and 15 special programs, along with pre-medicine, pre-nursing, pre-law, and pre-business. Sewanee has about 1,400 students enrolled.

Source: University of the South and Franklin County Chamber of Commerce.

The *University of Tennessee Space Institute* (UTSI) is a graduate education and research institution located outside of Tullahoma, Tennessee adjacent to the U. S. Air Force Arnold Engineering Development Center. UTSI was established in 1964 as part of The University of Tennessee and has become an internationally recognized institution for graduate study and research in engineering, physics, mathematics, and aviation systems and has made remarkable contributions at the local, state, national, and global levels. Almost 1,500 graduate degrees -- including more than 180 doctorates -- have been awarded through UTSI.

UTSI is an institution unlike any in the United States, perhaps even the entire world. It plays a unique role of vital importance to the US Air Force, and is thus a critical element in the preservation of freedoms and security that Americans have long come to enjoy. It was founded in the wake of two technological revolutions – the development of the airplane and the development of the rocket. In the years since 1964, UTSI’s faculty, students, and alumni have played critical roles in the furthering of American technological superiority in aeronautics and space arenas.

Source: University of Tennessee Space Institute.

The Tennessee Technology Center at Murfreesboro. The Tennessee Technology Center at Murfreesboro is part of a statewide system of 26 vocational-technical schools. The Tennessee Technology Center meets a Tennessee mandate that no resident is more than 50 miles from a vocational-technical shop. The institution’s primary purpose is to meet the occupational and technical training needs of the citizens including employees of existing and prospective businesses and industries in the region. The Technology Center at Murfreesboro serves the central region of the state including Rutherford, Wilson, Cannon, and Coffee Counties. The Technology Center at Murfreesboro began operations in 1967, and the main campus is located in Rutherford County. Fall 2013 enrollment was 5,544 students.

Source: Tennessee Technology Center at Murfreesboro and TN Higher Education Commission.

MEDICAL

Harton Regional Medical Center. Harton Regional Medical Center is presently a 135-licensed bed acute hospital located in Tullahoma in Coffee County. There are over 75 full-time physicians on staff specializing in over 25 specialties. In early 2015 construction was completed on a \$4.9 million expansion of the critical care unit. The 10,000 square foot CCU triples the size of the former space, expanding the unit from eight to 14 all-private rooms.

The facility first opened in 1965 with 47 beds. Harton Regional is part of the Health Management Associates (the “HMA”) with other facilities in Jamestown and Lebanon. Health Management Associates was founded in 1977 to own, lease and manage hospitals throughout the United States. HMA currently operates 56 hospitals in 15 states with approximately 8,000 licensed beds. The Company hosts a medical staff of approximately 10,000 physicians.

Source: Health Management Associates, Inc.

United Regional Medical Center. United Regional Medical Center (the “URMC”) is a 79-bed, physician-owned, acute-care, full-service community hospital located in Manchester. Formerly known as the Coffee Medical Center, it was bought in 2002 by a group of 44 physicians. United Regional Medical Center and Medical Center of Manchester, located less than 3 miles away, have

embarked upon the first steps toward a combination of the two hospitals, according to a press release issued in 2014 by representatives from both hospitals. The move would mean both hospitals will combine operations and move operations into the Medical Center of Manchester location.

Source: United Regional Medical Center.

MANUFACTURING AND COMMERCE

Arnold Engineering Development Center (Arnold Air Force Base). Arnold Engineering Development Center (or “AEDC”) is located both in Coffee and Franklin Counties on a 41,300 acre site. The Center is the most advanced and largest complex of flight simulation test facilities in the world with a replacement value of more than \$11.8 billion. The total economic impact for fiscal year 2014 is estimated to be \$620.9 million. They continue to be a leader in aerospace ground testing and a vital element in our nation's defense. They have made major contributions in the development of nearly every aerospace weapon system in the DOD inventory today. Twenty-seven of the center’s test units have capabilities unmatched elsewhere in the United States; 14 are unique in the world. This is a joint venture between the U.S. Air Force and civilian contractors.

AEDC employs a mixture of active-duty military personnel from the Air Force and Navy; Department of Defense civilians; and contractor personnel, which totaled 2,310 personnel in 2014. Of the 2,310 personnel, 52 were active-duty military; two Air Force Reserve and National Guard; 291 appropriated fund civilian employees (includes general schedule, federal wage board and other military branches); 60 government non-appropriated fund employees; 30 other civilians (credit union, Base Exchange and commissary tenants); and 1,875 contractor and sub-contractor employees.

Bonnaroo Music Festival. The County is also host to the Bonnaroo Music Festival that brings in over 85,000 people each year. The last time a study was conducted, in 2012, Bonnaroo had a \$51 million economic impact and direct local spending reached \$36 million. Bonnaroo also contributes \$3 from each ticket sold to the Manchester and Coffee County governments. That money has helped build a community arts center and recreation center. The festival also allows local organizations to run concession booths, which bring between \$15,000 and \$25,000 annually.

Source: Manchester Area Chamber of Commerce and Knoxville News Sentinel.

Industrial Parks. Coffee County (including the cities of Manchester and Tullahoma) has available industrial property in three industrial parks totaling almost 1,600 acres. The County owns two of these parks: Coffee County Interstate Industrial Park is 795 acres 1.5 miles southeast of Manchester and Coffee County Joint Industrial Park is 415 acres 6 miles southwest of Manchester. Manchester Industrial Park is 405 acres owned by the City and is 5 miles southeast of Manchester.

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A partial list of the major employers in the County follows:

Major Employers in Coffee County

<u>Company</u>	<u>Product</u>	<u>Employees</u>
Aerospace Testing Alliance	Environmental Testing	2,235
M-Tek, Inc.	Interior Auto Parts	1,577
Harton Regional Medical Center	Hospital	550
Batesville Casket Company	Steel Caskets	408
VIAM Manufacturing	Auto Floor Mats	370
Van-Rob Manchester	Metal stampings	300
United Technologies Aerospace	Aircraft Landing Gear	300
TE Connectivity	Electrical Connectors	239
Cubic Transportation Systems	Sheet Metal Work	235
Wisco Envelope Co.	Commercial envelopes	202
JSP International	Engineered Plastic Foam	177
Jacobs Technology, Inc.	Manufacturing	170
Schmiede Corp.	Precision Machinery	157
Sonoco Corporation	Custom Molded Packaging	150
City of Tullahoma	Government	139
City of Manchester	Government	136
Ravago Mfg. Americas, LLC	Nylon / ABS compounding	121
Technology Group-Sverdrup Center	Manufacturing	115
Great Lake Cheese	Cheeses	109
Reliable Carriers	Trucking Warehousing	105
Tullahoma Industries	Government Apparel	100
Coca-Cola Bottling	Soft Drinks	95
Tennessee Apparel Corp.	Clothing	94
Aspen Technologies	Molded Polyurethane Foam	78
MDS Foods South, LLC	Distribution	77
US Display Group	Manufacturing	75
Rogers Group, Inc.	Construction	75
Rock Tenn-Tullahoma Laminated	Manufacturing	67
Micro Craft Inc.	Manufacturing	61
Marcole Industries, Inc.	Wiring Harness	60
Tullahoma News	Publishing Company	60
Fischer Tool & Die	Tool and Die Manufacturing	56
MCA Fabrication, Inc.	Sheet Metal Displays	53
MKC Manufacturing, LLC	Fabrication & Powder Coating Racks	51

Source: Middle Tennessee Industrial Development Association, Coffee County Chamber of Commerce and The Tullahoma News - 2015.

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EMPLOYMENT INFORMATION

As of January 2016, the unemployment rate in Coffee County stood at 4.7%, representing 23,160 persons employed out of a workforce of 24,290.

For the month of January 2016, the unemployment rate for the Tullahoma mSA stood at 4.6% with 44,770 persons employed out of a labor force of 46,910.

Unemployment

	Annual Average	Annual Average	Annual Average	Annual Average	Annual Average
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
National	8.9%	8.1%	7.4%	6.2%	5.3%
Tennessee	9.2%	8.0%	8.2%	6.7%	5.8%
Coffee County	9.3%	7.5%	7.3%	6.3%	5.6%
Index vs. National	104	93	99	102	106
Index vs. State	101	94	89	94	97
Tullahoma mSA	9.3%	7.6%	7.4%	6.1%	5.4%
Index vs. National	104	94	100	98	102
Index vs. State	101	95	90	91	93

Source: Tennessee Department of Employment Security, CPS Labor Force Estimates Summary.

ECONOMIC DATA

Per Capita Personal Income

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
National	\$40,277	\$42,453	\$44,266	\$44,438	\$46,049
Tennessee	\$35,601	\$37,323	\$39,137	\$39,312	\$40,457
Coffee County	\$32,712	\$34,107	\$35,611	\$35,871	\$37,295
Index vs. National	81	80	80	81	81
Index vs. State	92	91	91	91	92
Tullahoma mSA	\$31,302	\$32,709	\$34,298	\$34,746	\$36,134
Index vs. National	78	77	77	78	78
Index vs. State	88	88	88	88	89

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Social and Economic Characteristics

	<u>National</u>	<u>Tennessee</u>	<u>Coffee County</u>	<u>Manchester</u>	<u>Tulahoma</u>
Median Value Owner Occupied Housing	\$175,700	\$139,900	\$118,000	\$112,500	\$118,700
% High School Graduates or Higher Persons 25 Years Old and Older	86.30%	84.90%	83.2%	80.0%	87.1%
% Persons with Income Below Poverty Level	14.80%	18.30%	16.8%	29.2%	19.2%
Median Household Income	\$53,482	\$44,621	\$39,656	\$38,063	\$35,665

Source: U.S. Census Bureau State & County QuickFacts - 2014.

RECREATION

Recreation within the County is centered on water activities which take place on the County's three major lakes: Tim's Ford Reservoir, Wood's Reservoir and Normandy Reservoir. Combined, the three lakes provide the County with 406 miles of shoreline and 17,900 acres of water area for recreation. In addition, there are three state parks in the area: Old Stone Fort State Park, Tim's Ford State Park and the Civil War cemetery site in Beech Grove.

Bonnaroo Music Festival. The Bonnaroo Music Festival now has a permanent home in Manchester, Tennessee on 530 acres. The festival that Rolling Stone dubbed, "the American rock festival to end all festivals," attracts nearly 90,000 music fans from around the globe each year. Festival goers make the trek to Manchester to hear top headlining acts like Tom Petty, Dave Matthews, The Police and The Dead rock out on a variety of stages. Each of the 50 states is represented at the Bonnaroo Music Festival, along with 24 countries. The weekend festival brings in so many people that for three days, Manchester actually becomes the state's sixth largest city.

Manchester Recreation Complex. The Manchester Recreation Complex is equipped with two indoor pools, one outdoor play pool, basketball courts, an indoor track, racketball courts, weight machines, cardiovascular exercise apparatus and dance/fitness rooms. This complex draws people from not only Coffee County, but the surrounding counties and stands as one of the best facilities in southern middle Tennessee. The recreational facilities have also been improved to build a greenway which is almost fully completed and stretches along the Duck River, through playground areas, and will eventually run all of the way out to Old Stone Fort State Park.

Source: Manchester Chamber of Commerce.

Old Stone Fort State Archaeological Park. The Old Stone Fort is a 2000-year-old American Indian ceremonial site that consists of mounds and walls that combine with cliffs and rivers to form an enclosure measuring 1-1/4 miles around. It has been identified as, perhaps, the most spectacularly sited sacred area of its period in the United States and the largest and most complex hilltop enclosure in the south. Located in Coffee County just outside of Manchester, the 876-acre park offers a variety of activities. The park offers educational and entertaining programs, which increase understanding of

the Old Stone Fort, archaeology, and Native American cultures. The park has a 9-hole golf course, a museum, many campsites, hiking trails and fishing along the Duck River.

Source: Tennessee State Parks.

RECENT DEVELOPMENTS

Aerospace Testing Alliance (the "ATA"). In early 2013 due to the federal government sequestration, ATA was forced to eliminate 128 jobs. But by late 2013 about 100 of those workers were rehired back. Due to a \$13.5 million reduction in federal funding, the ATA on the Arnold Air Force Base laid off 64 employees in 2010. ATA has been the operating contractor at Arnold Engineering Development Center since 2003. The company employs over 2,000 people.

Great Lakes Cheese Company. The Manchester Industrial Park is the home of the largest one-time investment ever for the County of a \$100 million: a 330,000-square-foot cheese packaging plant for the Great Lakes Cheese Company. Construction was completed at the end of 2014. The plant initially hired 109 workers, with expectations that will grow to 200 by 2019. This will be the fourth biggest plant of the Company's nine plants. The Company makes about \$2 billion a year and employs over 2,300 employees company-wide.

M-Tek Inc. The Manchester auto supplier, M-Tek, won a \$147 million contract to build interior door panels for a new midsize sedan that Volkswagen plans to assemble in Chattanooga. Volkswagen's \$1 billion facility opened in 2011. Despite the ailing auto industry, the Chattanooga plant is a key part of the carmaker's long-term plan to nearly quadruple its U.S. sales to about 800,000 annually by 2018.

Newell Rubbermaid. In 2010 Newell Rubbermaid completed a 60-acre site in the Coffee County Interstate Industrial Park in Manchester. About 60 people were hired initially with more added over a three-year period. The new ink facility represents a \$12.5 million capital investment for building, land improvements and equipment. Design and testing of inks, ink manufacturing and storage of finished goods will be handled at the facility. This plant will supply the company's nearby writing instrument manufacturing facilities in Tennessee as well as its operations around the world. Newell Rubbermaid is the world's largest manufacturer of ink for writing instruments and currently employees about 1,700 people in Tennessee.

Van-Rob. The Canadian automobile company, Van-Rob, has had a facility in Manchester since 1997. In 2013 a \$16.8 million expansion to its existing facility began and should result in 104 extra jobs. Construction of the two phases is expected to be complete in 2015.

VIAM Manufacturing Inc. The Japanese company with its North American headquarters located in Manchester has invested in to expansions in the last few years. Announced in mid-2013, a \$9 million expansion will add 75 jobs. In 2010 VIAM finished construction on a new \$4 million, expansion for the production of a polyester-based carpet fiber. This brought an additional 34 jobs upon completion. The Japanese company uses recycled PET clear bottles to produce the fiber for automotive uses.

Source: The Tennessean, The Tullahoma News, The Manchester Times, the Sunday News, the Herald-Chronicle, Health Management Associates, Inc, TSINews and Harton Regional Medical Center.

CITY OF MANCHESTER, TENNESSEE
SUMMARY OF BONDED INDEBTEDNESS

AMOUNT ISSUED	PURPOSE	DUE DATE	INTEREST RATE(S)	(1) Estimated As of June 30, 2016 OUTSTANDING
\$ 10,620,000	General Obligation Refunding Bonds, Series 2010 (General Fund Portion)	June 2038	Fixed	\$ 10,580,000
1,460,000	Loan Agreement, Series Z-4-A	March 2021	Fixed	875,000
275,000	Capital Outlay Notes, Series 2010 (GO) (First Vision)	2019	Fixed	78,571
275,000	Capital Outlay Notes, Series 2010 (GO) (Coffee County Bank)	2019	Fixed	79,197
9,690,000	General Obligation Refunding Bonds, Series 2013	June 2030	Fixed	9,480,000
4,600,000	(4) General Obligation Refunding Bonds, Series 2014	June 2020	Fixed	2,260,000
825,000	(2) Water and Sewer Revenue and Tax Refunding Bonds, Series 2006 (W&S Portion)	2039	Fixed	660,000
5,500,000	(2) General Obligation Refunding Bonds, Series 2010 (W&S Portion)	June 2028	Fixed	5,505,000
7,500,000	(2) Loan Agreement, Series 2011 (State Revolving Fund)	2031	Fixed	5,835,926
1,348,000	(2) Water and Sewer Revenue and Tax Bonds, Series 2011 (Rural Development)	2050	Fixed	1,252,541
2,940,000	(3) General Obligation Refunding Bonds, Series 2010 (Duck River)	June 2038	Fixed	2,910,000
7,565,000	(3) Water and Sewer Revenue and Tax Refunding Bonds, Series 2006 (Duck River)	Aug. 2030	Fixed	6,595,000
\$ 52,598,000	TOTAL BONDED DEBT			\$ 46,111,236
\$ 6,240,000	General Obligation Refunding Bonds, Series 2016A (Duck River)	August 2030	Fixed	\$ 6,240,000
6,575,000	(5) General Obligation Bonds, Series 2016B	June 2036	Fixed	6,575,000
(13,523,000)	Less: City's Water and Sewer Supported Debt (Excludes Duck River)			(20,148,467)
(10,505,000)	Less: Duck River's Water and Sewer Supported Debt (Excludes City's W&S Debt)			(9,475,000)
(9,850,000)	Less: Refunded Debt (Z-4-A & W&S 2006)			(7,790,000)
31,535,000	TOTAL BONDED DEBT			21,512,769
\$ (2,940,000)	General Obligation Debt Supported by the Duck River Utility Commission as of June 30, 2016			\$ (2,910,000)
(7,565,000)	General Obligation Refunding Bonds, Series 2010 (Duck River)	June 2038	Fixed	(6,595,000)
	Water and Sewer Revenue and Tax Refunding Bonds, Series 2006 (Duck River)	Aug. 2030	Fixed	
(6,240,000)	General Obligation Refunding Bonds, Series 2016A (Duck River) (7-20-2016)	August 2030	Fixed	(6,240,000)

NOTES:

(1) The above figures do not include short-term notes outstanding, if any. For more information, see the notes to the Financial Statements in the CAFR.

(2) Revenue Supported Debt - Water and Sewer System

(3) Revenue Supported Debt - Duck River Utility Commission

(4) \$1,875,000 of the Series 2014 Bonds are support by Water and Sewer Revenue

(5) The Series 2016B Bonds have been authorized but not issued. The purpose of the Series 2016B Bonds are to refund the balance of the Outstanding 2006 Bonds, to refund the Series Z-4-A Loan Agreement and to finance new public works projects for the water and sewer system.

CITY OF MANCHESTER, TENNESSEE

Indebtedness and Debt Ratios

INTRODUCTION

The indebtedness information set forth in the following table is based upon information derived in part from the CAFR and the table should be read in conjunction with those statements. Property tax information is derived the City.

	Fiscal Year Ending June 30				Unaudited 2016	After Issuance 2016
	2012	2013	2014	2015		
INDEBTEDNESS						
TAX SUPPORTED						
General Obligation Bonds & Notes	\$23,957,055	\$23,393,483	\$22,754,912	\$22,126,340	\$21,477,769	\$21,512,769
TOTAL TAX SUPPORTED	23,957,055	23,393,483	22,754,912	22,126,340	21,477,769	21,512,769
SELF SUPPORTING DEBT						
Water & Sewer / Duck River	20,752,223	28,175,315	27,344,945	25,796,859	24,633,467	29,623,467
TOTAL REVENUE SUPPORTED	20,752,223	28,175,315	27,344,945	25,796,859	24,633,467	29,623,467
TOTAL DEBT	\$44,709,278	\$51,568,798	\$50,099,857	\$47,923,200	\$46,111,236	\$51,136,236
Less: Revenue Supported Debt	(20,752,223)	(28,175,315)	(27,344,945)	(25,796,859)	(24,633,467)	(29,623,467)
Less: Debt Service Fund	(2,064,036)	(2,108,682)	(2,154,687)	(2,154,687)	(2,154,687)	(2,154,687)
NET DIRECT DEBT	21,893,019.23	21,284,801.21	20,600,225.18	19,971,653.76	19,323,082.34	19,358,082.34
PROPERTY TAX BASE						
Estimated Actual Value	\$ 626,257,170	\$ 632,580,080	\$ 637,647,608	\$ 637,416,074	\$ 648,744,124	\$ 648,744,124
Appraised Value	621,121,861	627,392,923	632,418,898	637,416,074	648,744,124	648,744,124
Assessed Value	198,895,504	199,256,249	200,615,391	202,022,094	205,669,293	205,669,293

	Fiscal Year Ending June 30				Unaudited 2016	After Issuance 2016
	2012	2013	2014	2015		
DEBT RATIOS						
TOTAL DEBT to Estimated Actual Value	7.14%	8.15%	7.86%	7.52%	7.11%	7.88%
TOTAL DEBT to Appraised Value	7.20%	8.22%	7.92%	7.52%	7.11%	7.88%
TOTAL DEBT to Assessed Value	22.48%	25.88%	24.97%	23.72%	22.42%	24.86%
NET DIRECT DEBT to Estimated Actual Value	3.50%	3.36%	3.23%	3.13%	2.98%	2.98%
NET DIRECT DEBT to Appraised Value	3.52%	3.39%	3.26%	3.13%	2.98%	2.98%
NET DIRECT DEBT to Assessed Value	11.01%	10.68%	10.27%	9.89%	9.40%	9.41%
PER CAPITA RATIOS						
POPULATION (1)	10,142	10,261	10,349	10,349	10,349	10,349
PER CAPITA PERSONAL INCOME	\$35,611	\$35,871	\$37,295	\$37,295	\$37,295	\$37,295
Estimated Actual Value to POPULATION	61,749	61,649	61,614	61,592	62,687	62,687
Assessed Value to POPULATION	19,611	19,419	19,385	19,521	19,873	19,873
Total Debt to POPULATION	4,408	5,026	4,841	4,631	4,456	4,941
Net Direct Debt to POPULATION	2,159	2,074	1,991	1,930	1,867	1,871
Total Debt Per Capita as a percent of PER CAPITA PERSONAL INCOME	12.38%	14.01%	12.98%	12.42%	11.95%	13.25%
Net Direct Debt Per Capita as a percent of PER CAPITA PERSONAL INCOME	6.06%	5.78%	5.34%	5.17%	5.01%	5.02%

(1) Per Capita computations are based upon POPULATION data according to the U.S. Census and the Government of the City of Manchester, Tennessee.

CITY OF MANCHESTER, TENNESSEE
G.O. BONDED DEBT SERVICE REQUIREMENTS

F. Y. Ended	Estimated General Obligation Debt as of June 30, 2016 (1)		Less: Bonds Refunded (3)		General Obligation Bonds, Series 2016B (3)		Total Bonded Debt Service Requirements (1)		% All Principal Remaid	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest		
2017	\$ 673,571	\$ 809,913	\$ (145,000)	\$ (33,865)	\$ 165,000	\$ 8,139	\$ 693,571	\$ 784,187	3.22%	
2018	698,571	785,100	(160,000)	(28,428)	170,000	9,008	708,571	765,680		
2019	670,626	766,720	(175,000)	(22,348)	180,000	7,308	675,626	751,680		
2020	680,000	749,959	(190,000)	(15,610)	195,000	5,238	685,000	739,586		
2021	710,000	732,624	(205,000)	(8,200)	200,000	2,800	705,000	727,224	16.12%	
2022	735,000	713,580	-	-	-	-	735,000	713,580		
2023	755,000	696,943	-	-	-	-	755,000	696,943		
2024	775,000	678,899	-	-	-	-	775,000	678,899		
2025	815,000	657,461	-	-	-	-	815,000	657,461		
2026	840,000	632,911	-	-	-	-	840,000	632,911	34.34%	
2027	870,000	607,611	-	-	-	-	870,000	607,611		
2028	905,000	580,336	-	-	-	-	905,000	580,336		
2029	940,000	551,968	-	-	-	-	940,000	551,968		
2030	970,000	522,485	-	-	-	-	970,000	522,485		
2031	1,115,000	488,465	-	-	-	-	1,115,000	488,465	56.65%	
2032	1,155,000	441,635	-	-	-	-	1,155,000	441,635		
2033	1,195,000	393,125	-	-	-	-	1,195,000	393,125		
2034	1,265,000	340,844	-	-	-	-	1,265,000	340,844		
2035	1,330,000	285,500	-	-	-	-	1,330,000	285,500		
2036	1,380,000	219,000	-	-	-	-	1,380,000	219,000	86.05%	
2037	1,475,000	150,000	-	-	-	-	1,475,000	150,000		
2038	1,525,000	76,250	-	-	-	-	1,525,000	76,250	100.00%	
	<u>\$ 21,477,769</u>	<u>\$ 11,881,329</u>	<u>\$ (875,000)</u>	<u>\$ (108,450)</u>	<u>\$ 910,000</u>	<u>\$ 32,492</u>	<u>\$ 21,512,769</u>	<u>\$ 11,805,370</u>	<u>\$ 33,318,139</u>	

NOTES:

- (1) The above figures do not include short-term notes outstanding, if any. For more information, see the notes to the Financial Statements in the CAFR.
- (2) Estimated Interest Rates. Estimated Average Coupon 1.24%.
- (3) The Series 2016B Bonds have been authorized but not issued. The purpose of the Series 2016B Bonds are to refund the balance of the Outstanding 2006 Bonds, to refund the Series Z-4-A Loan Agreement and to finance new public works projects for the water and sewer system.

CITY OF MANCHESTER, TENNESSEE
BONDED DEBT SERVICE REQUIREMENTS
 Water and Sewer System

F. Y. Ended	Estimated Existing Debt Water and Sewer As of June 30, 2016 (1)			Less: Bonds Refunded (3)			General Obligation Bonds, Series 2016B (3)			% 2016B Principal Repaid			Total Bonded Debt Service Requirements (1)			% All Principal Repaid
	Principal	Interest	TOTAL	Principal	Interest	TOTAL	Principal	Interest	TOTAL	Principal	Interest	TOTAL	Principal	Interest	TOTAL	Principal
2017	\$ 841,109	\$ 469,419	\$ 1,310,528	\$ -	\$ (27,020)	\$ (27,020)	\$ 5,000	\$ 97,889	\$ 102,889	\$ 846,109	\$ 540,288	\$ 1,386,397	\$ 1,104,179	\$ 538,885	\$ 1,643,064	4.20%
2018	864,179	442,444	1,306,623	(15,000)	(26,739)	(41,739)	255,000	123,180	378,180	1,132,429	509,134	1,641,563	1,165,865	478,203	1,644,068	
2019	892,429	414,582	1,307,011	(20,000)	(26,078)	(46,078)	260,000	120,630	380,630	1,254,492	445,718	1,700,210	1,288,313	413,849	1,702,162	27.31%
2020	920,865	385,876	1,306,741	(20,000)	(25,313)	(45,313)	265,000	117,640	382,640	1,312,334	380,790	1,711,138	1,366,557	345,241	1,711,799	
2021	1,009,492	355,928	1,365,420	(20,000)	(24,538)	(44,538)	275,000	106,568	381,568	1,390,990	304,109	1,695,099	1,485,497	218,076	1,703,573	61.01%
2022	1,038,313	326,979	1,365,292	(20,000)	(23,748)	(43,748)	270,000	110,618	380,618	1,545,583	172,033	1,717,616	1,545,583	172,033	1,717,616	
2023	1,057,334	297,170	1,354,504	(20,000)	(22,948)	(42,948)	275,000	102,030	377,030	775,896	123,491	899,387	775,896	123,491	899,387	
2024	1,111,557	265,359	1,376,916	(20,000)	(22,148)	(42,148)	275,000	97,218	372,218	796,442	105,624	902,067	796,442	105,624	902,067	
2025	1,135,990	228,239	1,364,229	(20,000)	(21,348)	(41,348)	275,000	91,993	376,993	710,097	87,134	797,232	710,097	87,134	797,232	87.38%
2026	1,170,635	190,294	1,360,929	(25,000)	(20,448)	(45,448)	285,000	86,293	376,293	364,825	74,526	439,351	364,825	74,526	439,351	
2027	1,220,497	151,231	1,371,728	(25,000)	(19,448)	(44,448)	290,000	80,058	380,058	370,884	64,324	435,209	370,884	64,324	435,209	
2028	1,270,583	110,410	1,380,993	(25,000)	(18,435)	(43,435)	300,000	73,308	378,308	386,976	53,853	440,829	386,976	53,853	440,829	
2029	495,896	67,594	563,489	(25,000)	(17,410)	(42,410)	305,000	65,988	380,988	403,101	42,578	445,679	403,101	42,578	445,679	
2030	511,442	55,919	567,362	(30,000)	(16,283)	(46,283)	315,000	58,113	373,113	404,553	19,038	59,491	404,553	19,038	59,491	
2031	420,097	44,074	464,172	(30,000)	(15,053)	(45,053)	320,000	49,793	379,793	41,684	17,807	59,491	41,684	17,807	59,491	
2032	64,825	38,514	103,339	(30,000)	(13,781)	(43,781)	330,000	40,718	375,718	42,952	16,540	59,491	42,952	16,540	59,491	
2033	65,884	36,076	101,960	(30,000)	(12,469)	(42,469)	335,000	31,338	381,338	44,258	15,274	59,532	44,258	15,274	59,532	
2034	71,976	33,562	105,538	(35,000)	(11,047)	(46,047)	350,000	21,188	386,188	45,604	13,887	59,491	45,604	13,887	59,491	97.83%
2035	73,101	30,906	104,007	(35,000)	(9,516)	(44,516)	365,000	10,238	335,238	46,991	12,500	59,491	46,991	12,500	59,491	
2036	74,259	28,271	102,530	(35,000)	(7,984)	(42,984)	325,000	-	-	48,421	11,071	59,492	48,421	11,071	59,492	
2037	75,453	25,491	100,944	(35,000)	(6,453)	(41,453)	-	-	-	49,894	9,623	59,517	49,894	9,623	59,517	
2038	81,684	22,620	104,304	(40,000)	(4,813)	(44,813)	-	-	-	51,411	8,080	59,492	51,411	8,080	59,492	
2039	82,952	19,602	102,554	(40,000)	(3,063)	(43,063)	-	-	-	52,975	6,517	59,492	52,975	6,517	59,492	99.07%
2040	94,258	16,368	110,626	(50,000)	(1,094)	(51,094)	-	-	-	54,586	4,906	59,492	54,586	4,906	59,492	
2041	45,604	13,887	59,491	-	-	-	-	-	-	56,246	3,253	59,500	56,246	3,253	59,500	
2042	46,991	12,500	59,491	-	-	-	-	-	-	57,957	1,535	59,492	57,957	1,535	59,492	
2043	48,421	11,071	59,492	-	-	-	-	-	-	59,517	122	59,639	59,517	122	59,639	
2044	49,894	9,623	59,517	-	-	-	-	-	-	19,570	122	19,692	19,570	122	19,692	100.00%
2045	51,411	8,080	59,492	-	-	-	-	-	-	\$ 20,148,467	\$ 5,330,372	\$ 25,478,839	\$ 20,148,467	\$ 5,330,372	\$ 25,478,839	
2046	52,975	6,517	59,492	-	-	-	-	-	-	\$ 5,665,000	\$ 1,599,122	\$ 7,264,122	\$ 5,665,000	\$ 1,599,122	\$ 7,264,122	
2047	54,586	4,906	59,492	-	-	-	-	-	-	\$ (645,000)	\$ (397,170)	\$ (1,042,170)	\$ (645,000)	\$ (397,170)	\$ (1,042,170)	
2048	56,246	3,253	59,500	-	-	-	-	-	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
2049	57,957	1,535	59,492	-	-	-	-	-	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
2050	19,570	122	19,692	-	-	-	-	-	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	

NOTES:

(1) The above figures do not include short-term notes outstanding, if any. For more information, see the notes to the Financial Statements in the CAFR.

(2) Estimated Interest Rates. Estimated Average Coupon 2.50%

(3) The Series 2016B Bonds have been authorized but not issued. The purpose of the Series 2016B Bonds are to refund the balance of the Outstanding 2006 Bonds, to refund the Series Z-4-A Loan Agreement and to finance new public works projects for the water and sewer system.

CITY OF MANCHESTER, TENNESSEE

Bonded Debt Service Requirements - Revenue and Tax Backed
Duck River Utility Commission

F.Y. Ended	Estimated Existing Debt As of June 30, 2016 Duck River (1)			Less: Bonds Being Refunded			General Obligation Refunding Bonds, Series 2016A (Duck River)			Total Bonded Debt Service Requirements (1)			% 206A Principal Repaid	% Total Principal Repaid
	Principal	Interest	TOTAL	Principal	Interest	TOTAL	Principal	Interest	TOTAL	Principal	Interest	TOTAL		
2017	\$ 330,000	\$ 393,940	\$ 723,940	\$ -	\$ (250,438)	\$ (250,438)	\$ -	\$ 66,213	\$ 66,213	\$ 330,000	\$ 209,696	\$ 539,696	0.00%	3.48%
2018	345,000	380,934	725,934	(340,000)	(244,083)	(584,083)	390,000	120,900	510,900	395,000	257,751	652,751		
2019	355,000	367,771	722,771	(350,000)	(231,058)	(581,058)	400,000	113,000	513,000	405,000	249,714	654,714		
2020	380,000	353,753	733,753	(375,000)	(217,189)	(592,189)	405,000	104,950	509,950	410,000	241,514	651,514		
2021	390,000	338,864	728,864	(385,000)	(202,463)	(587,463)	415,000	96,750	511,750	420,000	233,151	653,151	25.80%	20.69%
2022	410,000	323,094	733,094	(405,000)	(186,855)	(591,855)	425,000	88,350	513,350	430,000	224,589	654,589		
2023	425,000	306,431	731,431	(420,000)	(170,355)	(590,355)	430,000	79,800	509,800	435,000	215,876	650,876		
2024	440,000	289,156	729,156	(435,000)	(153,255)	(588,255)	440,000	71,100	511,100	445,000	207,001	652,001		
2025	460,000	271,156	731,156	(455,000)	(135,455)	(590,455)	450,000	62,200	512,200	455,000	197,901	652,901		
2026	470,000	252,556	722,556	(465,000)	(117,055)	(582,055)	460,000	53,100	513,100	465,000	188,601	653,601		
2027	490,000	233,356	723,356	(485,000)	(98,055)	(583,055)	465,000	43,850	508,850	470,000	179,151	649,151		
2028	515,000	213,001	728,001	(510,000)	(77,900)	(587,900)	475,000	34,450	509,450	480,000	169,551	649,551		
2029	535,000	191,481	726,481	(530,000)	(56,580)	(586,580)	485,000	24,850	509,850	490,000	159,751	649,751		
2030	550,000	169,234	719,234	(545,000)	(34,543)	(579,543)	495,000	15,050	510,050	500,000	149,741	649,741		
2031	575,000	146,166	721,166	(570,000)	(11,685)	(581,685)	505,000	5,050	510,050	510,000	139,531	649,531	100.00%	70.08%
2032	345,000	134,271	479,271	-	-	-	-	-	-	345,000	134,271	479,271		
2033	365,000	119,781	484,781	-	-	-	-	-	-	365,000	119,781	484,781		
2034	390,000	103,813	493,813	-	-	-	-	-	-	390,000	103,813	493,813		
2035	410,000	86,750	496,750	-	-	-	-	-	-	410,000	86,750	496,750		
2036	435,000	66,250	501,250	-	-	-	-	-	-	435,000	66,250	501,250	100.00%	90.61%
2037	435,000	44,500	479,500	-	-	-	-	-	-	435,000	44,500	479,500		
2038	455,000	22,750	477,750	-	-	-	-	-	-	455,000	22,750	477,750	100.00%	100.00%
	\$ 9,505,000	\$ 4,809,009	\$ 14,314,009	\$ (6,270,000)	\$ (2,186,986)	\$ (8,456,986)	\$ 6,240,000	\$ 979,613	\$ 7,219,613	\$ 9,475,000	\$ 3,601,636	\$ 13,076,636		

NOTES:

(1) The above figures do not include short-term notes outstanding, if any. For more information, see the notes to the Financial Statements in the CAFR.

(2) Average Coupon 2.00%.

(3) The Duck River Utility Commission (the "Commission") which was formed pursuant to an agreement under the Interlocal Cooperation Act, Sections 12-9-101 et seq., Tennessee Code Annotated, with the City of Tullahoma, Tennessee for the purpose of providing the City and the City of Tullahoma with potable water. For more information, see the notes to the Financial Statements in the CAFR located in Appendix D.

FINANCIAL OPERATIONS

BASIS OF ACCOUNTING AND PRESENTATION

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are spent and the means by which spending activities are controlled.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets. All governmental fund revenues are generally recognized under the modified accrual basis of accounting when they become both measurable and collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. All proprietary funds are accounted for using the accrual basis of accounting.

DEBT RECORD

There is no record of any default on principal and interest payments by the City of Manchester from the information available.

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FUND BALANCES, NET ASSETS AND RETAINED EARNINGS

The following table depicts audited fund balances, net assets and retained earnings for the last five fiscal years ending June 30:

	For the Fiscal Year Ended June 30				
<u>Fund Type</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
<i>Governmental Funds:</i>					
General	\$ 2,867,946	\$ 2,935,206	\$ 3,356,230	\$3,070,981	\$3,768,119
School Fund	4,073,902	4,679,991	3,868,640	3,066,952	2,030,856
Debt Service Fund	-	-	2,108,681	2,154,686	2,191,566
Other Governmental	<u>3,060,994</u>	<u>3,044,425</u>	<u>1,124,579</u>	<u>1,226,913</u>	<u>1,114,349</u>
Total	<u>\$10,002,842</u>	<u>\$10,659,622</u>	<u>\$10,425,777</u>	<u>\$9,519,533</u>	<u>\$9,104,892</u>
<i>Proprietary Net Assets:</i>					
Water & Sewer Fund	\$14,756,092	\$19,767,040	\$19,270,676	\$19,974,720	\$20,206,140
Wastewater Plant	<u>4,394,602</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL	<u>\$19,150,695</u>	<u>\$19,767,040</u>	<u>\$19,270,676</u>	<u>\$19,974,720</u>	<u>\$20,206,140</u>

Source: Comprehensive Annual Financial Report and Auditor's Report, City of Manchester, Tennessee.

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CITY OF MANCHESTER, TENNESSEE
 Five Year Summary of Revenues, Expenditures and
 Changes In Fund Balances - General Fund
 For the Fiscal Year Ended June 30

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Revenues:					
Taxes	\$ 9,407,455	\$ 9,782,372	\$ 9,796,432	\$ 9,747,956	\$ 10,094,596
Licenses, Permits, Fines	66,269	62,982	74,363	99,520	70,965
Fines and Fees	205,959	198,248	224,395	262,326	247,158
Charges for Services	21,798	13,470	24,530	16,730	21,066
Intergovernmental Rev.	1,470,902	1,564,914	1,517,087	1,550,105	1,818,752
Miscellaneous	551,998	347,032	289,788	152,969	187,040
Total Revenues	<u>\$ 11,724,381</u>	<u>\$ 11,969,016</u>	<u>\$ 11,926,595</u>	<u>\$ 11,829,605</u>	<u>\$ 12,439,577</u>
Expenditures:					
General government	\$ 1,510,885	\$ 1,507,552	\$ 1,537,210	\$ 1,516,182	\$ 1,866,109
Public Safety	4,466,272	4,472,472	4,643,791	4,505,238	4,447,129
Public Works/Highways	1,259,959	1,260,372	1,335,162	1,587,733	1,616,182
Contributions	128,939	132,611	126,800	126,533	142,949
Capital Outlay	843,662	748,571	251,168	797,182	-
Total Expenditures	<u>\$ 8,209,718</u>	<u>\$ 8,121,578</u>	<u>\$ 7,894,132</u>	<u>\$ 8,532,868</u>	<u>\$ 8,072,369</u>
Excess of Revenues Over (Under) Expenditures	\$ 3,514,664	\$ 3,847,438	\$ 4,032,464	\$ 3,296,737	\$ 4,367,208
Other Financing Sources (Uses):					
Loan Proceeds	\$ -	\$ -	\$ -	\$ 11,170,000	\$ -
Bond Premiums & Issance Cos	-	-	-	32,873	-
Capital Contributions	-	-	-	153,195	-
Transfers In	2,500	-	-	-	-
Transfers Out	(3,549,464)	(3,780,178)	(3,611,439)	(14,938,055)	(3,670,070)
Total	<u>\$ (3,546,964)</u>	<u>\$ (3,780,178)</u>	<u>\$ (3,611,439)</u>	<u>\$ (3,581,987)</u>	<u>\$ (3,670,070)</u>
Excess of Revenues Over (Under) Expenditures & Other Uses	\$ (32,300)	\$ 67,260	\$ 421,025	\$ (285,250)	\$ 697,138
Fund Balance July 1	2,900,246	2,867,946	2,935,206	3,356,231	3,070,981
Adjustments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance June 30	<u><u>\$ 2,867,946</u></u>	<u><u>\$ 2,935,206</u></u>	<u><u>\$ 3,356,231</u></u>	<u><u>\$ 3,070,981</u></u>	<u><u>\$ 3,768,119</u></u>

Source: Comprehensive Annual Financial Report for City of Manchester, Tennessee.

INVESTMENT AND CASH MANAGEMENT PRACTICES

Investment of idle City operating funds is controlled by state statute and local policies. Generally, such policies limit investment instruments to direct U. S. Government obligations, those issued by U.S. Agencies or Certificates of Deposit. As required by prevailing statutes, all deposits in financial institutions are required to be secured and collateralized by the institutions. The collateral must meet certain requirements and be deposited in an escrow account in a second bank for the benefit of the City and must total a minimum 105% of the value of the deposits placed in the institutions less the amount protected by federal depository insurance. For reporting purposes, all investments are stated at cost, which approximates market value.

REAL PROPERTY ASSESSMENT, TAX LEVY AND COLLECTION PROCEDURES

State Taxation of Property; Classifications of Taxable Property; Assessment Rates

Under the Constitution and laws of the State of Tennessee, all real and personal property is subject to taxation, except to the extent that the General Assembly of the State of Tennessee (the "General Assembly") exempts certain constitutionally permitted categories of property from taxation. Property exempt from taxation includes federal, state and local government property, property of housing authorities, certain low cost housing for elderly persons, property owned and used exclusively for certain religious, charitable, scientific and educational purposes and certain other property as provided under Tennessee law.

Under the Constitution and laws of the State of Tennessee, property is classified into three separate classes for purposes of taxation: Real Property; Tangible Personal Property; and Intangible Personal Property. Real Property includes lands, structures, improvements, machinery and equipment affixed to realty and related rights and interests. Real Property is required constitutionally to be classified into four sub classifications and assessed at the rates as follows:

- (a) Public Utility Property (which includes all property of every kind used or held for use in the operation of a public utility, such as railroad companies, certain telephone companies, freight and private car companies, street car companies, power companies, express companies and other public utility companies), to be assessed at 55% of its value;
- (b) Industrial and Commercial Property (which includes all property of every kind used or held for use for any commercial, mining, industrial, manufacturing, business or similar purpose), to be assessed at 40% of its value;
- (c) Residential Property (which includes all property which is used or held for use for dwelling purposes and contains no more than one rental unit), to be assessed at 25% of its value; and
- (d) Farm Property (which includes all real property used or held for use in agriculture), to be assessed at 25% of its value.

Tangible Personal Property includes personal property such as goods, chattels and other articles of value, which are capable of manual or physical possession and certain machinery and

equipment. Tangible Personal Property is required constitutionally to be classified into three sub classifications and assessed at the rates as follows:

- (a) Public Utility Property, to be assessed at 55% of its value;
- (b) Industrial and Commercial Property, to be assessed at 30% of its value; and
- (c) All other Tangible Personal Property (including that used in agriculture), to be assessed at 5% of its value, subject to an exemption of \$7,500 worth of Tangible Personal Property for personal household goods and furnishings, wearing apparel and other tangible personal property in the hands of a taxpayer.

Intangible Personal Property includes personal property, such as money, any evidence of debt owed to a taxpayer, any evidence of ownership in a corporation or other business organization having multiple owners and all other forms of property, the value of which is expressed in terms of what the property represents rather than its own intrinsic value. The Constitution of the State of Tennessee empowers the General Assembly to classify Intangible Personal Property into sub classifications and to establish a ratio of assessment to value in each class or subclass and to provide fair and equitable methods of apportionment of the value to the State of Tennessee for purposes of taxation.

The Constitution of the State of Tennessee requires that the ratio of assessment to value of property in each class or subclass be equal and uniform throughout the State of Tennessee and that the General Assembly direct the method to ascertain the value and definition of property in each class or subclass. Each respective taxing authority is constitutionally required to apply the same tax rate to all property within its jurisdiction.

County Taxation of Property

The Constitution of the State of Tennessee empowers the General Assembly to authorize the several counties and incorporated towns in the State of Tennessee to impose taxes for county and municipal purposes in the manner prescribed by law. Under the *Tennessee Code Annotated*, the General Assembly has authorized the counties in Tennessee to levy an *ad valorem* tax on all taxable property within their respective jurisdictions, the amount of which is required to be fixed by the county legislative body of each county based upon tax rates to be established on the first Monday of July of each year or as soon thereafter as practicable.

All property is required to be taxed according to its value upon the principles established in regard to State taxation as described above, including equality and uniformity. All counties, which levy and collect taxes to pay off any bonded indebtedness, are empowered, through the respective county legislative bodies, to place all funds levied and collected into a special fund of the respective counties and to appropriate and use the money for the purpose of discharging any bonded indebtedness of the respective counties.

Assessment of Property

County Assessments; County Board of Equalization. The function of assessment is to assess all property (with certain exceptions) to the person or persons owning or claiming to own such property on January 1 for the year for which the assessment is made. All assessment of real and

personal property are required to be made annually and as of January 1 for the year to which the assessment applies. Not later than May 20 of each year, the assessor of property in each county is required to (a) make an assessment of all property in the county and (b) note upon the assessor's records the current classification and assessed value of all taxable property within the assessor's jurisdiction.

The assessment records are open to public inspection at the assessor's office during normal business hours. The assessor is required to notify each taxpayer of any change in the classification or assessed value of the taxpayer's property and to cause a notice to be published in a newspaper of general circulation stating where and when such records may be inspected and describing certain information concerning the convening of the county board of equalization. The notice to taxpayers and such published notice are required to be provided and published at least 10 days before the local board of equalization begins its annual session.

The county board of equalization is required (among other things) to carefully examine, compare and equalize the county assessments; assure that all taxable properties are included on the assessments lists and that exempt properties are eliminated from the assessment lists; hear and act upon taxpayer complaints; and correct errors and assure conformity to State law and regulations.

State Assessments of Public Utility Property; State Board of Equalization. The State Comptroller of the Treasury is authorized and directed under Tennessee law to assess for taxation, for State, county and municipal purposes, all public utility properties of every description, tangible and intangible, within the State. Such assessment is required to be made annually as of the same day as other properties are assessed by law (as described above) and takes into account such factors as are prescribed by Tennessee law.

On or before the first Monday in August of each year, the assessments are required to be completed and the State Comptroller of the Treasury is required to send a notice of assessment to each company assessable under Tennessee law. Within ten days after the first Monday in August of each year, any owner or user of property so assessed may file an exception to such assessment together with supporting evidence to the State Comptroller of the Treasury, who may change or affirm the valuation. On or before the first Monday in September of each year, the State Comptroller of the Treasury is required to file with the State Board of Equalization assessments so made. The State Board of Equalization is required to examine such assessments and is authorized to increase or diminish the valuation placed upon any property valued by the State Comptroller of the Treasury.

The State Board of Equalization has jurisdiction over the valuation, classification and assessment of all properties in the State. The State Board of Equalization is authorized to create an assessment appeals commission to hear and act upon taxpayer complaints. The action of the State Board of Equalization is final and conclusive as to all matters passed upon by the Board, subject to judicial review consisting of a new hearing in chancery court.

Periodic Reappraisal and Equalization

Tennessee law requires reappraisal in each county by a continuous six-year cycle comprised of an on-site review of each parcel of real property over a five-year period, or, upon approval of the

State Board of Equalization, by a continuous four-year cycle comprised of an on-site review of each parcel of real property over a three-year period, followed by revaluation of all such property in the year following completion of the review period. Alternatively, if approved by the assessor and adopted by a majority vote of the county legislative body, the reappraisal program may be completed by a continuous five-year cycle comprised of an on-site review of each parcel of real property over a four-year period followed by revaluation of all such property in the year following completion of the review period.

After a reappraisal program has been completed and approved by the Director of Property Assessments, the value so determined must be used as the basis of assessments and taxation for property that has been reappraised. The State Board of Equalization is responsible to determine whether or not property within each county of the State has been valued and assessed in accordance with the Constitution and laws of the State of Tennessee.

Valuation for Property Tax Purposes

County Valuation of Property. The value of all property is based upon its sound, intrinsic and immediate value for purposes of sale between a willing seller and a willing buyer without consideration of speculative values. In determining the value of all property of every kind, the assessor is to be guided by, and follow the instructions of, the appropriate assessment manuals issued by the division of property assessments and approved by the State Board of Equalization. Such assessment manuals are required to take into account various factors that are generally recognized by appraisers as bearing on the sound, intrinsic and immediate economic value of property at the time of assessment.

State Valuation of Public Utility Property. The State Comptroller of the Treasury determines the value of public utility property based upon the appraisal of the property as a whole without geographical or functional division of the whole (*i.e.*, the unit rule of appraisal) and on other factors provided by Tennessee law. In applying the unit rule of appraisal, the State Comptroller of the Treasury is required to determine the State's share of the unit or system value based upon factors that relate to the portion of the system relating to the State of Tennessee.

Certified Tax Rate

Upon a general reappraisal of property as determined by the State Board of Equalization, the county assessor of property is required to (1) certify to the governing bodies of the county and each municipality within the county the total assessed value of taxable property within the jurisdiction of each governing body and (2) furnish to each governing body an estimate of the total assessed value of all new construction and improvements not included on the previous assessment roll and the assessed value of deletions from the previous assessment roll. Exclusive of such new construction, improvements and deletions, each governing body is required to determine and certify a tax rate (herein referred to as the "*Certified Tax Rate*") which will provide the same *ad valorem* revenue for that jurisdiction as was levied during the previous year. The governing body of a county or municipality may adjust the Certified Tax Rate to reflect extraordinary assessment changes or to recapture excessive adjustments.

Tennessee law provides that no tax rate in excess of the Certified Tax Rate may be levied by the governing body of any county or of any municipality until a resolution or ordinance has been adopted by the governing body after publication of a notice of the governing body's intent to exceed the Certified Tax Rate in a newspaper of general circulation and the holding of a public hearing.

The Tennessee Local Government Public Obligations Act of 1986 provides that a tax sufficient to pay when due the principal of and interest on general obligation bonds (such as the Bonds) shall be levied annually and assessed, collected and paid, in like manner with the other taxes of the local government as described above and shall be in addition to all other taxes authorized or limited by law. Bonds issued pursuant to the Local Government Public Obligations Act of 1986 may be issued without regard to any limit on indebtedness provided by law.

Tax Freeze for the Elderly Homeowners

The Tennessee Constitution was amended by the voters in November, 2006 to authorize the Tennessee General Assembly to enact legislation providing property tax relief for homeowners age 65 and older. The General Assembly subsequently adopted the Property Tax Freeze Act permitting (but not requiring) local governments to implement a program for "freezing" the property taxes of eligible taxpayers at an amount equal to the taxes for the year the taxpayer becomes eligible. For example, if a taxpayer's property tax bill is \$500 for the year in which he becomes eligible, his property taxes will remain at \$500 even if property tax rates or appraisals increase so long as he continues to meet the program's ownership and income requirements.

Tax Collection and Tax Lien

Property taxes are payable the first Monday in October of each year. The county trustee of each county acts as the collector of all county property taxes and of all municipal property taxes when the municipality does not collect its own taxes.

The taxes assessed by the State of Tennessee, a county, a municipality, a taxing district or other local governmental entity, upon any property of whatever kind, and all penalties, interest and costs accruing thereon become and remain a first lien on such property from January 1 of the year for which such taxes are assessed. In addition, property taxes are a personal debt of the property owner as of January and, when delinquent, may be collected by suit as any other personal debt. Tennessee law prescribes the procedures to be followed to foreclose tax liens and to pursue legal proceedings against property owners whose property taxes are delinquent.

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Assessed Valuations. According to the Tax Aggregate Report, property in the City reflected a ratio of appraised value to true market value of 1.00. The following table shows pertinent data for tax year 2015¹.

<u>Class</u>	<u>Estimated Assessed Valuation</u>	<u>Assessment Rate</u>	<u>Estimated Actual Value</u>
Public Utilities	\$ 5,865,474	55%	\$ 13,437,512
Commercial and Industrial	103,193,760	40%	257,984,400
Personal Tangible Property	13,676,834	30%	45,589,312
Residential and Farm	<u>82,933,225</u>	25%	<u>331,732,900</u>
TOTAL	<u>\$205,669,293</u>		<u>\$648,744,124</u>

Source: 2015 State of Tennessee Tax Aggregate Report and the City.

The estimated assessed value of property in the City for the fiscal year ending June 30, 2016 (tax year 2015) is \$205,669,293 compared to \$202,022,094 for the fiscal year ending June 30, 2015 (tax year 2014). The estimated actual value for tax year 2015 is \$648,744,124 compared to \$637,416,074 for tax year 2014.

Property Tax Rates and Collections. The following table shows the property tax rates and collections of the City for tax years 2011 through 2015 as well as the aggregate uncollected balances as of June 30, 2015.

PROPERTY TAX RATE AND COLLECTIONS							
Tax Year¹	Assessed Valuation	Tax Rates	Taxes Levied	Fiscal Year Collections		Aggregate Uncollected Balance as of June 30, 2015	
				Amount	Pct	Amount	Pct
2011	\$198,895,504	\$2.2999	\$4,573,227	\$4,260,219	93.2%	\$ 3,872	0.1%
2012	199,256,249	2.2999	4,581,605	4,318,817	94.3%	35,339	0.8%
2013	200,615,391	2.2999	4,616,283	4,305,671	93.3%	135,753	2.9%
2014	202,022,094	2.2999	4,650,466	4,252,823	91.4%	349,406	7.5%
2015	205,669,293	2.2999	4,717,372	IN PROCESS			

Source: Comprehensive Annual Financial Report and Auditor's Report, City of Manchester, Tennessee.

¹ The tax year coincides with the calendar year, therefore tax year 2015 is actually fiscal year 2015-16.

Ten Largest Taxpayers. For the fiscal year ending June 30, 2015 (tax year 2014), the ten largest taxpayers in the City were as follows:

<u>Taxpayer</u>	<u>Business Type</u>	<u>Assessed Value</u>	<u>Taxes Levied</u>
1. Batesville Manufacturing	Steel Caskets	\$5,452,071	\$125,392
2. Wal-Mart	Retail	4,080,996	93,859
3. DREMC	Electric/Utility	3,378,080	77,693
4. Char El Apartments	Apartments	3,085,150	70,955
5. Coffee Co. Hospitality Group	Medical	2,520,160	57,961
6. John Roberts	Auto Dealership	1,854,372	42,649
7. Manchester Health Care	Medical	1,760,866	40,498
8. Manchester Hotel Hospitality, LLC	Motel	1,722,474	39,615
9. Coffee Medical Group, LLC	Medical	1,668,760	38,380
10. Manchester Hotel Partners	Motel	<u>1,578,824</u>	<u>36,311</u>
TOTAL		<u>\$27,101,753</u>	<u>\$623,313</u>

Source: The City.

PENSION PLAN

The Manchester City Schools contribute to the State Employees, Teachers and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing multiple employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment.

There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan on or after July 1, 1979 are vested after five years of service. Members joining prior to July 1, 1979 are vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-3 7 of the Tennessee Code Annotated (TCA). State Statutes are amended by the Tennessee General Assembly. Cost of living adjustments (COLA) are provided to retirees each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year. No COLA is granted if the CPI increases less than one-half percent. The annual COLA is capped at three percent.

All other full time employees of the City, after one year of continuous service, may elect to participate in the City's defined contribution pension plan (the Plan). In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus investment earnings. Employees are

eligible to participate from the date of employment. The Plan provides for contributions based upon participating employee salary as follows: the City contributes 7% of salary with participating employees contributing a minimum of 1% of salary. Employees hired after July 1, 2002 may contribute from 1% to 11% and the City will match dollar-for-dollar up to a maximum set by the current fiscal year budget ordinance. Contributions fully vest after five years of continuous service by the employee.

For more details on this please refer to General Purpose Financial Statements of the City included herein.

INSURANCE

The City participates in the Tennessee Municipal League Risk Management Pool, a public entity risk pool, for errors, omissions, automobile liability and physical damage, worker's compensation and employee's liability. Commercial insurance is carried for employees bonds and certain property destruction and employee health, accident and environmental claims. The City is self-insured up to \$20,000 per person annually. A commercial carrier insures claims in excess of this amount.

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GENERAL PURPOSE FINANCIAL STATEMENTS

**CITY OF MANCHESTER, TENNESSEE
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2015**

CITY OF MANCHESTER, TENNESSEE

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CITY OF MANCHESTER, TENNESSEE

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**CITY OF MANCHESTER, TENNESSEE
LISTING OF PRINCIPAL OFFICIALS (UNAUDITED)
JUNE 30, 2015**

OFFICIALS

Board of Mayor and Aldermen

Lonnie Norman, Mayor	Ryan French, Vice Mayor
Russell Bryan, Alderman	Tim Kilgore, Alderman
Tim Pauley, Alderman	Lana Sain, Alderwoman
Cheryl Swan, Alderwoman	

Manchester City School Board

Mike Lewis, Chairman	Susan Parsley, Member
Lisa Gregory, Member	Travis Hillis, Member
Susan Wood, Member	

Appointed Officials

Bridget Anderson, Finance Director/CFO

Mark Yother, Chief of Police

George Chambers, Fire Chief

Bryan Pennington, Director of Water and Sewer

Bonnie Gamble, Director of Parks & Recreation

Brent Carter, Director of Public Works

Jamie Sain, Director of Building and Codes

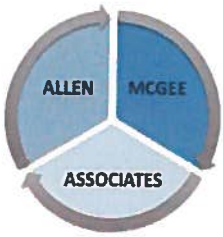
Sandra Morris, Director of Schools



FINANCIAL SECTION

The financial section of the report details the company's performance over the period. It includes a summary of the income statement, balance sheet, and cash flow statement. The income statement shows a profit of \$1,200,000 for the year. The balance sheet shows total assets of \$5,000,000 and total liabilities of \$3,800,000. The cash flow statement shows a net increase in cash of \$200,000. The financial section also includes a discussion of the company's financial position and the impact of the economic environment. The company's financial position is strong, with a high level of liquidity and a low level of debt. The economic environment has had a positive impact on the company's performance, with a strong demand for its products and services. The company's financial position is expected to remain strong in the future, with a continued focus on growth and innovation.

Alison McQueen and Associates
Chartered Accountants
123 Main Street
Auckland, New Zealand



Allen, McGee and Associates

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

January 14, 2016

To the Board of Mayor and Aldermen
City of Manchester, Tennessee
200 West Fort Street
Manchester, Tennessee 37355

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, and the fund information of the City of Manchester, Tennessee, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

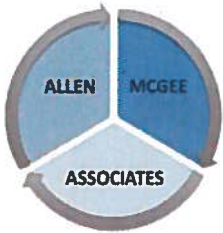
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

110 North Jackson Street, Tullahoma, TN 37388
Phone: (931)393-3307, Fax: (931)393-3503,
Web Page: AllenMcGeeCPA.com



Allen, McGee and Associates

Certified Public Accountants

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.

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Qualified
Business-Type Activities	Qualified
General Fund	Unmodified
General Purpose School Fund	Qualified
Debt Service Fund	Unmodified
Water and Sewer Fund	Qualified
Aggregate Remaining Fund Information	Qualified

Basis for Qualified Opinion on Governmental Activities, Business-Type Activities and The Water and Sewer Fund a Proprietary Fund

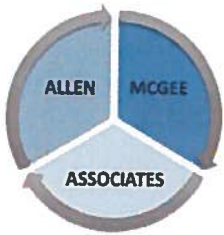
Management has not placed sufficient controls over fixed assets, and, accordingly, sufficient assurance over the capital assets cannot be obtained. Accounting principles generally accepted in the United States of America require that adequate controls be put over the safeguarding and reporting of capital assets, which would decrease assets, net position and change the expenses. The amount by which this departure would affect the assets, net position, and expenses of the city wide financial statements has not been determined.

Basis for Qualified Opinion on General Purpose School Fund, Aggregate Remaining Fund Information, School Federal Projects Fund and Central Cafeteria Fund

During the period under examination our tests disclosed that no supporting documentation was maintained at the School Board for disbursements made by the General Purpose School Fund, School Federal Projects Fund, and the Central Cafeteria Fund for disbursements of monies made during the month of May 2015, therefore we were unable to determine if these disbursements were properly accounted for and were made for a Manchester City School purpose. The amount by which this departure would affect the assets, fund balance and expenditures of these funds has not been determined.

Qualified Opinion

In our opinion, except for the effects of the matters described in the “Basis for Qualified Opinion on the Governmental Activities, Business-Type Activities and The Water and Sewer Fund a Proprietary Fund” and “Basis for Qualified Opinion on General Purpose School Fund, Aggregate Remaining Fund Information, School Federal Projects Fund and Central Cafeteria Fund” paragraph, the financial statements referred to above present



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fairly, in all material respects, the financial position of the City of Manchester, Tennessee, as of June 30, 2015, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United State of America.

Unmodified Opinions

In our opinion, the financial statements of the referred to above present fairly, in all material respects, the respective financial position of the General Fund and Debt Service Fund of the City of Manchester, Tennessee, as of June 30, 2015, and the respective changes in financial position, where applicable, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 15 the City of Manchester, Tennessee has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*; GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*; and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to these matters.

Emphasis of Matter

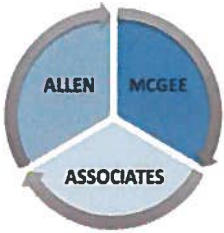
We draw attention to Note 15 to the financial statements, which describes a restatement decreasing the beginning Governmental Activities net position by \$2,173,430 and increasing the Business-type Activities net position by \$57,128 on the Government-wide Statement of Activities. Of this restatement in the Governmental Activities \$1,898,374 of the decrease in net position and \$28,825 of the increase in the Business-type activities were necessary because of the transitional requirement of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The remaining decrease of \$275,056 in the Net Position of Governmental Activities and the remaining increase of \$28,303 in the Business-type activities were to correct reporting errors in the prior financial report as disclosed in Note 15.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information as listed in the table of contents on pages 11 through 20 and pages 84 through 90 respectively 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

110 North Jackson Street, Tullahoma, TN 37388
Phone: (931)393-3307, Fax: (931)393-3503,
Web Page: AllenMcGeeCPA.com



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of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Manchester's basic financial statements. The introductory section, combining and individual non-major fund financial statements, budgetary comparison schedules of non-major governmental fund and the combining and individual fund financial statements, miscellaneous schedules, and the supplementary information section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual non-major fund financial statements, and the budgetary comparison schedules of non-major governmental funds are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves. And other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for the effects of the matters described in the "Basis for Qualified Opinion on General Purpose School Fund, Aggregate Remaining Fund Information, School Federal Projects Fund and Central Cafeteria Fund" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Manchester, Tennessee, as of June 30, 2015, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United State of America.

Information described in the "Supplementary Information Section" in the table of contents as the Schedule of Changes in Property Taxes Receivable, Schedule of Tax Rates and Assessments and the Schedule of Utility Rate Structure and Number of Customers is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and

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Phone: (931)393-3307, Fax: (931)393-3503,
Web Page: AllenMcGeeCPA.com



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other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information described in the Table of Contents in the "Supplementary Information Section" as the Schedule of Changes in Property Taxes Receivable, Schedule of Tax Rates and Assessments and the Schedule of Utility Rate Structure and Number of Customers is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The information described in the "Supplementary Information Section" as the AWWA Reporting Work Sheet has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Information described in the "Single Audit Section" in the table of contents as the Schedule of Expenditures of Federal Awards and State Grants is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information described in the Table of Contents in the "Single Audit Section" as the Schedule of Expenditures of Federal Awards and State Grants is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2016, on our consideration of the City of Manchester, Tennessee'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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance *Government Auditing Standards* and should be considered in assessing the results of our audit.

Allen, McGee and Associates, LLC

Certified Public Accountants

January 14, 2016

110 North Jackson Street, Tullahoma, TN 37388
Phone: (931)393-3307, Fax: (931)393-3503,
Web Page: AllenMcGeeCPA.com

Management's Discussion and Analysis

As management of the City of Manchester, Tennessee (the City) we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2015. The analysis focuses on significant financial position, budget changes and variances from the budget, and specific issues related to funds and the economic factors affecting the City.

Financial Highlights:

- The assets of the City of Manchester exceeded its liabilities at the close of the most recent year by \$33,614,741. Of this amount, \$7,948,173 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Recreation Center received a Diabetes Grant A from the Department of Health in the amount of \$150,000 each year with a City match of \$30,000 for three years.
- The Recreation Center received a LPRF grant for Manchester Sports Park-Soccer Complex Phase I in the amount of \$87,500 each year for two years. Phase 1 has been completed.
- The Recreation Center received a Diabetes Grant B from the Department of Health in the amount of \$15,000. This grant was completed in June 2015.
- The City of Manchester completed the Safe Route to Schools Project for sidewalks using a TDOT grant for funding.
- The City of Manchester Police Department also received a grant from the Governor's Highway Safety in the amount of \$31,726 for Saturation Overtime and patrol equipment.
- The City of Manchester completed the Greenway Extension Project for the Downtown area with a portion of the funding coming from grant money from TDOT, STP funds, and local match from City of Manchester and Tourism.
- The City of Manchester received a CDBG grant for drainage improvements in the amount of \$315,000.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$9,104,892.
- The Government Accounting Standards Board issued Statement 54: Fund Balance Reporting and Governmental Fund Type Definitions. The implementation date for this standard is for periods beginning after June 15, 2010, which means FYE June 30, 2011. Governmental accounting standards now require the reporting of five classifications of fund balance: Non-Spendable, Restricted, Committed, Assigned and Unassigned. The City's audited financial statement addresses four categories: Non-spendable \$80,209; Restricted \$873,437; Committed \$4,372,729; Assigned \$164,186; and Unassigned \$3,614,331. The Unassigned Fund Balance is available for spending at the government's discretion.

Overview of the Financial Statements:

This discussion and analysis is intended to serve as an introduction to the City of Manchester's basic financial statements. The City's basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements – The Government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal 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 related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected tax and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Manchester include general government, public works, public safety, state street aid, public welfare and recreation and schools. The business-type activities of the City include Water and Sewer services.

The government-wide financial statements can be found on pages 12-15 of this report.

Fund Financial statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Manchester, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – Governmental funds are funds used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, government fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may be better to understand the long-term impact of the government's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains twelve individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and General Purpose School Fund which are considered to be major funds. Data for the other ten governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements later in this report beginning on page 36.

The City adopts an annual appropriated budget for its governmental funds. A budgetary comparison statement has been provided for the major governmental funds to demonstrate compliance with this budget, as well as for the non-major funds.

The basic governmental fund financial statements can be found on pages 16-20 and 29-31 of this report.

Proprietary Funds – The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented in the business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its Water and Sewer operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for Water and Sewer operations which is considered to be a major fund.

The basic proprietary fund financial statements can be found on pages 21-28 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 42-82 of this report.

Other information. The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the notes to financial statements. Combining and individual fund statements and schedules can be found beginning on page 36 of this report.

Financial Analysis of the Financial Statements

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Manchester, assets exceeded liabilities by \$33,614,741 at the close of this fiscal year.

By far the largest portion of the City's assets (73.76%) reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment and infrastructure) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Manchester's Net Position

	Governmental 2015	Activities 2014	Business type 2015	Activities 2014
Current and other assets	\$17,307,372	\$15,876,229	\$13,981,722	\$13,610,919
Capital Assets	30,211,836	29,993,818	33,397,386	34,661,767
Total Assets	47,519,208	45,870,047	47,379,108	48,272,686
Long-term liabilities outstanding	24,161,174	24,572,498	25,331,191	26,481,561
Other Liabilities	11,066,127	6,985,266	1,869,745	1,816,405
Total Liabilities	35,227,301	31,557,764	27,200,936	28,297,966
Net Position				
Net Investment in Capital Assets	7,786,088	7,238,907	17,007,043	17,451,822
Restricted	873,437	962,252		
Unrestricted	4,749,076	6,111,124	3,199,097	2,522,898
Total net position	\$13,408,601	\$14,312,283	\$20,206,140	\$19,974,720

Changes in net position. Governmental activities decreased the City's net position by \$903,682. Business-type activities net position increased by \$231,420.

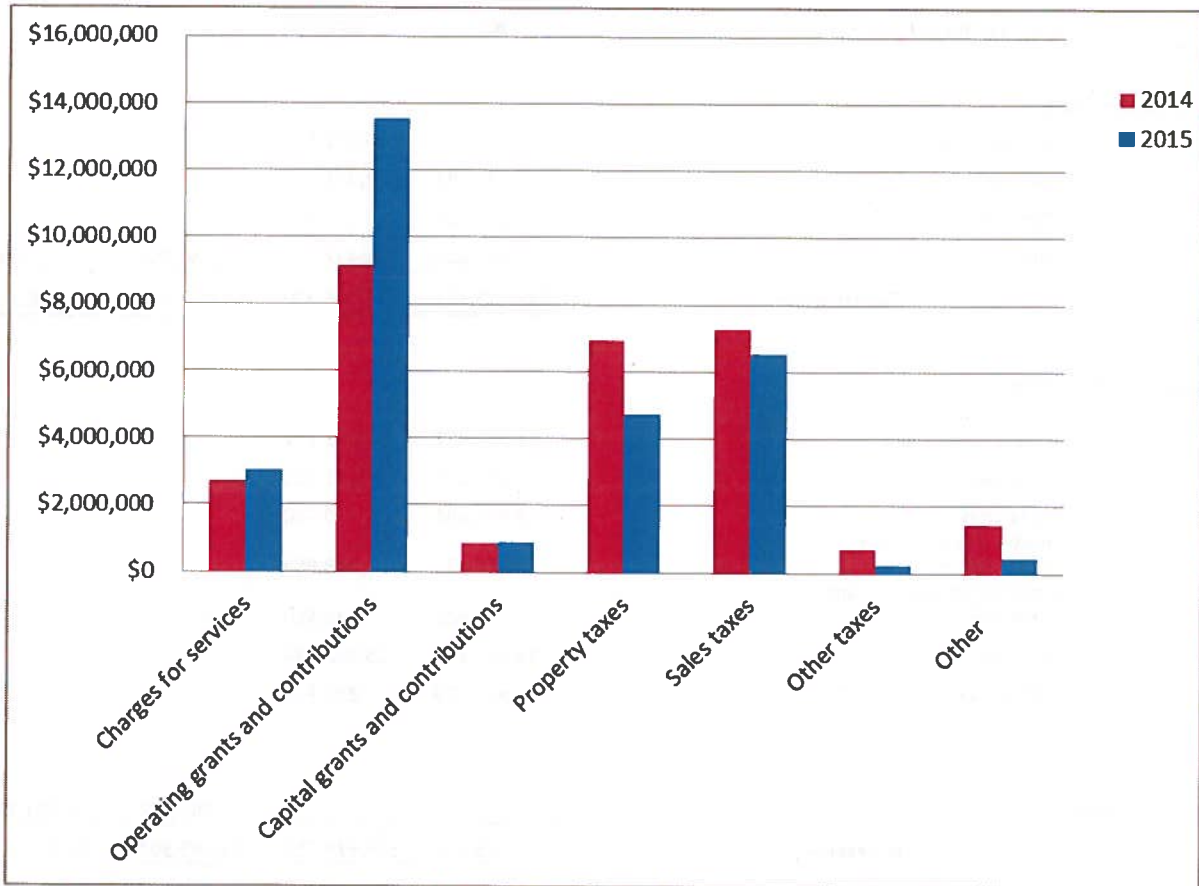
The table below provides a summary of the City's net assets broken down by governmental and business-type activities.

City of Manchester's Changes in Net Position

	Governmental Activities		Business-type Activities	
	2015	2014	2015	2014
Revenues				
<u>Program revenues</u>				
Charges for services	\$3,039,580	\$2,708,613	\$5,892,440	\$6,595,727
Operating grants and contributions	13,530,052	9,148,064	17,400	
Capital grants and contributions	901,333	842,588		
<u>General Revenues</u>				
Property taxes	4,732,611	6,937,605		
Sales taxes	6,533,641	7,281,715		
Other taxes	231,301	721,917		
Other	446,835	1,452,998	130,254	13,060
Total revenues	<u>\$29,415,353</u>	<u>\$29,093,500</u>	<u>\$6,040,094</u>	<u>\$6,608,787</u>
<u>Governmental Activities</u>				
General Government	\$1,780,477	\$2,251,271		
Public Safety	4,903,113	4,611,333		
Public Works	2,850,491	2,790,580		
Health, Welfare, Culture and Recreation	2,226,175	2,038,688		
Economic Development and Assistance	55,325	46,460		
Education	15,410,104	15,982,884		
Debt Service	919,919	893,842		
Water & Sewer			5,865,802	5,770,952
Total expenses	<u>\$28,145,604</u>	<u>\$28,615,058</u>	<u>\$5,865,802</u>	<u>\$5,770,952</u>
Change in Net Position	1,269,749	478,441	174,292	837,835
Net Position, as previously reported	14,312,282	14,486,761	19,974,720	19,270,677
Restatement from prior year	(2,173,430)	(652,920)	57,128	(133,792)
Net Position, beg. Of year as restated		13,833,841		19,136,885
Net Position, end of year	<u>\$13,408,601</u>	<u>\$14,312,283</u>	<u>\$20,206,140</u>	<u>\$19,974,720</u>

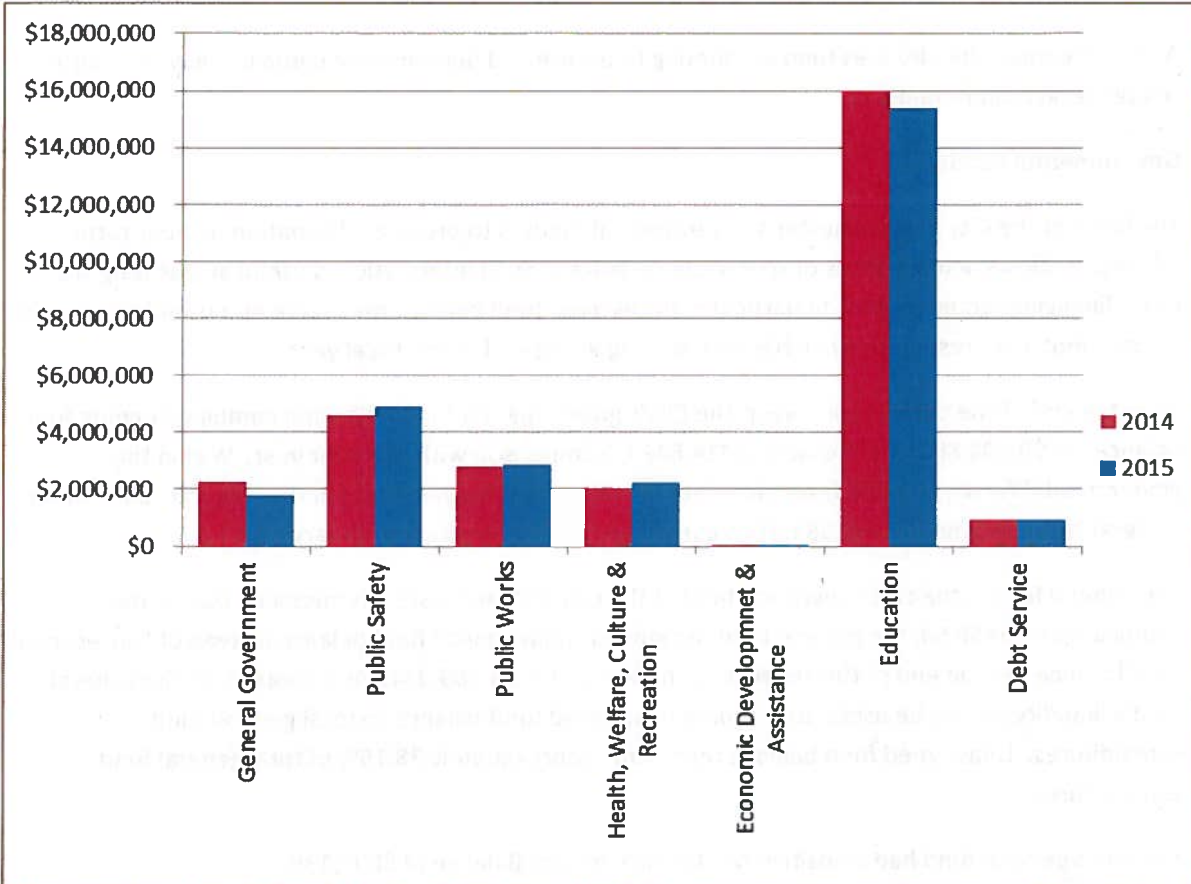
Revenues by Source – Governmental Activities

Revenues



Expenditures – Governmental Activities

Expenditures



Significant variances in Governmental Activities revenues and expenditures from that of the prior year were as follows:

- The overall expenditures decreased by approximately \$469,454. The decrease is due to budgetary cuts and being resourceful with available funds.
- Education expenditures decreased by \$572,780 due to budgetary cuts.

Business-type Activities

Business-type activities accounted for revenue of \$6,040,094 which includes contributed capital.

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City of Manchester's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$9,104,892, a decrease of \$414,642 in comparison with the prior year. Within the governmental funds, \$69,288 is restricted for Inventory and Prepaid Costs in the General Fund. In the General Purpose School Fund, \$83,377 is committed for Non-Instructional Services.

The general fund is the chief operation fund of the City of Manchester, Tennessee. Due to the compliance of GASB 54, the general fund recognizes "unassigned" fund balance instead of "unreserved" fund balance. At the end of this fiscal year, this amount is \$3,669,034. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total general fund expenditures. Unassigned fund balance represents approximately 38.15% of total general fund expenditures.

The City's general fund had a positive Net Change in Fund Balance of \$697,138.

Proprietary funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted Net Assets at the end of the year for the Water and Sewer Fund amounted to \$3,199,097. This represents total Net Assets at June 30, 2015 of \$20,206,140.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were as follows: changes to revenues were as follows: General Fund – increase of \$663,913; General Purpose School Fund – decrease of \$119,876; School Federal and State Programs – no change; changes to appropriations of General Fund increase \$574,595; General Purpose School Fund – increase \$19,687; School Federal and State Programs – no change.

Specific Revenue increases for the General Fund and General Purpose School Fund were as follows:

General Fund	Budgeted Amounts	
	Original	Final
Revenues:		
Total Taxes Revenue	\$ 9,648,246	\$9,794,646
General Purpose School Fund:		
Revenues	\$ 11,444,488	\$11,324,612
Operating Transfer-General Fund	\$ 1,678,467	\$1,678,467

Capital Assets

The City of Manchester's investment in capital assets from its governmental and business-type activities at June 30, 2015, amounts to \$63,609,223 (net of accumulated depreciation). This investment in capital assets includes land, building, improvements, machinery and equipment, park facilities, roads, highways and bridges. The total of the City's investment in capital assets for the current fiscal year decreased in the amount of \$1,046,361 (a net increase of \$218,018 for governmental activities and a net decrease of \$1,264,379 for business-type activities).

City of Manchester's Capital Assets

	Governmental Activities	Business-type Activities	Total
Land	\$ 4,711,324	\$ 210,937	\$ 4,922,261
Buildings/land improvement and utility plant	27,642,718	49,030,789	76,673,507
Equipment and furniture	2,129,610	1,221,532	3,351,142
Infrastructure	25,570,010		25,570,010
Vehicles	4,139,878		4,139,878
Construction in progress	143,326	1,144,462	1,287,788
	64,336,866	51,607,720	115,944,586
Less Accumulated Depreciation	34,125,030	18,210,333	52,335,363
Net Capital Assets	\$30,211,836	\$33,397,387	\$63,609,223

Additional information on the City of Manchester's capital assets can be found in the notes to the financial statements section of this report.

Long-term Debt

At the end of the current year, the City of Manchester had bonded debt outstanding of \$47,241,683. Of this amount, \$1,811,183 is due in the next fiscal year.

City of Manchester's Outstanding Debt

	Governmental Activities	Business-type Activities	Total
Principal due in the next fiscal year	\$ 648,572	1,162,611	1,811,183

The City of Manchester's combined total bonded debt decreased in the amount of \$2,858,173 during the current fiscal year.

Additional information on the City of Manchester's debt can be found in the notes to the financial statements section of this report.

Currently Known Factors Affecting Future Years

The unemployment rate for the Coffee County at the end of the fiscal year was 6.0%. This compares to the State's average unemployment rate of 6.3% and the national average rate of 5.5%. Due to the economic situation, the City used the conservative approach in the preparation of next year's budget. Property tax collection and local option sales tax were increased slightly in an anticipation of a slow economy.

Requests for Information

This financial report is designed to provide a general overview of the City of Manchester, Tennessee's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director/Chief Financial Officer, 200 West Fort Street, Manchester, TN 37355.

BASIC FINANCIAL STATEMENTS

City of Manchester, Tennessee
Statement of Net Position
June 30, 2015

	<u>Primary Government</u>			Total
	<u>Governmental Activities</u>	<u>Business-type Activities</u>		
<u>ASSETS</u>				
Cash	\$ 522,076	\$ 1,189,800	\$	1,711,876
Investment in Pooled Cash	8,402,826	2,280,956		10,683,782
Accounts Receivable	305,851	353,388		659,239
Allowance for Uncollectible	(78,844)	(27,680)		(106,524)
Unbilled Water and Sewer	-	149,664		149,664
Due from Other Governments	2,178,984	-		2,178,984
Internal Balances	53,391	-		53,391
Property Taxes Receivable	5,307,434	-		5,307,434
Allowance for Uncollectible Property Taxes	(75,902)	-		(75,902)
Other Taxes Receivable	302,828	-		302,828
Inventories	80,209	167,053		247,262
Current Portion of Notes Receivable from DRUC	-	315,000		315,000
Net Pension Asset	308,519	38,541		347,060
Capital Assets:				
Assets Not Being Depreciated:				
Land	4,711,324	210,937		4,922,261
Construction in Progress	143,326	1,144,462		1,287,788
Assets Net of Accumulated Depreciation:				
Land Improvements	251,572	-		251,572
Buildings	15,231,164	140,699		15,371,863
Vehicles	1,719,607	-		1,719,607
Heavy Equipment	138,697	-		138,697
Other Equipment	315,363	157,953		473,316
Water Plant	-	6,879,453		6,879,453
Sewer Plant	-	24,863,882		24,863,882

The accompanying notes are an integral part of this statement.

City of Manchester, Tennessee
Statement of Net Position (Cont.)

	<u>Primary Government</u>	
	Governmental	Business-type
	Activities	Activities
	Total	

ASSETS (CONT.)

Capital Assets (Cont.):

Assets Net of Accumulated Depreciation (Cont.):

Infrastructure	7,700,783	-	7,700,783
Long-term Portion of Note Receivable DRUC	-	9,515,000	9,515,000
Total Assets	\$ 47,519,208	\$ 47,379,108	\$ 94,898,316

DEFERRED OUTFLOWS OF RESOURCES

Pension Changes in Contributions after Measurement Date
 Pension Changes in Experience
 Pensions Other Deferrals
 Total Deferred Outflows of Resources

	\$ 892,131	\$ 27,968	\$ 920,099
	69,601	-	69,601
	154,962	-	154,962
	\$ 1,116,694	\$ 27,968	\$ 1,144,662

LIABILITIES

Accounts Payable
 Accrued Payroll
 Payroll Deductions Payable
 Accrued Interest Payable
 Other Payables
 Internal Balances
 Due to State of Tennessee
 Duck River Utility Commission Surcharge
 Customer Deposits
 Surcharge Fee Payable
 Unearned Revenues
 Pooled Cash Overdraft

	\$ 809,353	\$ 209,921	\$ 1,019,274
	1,002,363	18,723	1,021,086
	514,985	1,319	516,304
	66,481	36,383	102,864
	42,133	1,690	43,823
	-	53,391	53,391
	480	18,354	18,834
	-	2,437	2,437
	-	338,211	338,211
	-	615	615
	85,071	-	85,071
	84,208	-	84,208

The accompanying notes are an integral part of this statement.

City of Manchester, Tennessee
Statement of Net Position (Cont.)

LIABILITIES (CONT.)

Noncurrent Liabilities:

Due Within One Year 1,889,708
 Due in More Than One Year 49,492,365
 Total Liabilities \$ 54,668,191

DEFERRED INFLOWS OF RESOURCES

Deferred Property Taxes	\$ 5,182,364	\$ -	\$ 5,182,364
Pension Changes in Experience	29,045	4,000	33,045
Pension Changes in Investment Earnings	2,522,547	22,090	2,544,637
Other Deferred/Unavailable Revenue	-	-	-
Total Deferred Inflows of Resources	\$ 7,733,956	\$ 26,090	\$ 7,760,046

NET POSITION

Net Investment in Capital Assets	\$ 7,786,088	\$ 17,007,043	\$ 24,793,131
Restricted for:			
Tourism and Community Development	183,303	-	183,303
Drug Control and Investigation	502,844	-	502,844
Education	3,772	-	3,772
Operation of Non-instructional Services	183,518	-	183,518
Unrestricted	4,749,076	3,199,097	7,948,173
Total Net Position	\$ 13,408,601	\$ 20,206,140	\$ 33,614,741

	<u>Primary Government</u>		
	Governmental Activities	Business-type Activities	Total

	727,097	1,162,611	1,889,708
	24,161,174	25,331,191	49,492,365
\$	\$ 27,493,345	\$ 27,174,846	\$ 54,668,191

City of Manchester, Tennessee
Statement of Activities
For the Year Ended June 30, 2015

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in			
	Expenses	Charges for Services	Operating Grants and Contributions	Net Position			
				Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary Government:							
Governmental Activities:							
General Government	\$ 1,780,477	\$ 96,957	\$ -	\$ 199,122	\$ (1,484,398)	\$ -	\$ (1,484,398)
Public Safety	4,903,113	378,904	164,887	-	(4,359,322)	-	(4,359,322)
Public Works	2,860,491	908,955	346,332	-	(1,595,204)	-	(1,595,204)
Health, Welfare, Culture and Recreation	2,226,175	1,319,399	34,462	245,885	(626,429)	-	(626,429)
Economic Development and Assistance	55,325	-	2,500	456,326	403,501	-	403,501
Education	15,410,104	335,365	12,981,871	-	(2,092,868)	-	(2,092,868)
Debt Service	919,919	-	-	-	(919,919)	-	(919,919)
Total Governmental Activities	\$ 28,145,604	\$ 3,039,580	\$ 13,530,052	\$ 901,333	\$ (10,674,639)	\$ -	\$ (10,674,639)
Business-type Activities							
Water and Sewer	5,865,802	5,892,440	17,400	-	-	44,038	44,038
Total Primary Government	\$ 34,011,406	\$ 8,932,020	\$ 13,547,452	\$ 901,333	\$ (10,674,639)	\$ 44,038	\$ (10,630,601)
General Revenues							
Property Taxes					\$ 4,531,008	\$ -	\$ 4,531,008
Interest and Penalty on Taxes					76,615	-	76,615
In-Lieu of Taxes					124,988	-	124,988
Local Sales Tax					3,928,653	-	3,928,653
Wholesale Beer Tax					502,246	-	502,246
Wholesale Liquor Tax					222,445	-	222,445
Business Taxes					306,798	-	306,798
Cable TV Franchise Tax					134,958	-	134,958
Room Occupancy Tax					672,460	-	672,460
State Sales Tax					766,081	-	766,081
Other State Taxes - Unrestricted					231,301	-	231,301
Licenses and Permits					70,965	-	70,965
Grants and Contributions Not Restricted to Specific Programs					62,727	-	62,727
Other Local Revenues - Unrestricted					154,669	-	154,669
Unrestricted Investment Earnings and Rental Income					43,350	130,254	173,604
Gain on Sale of Capital Assets					115,124	-	115,124
Total General Revenues					\$ 11,944,388	\$ 130,254	\$ 12,074,642
Change in Net Position							
Net Position Beginning of Year as Previously Reported					\$ 1,269,749	\$ 174,292	\$ 1,444,041
Restatements (Note 15)					14,312,282	19,974,720	34,287,002
					(2,173,430)	57,128	(2,116,302)
Net Position - End of Year					\$ 13,408,601	\$ 20,206,140	\$ 33,614,741

The notes to the financial statements are an integral part of this statement.

City of Manchester, Tennessee
 Balance Sheet
 Governmental Funds
 June 30, 2015

	Major Funds			Nonmajor Funds		Total Governmental Funds
	General	General Purpose School	Debt Service	Other Governmental Funds		
\$	-	\$ 6,091	\$ -	\$ 515,985	\$	522,076
Cash	2,958,216	2,518,988	2,191,568	734,054		8,402,826
Investment in Pooled Cash	11,784	207,051	-	87,016		305,851
Accounts Receivable	(10,992)	-	-	(67,852)		(78,844)
Allowance for Uncollectible	1,099,263	804,606	-	275,115		2,178,984
Due from Other Governments	1,496	-	-	53,391		54,887
Due from Other Funds	5,307,434	-	-	-		5,307,434
Property Taxes Receivable	(75,902)	-	-	-		(75,902)
Allowance for Uncollectible Property Taxes	256,601	-	-	46,227		302,828
Other Taxes Receivable	69,288	-	-	10,921		80,209
Inventories						
Total Assets	\$ 9,617,188	\$ 3,536,736	\$ 2,191,568	\$ 1,654,857	\$	17,000,349

ASSETS

LIABILITIES

\$	555,334	\$ 18,268	\$ -	\$ 235,751	\$	809,353
Accounts Payable	101,430	807,992	-	92,941		1,002,363
Accrued Payroll	7,775	505,096	-	2,114		514,985
Payroll Deductions Payable	1,710	-	-	40,423		42,133
Other Payables	-	1,496	-	-		1,496
Due to Other Funds	456	24	-	-		480
Due to State of Tennessee	-	-	-	85,071		85,071
Unearned Revenues	-	-	-	84,208		84,208
Pooled Cash Overdraft						
Total Liabilities	\$ 666,705	\$ 1,332,876	\$ -	\$ 540,508	\$	2,540,089

City of Manchester, Tennessee
Balance Sheet
Governmental Funds (Cont.)

	Major Funds		Nonmajor Funds		Total Governmental Funds
	General	Purpose School	Debt Service	Other Governmental Funds	
Deferred Property Taxes	\$ 5,182,364	\$ -	\$ -	\$ -	\$ 5,182,364
Other Deferred/Unavailable Revenue	-	173,004	-	-	173,004
Total Deferred Inflows of Resources	\$ 5,182,364	\$ 173,004	\$ -	\$ -	\$ 5,355,368
<u>FUND BALANCES</u>					
Nonspendable:					
Inventory	\$ 69,288	\$ -	\$ -	\$ 10,921	\$ 80,209
Restricted:					
Restricted for Tourism and Community Development	-	-	-	183,303	183,303
Restricted for Drug Control and Investigation	-	-	-	502,844	502,844
Restricted for Education	-	3,020	-	752	3,772
Restricted for Operation of Non-instructional Services	-	-	-	183,518	183,518
Committed:					
Committed for Information Systems	1,554	-	-	-	1,554
Committed for General Government & Buildings	9,844	-	-	-	9,844
Committed for Police Department	13,402	-	-	-	13,402
Committed for Public Works	4,997	-	-	-	4,997
Committed for Recreation Centers	-	-	-	121,888	121,888
Committed for Park Areas	-	-	-	1,640	1,640
Committed for Education	-	1,409,005	-	-	1,409,005
Committed for Operation of Non-instructional Services	-	83,377	-	-	83,377
Committed for Debt Service	-	535,454	2,191,568	-	2,727,022
Assigned	-	-	-	164,186	164,186
Unassigned	3,669,034	-	-	(54,703)	3,614,331
Total Fund Balances	\$ 3,768,119	\$ 2,030,856	\$ 2,191,568	\$ 1,114,349	\$ 9,104,892
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 9,617,188	\$ 3,536,736	\$ 2,191,568	\$ 1,654,857	\$ 17,000,349

The notes to the financial statements are an integral part of this statement.

City of Manchester, Tennessee
Reconciliation of the Balance Sheet of Governmental Funds to
the Statement of Net Position
June 30, 2015

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balances - balance sheet - governmental funds		\$ 9,104,892
(1) Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds:		
Land	\$ 4,711,324	
Construction in Progress	143,326	
Land Improvements	251,572	
Buildings	15,231,164	
Vehicles	1,719,607	
Heavy Equipment	138,697	
Other Equipment	315,363	
Infrastructure	<u>7,700,783</u>	30,211,836
(2) Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.		
Accrued Interest Payable	\$ (66,481)	
Due Within One Year	(727,097)	
Due in More Than One Year	<u>(24,161,174)</u>	(24,954,752)
(3) Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be amortized and recongnized as components of pension expense in furture years.		
Deferred outflows of resources related to pensions	\$ 1,116,694	
Deferred inflows of resources related to pensions	(2,551,592)	(1,434,898)
(4) Net pension assets of the city agent plan are not current financial resources and are therefore not reported in the governmental funds.		308,519
(5) Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the governmental funds.		<u>173,004</u>
Net position of governmental activities		<u>\$ 13,408,601</u>

City of Manchester, Tennessee
Statement of Revenues, Expenditures,
and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2015

	Major Funds			Nonmajor Funds		Total Governmental Funds
	General	General Purpose School	Debt Service	Other Governmental Funds	Governmental Funds	
<u>Revenues</u>						
Local Taxes	\$ 10,094,596	\$ -	\$ -	\$ 280,587	\$ 10,375,183	
Licenses and Permits	70,965	-	-	-	70,965	
Charges for Current Services	21,066	151,300	-	2,314,927	2,487,293	
Fines, Forfeitures and Penalties	247,158	-	-	70,170	317,328	
Other Local Revenue	187,040	43,719	39,272	218,332	488,363	
Intergovernmental	1,818,752	11,249,469	-	2,227,535	15,295,756	
Total Revenues	\$ 12,439,577	\$ 11,444,488	\$ 39,272	\$ 5,111,551	\$ 29,034,888	
<u>Expenditures</u>						
General Government	\$ 1,866,109	\$ -	\$ -	\$ -	\$ 1,866,109	
Public Safety	4,447,129	-	-	217,568	4,664,697	
Public Works	1,616,182	-	-	1,182,883	2,799,065	
Health, Welfare, Culture and Recreation	142,949	-	-	2,136,054	2,279,003	
Economic Development and Assistance	-	-	-	621,547	621,547	
Education	-	13,973,180	-	1,721,790	15,694,970	
Debt Service	-	-	1,490,670	-	1,490,670	
Total Expenditures	\$ 8,072,369	\$ 13,973,180	\$ 1,490,670	\$ 5,879,842	\$ 29,416,061	
Excess (Deficiency) of Revenues	\$ 4,367,208	\$ (2,528,692)	\$ (1,451,398)	\$ (768,291)	\$ (381,173)	
<u>Other Financing Sources (Uses)</u>						
Transfers In	-	\$ 1,678,467	\$ 1,488,279	\$ 603,701	\$ 3,770,447	
Transfers Out	(3,670,070)	-	-	(100,377)	(3,770,447)	
Capitalized Lease Proceeds	-	-	-	241,587	241,587	
Total other Financing Sources	\$ (3,670,070)	\$ 1,678,467	\$ 1,488,279	\$ 744,911	\$ 241,587	
Net Change in Fund Balance	\$ 697,138	\$ (850,225)	\$ 36,881	\$ (23,380)	\$ (139,586)	
Fund Balance, July 1, 2014	3,070,981	3,066,953	2,154,687	1,226,913	9,519,534	
Prior Period Adjustment	-	(185,872)	-	(89,184)	(275,056)	
Fund Balance, June 30, 2015	\$ 3,768,119	\$ 2,030,856	\$ 2,191,568	\$ 1,114,349	\$ 9,104,892	

The notes to the financial statements are an integral part of this statement.

City of Manchester, Tennessee
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds		\$ (139,586)
<p>Governmental funds reported capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their useful lives and reported as depreciation expenses. The difference between capital outlays and depreciation is itemized as follows:</p>		
Add: capital assets purchased in the current period	\$ 1,486,980	
Less: current-year depreciation expense	(1,476,422)	10,558
<p>The net effect of various miscellaneous transactions involving capital assets (sales, trade-ins, and donations) is to decrease net assets.</p>		
Less: book value of capital assets disposed	\$ (27,500)	
Add: donations of capital assets	209,980	
Add: confiscations of capital assets placed in service	24,979	207,459
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:</p>		
Add: other deferred/unavailable revenue June 30, 2015		173,004
<p>The issuance of long-term debt (e.g. bonds, notes, capitalized leases and other loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar item when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. This amount is the effect of these differences in the treatment of long-term debt and related items.</p>		
Add: principal payment on long-term debt	\$ 637,232	
Less: capitalized lease proceeds	(241,587)	395,645
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.</p>		
Change in accrued interest payable	\$ (66,481)	
Change in compensated absences payable	(49,252)	
Change in net pension asset	2,206,893	
Change in deferred outflows of resources related to pensions	935,907	
Change in deferred inflows of resources related to pensions	(2,370,803)	
Change in other postemployment benefits liability	(33,595)	622,669
Change in net position of governmental activities		<u>1,269,749</u>

City of Manchester, Tennessee
Water and Sewer Fund
Statement of Net Position
For the Year Ended June 30, 2015

ASSETS

Cash	\$ 1,189,800
Investment in Pooled Cash	2,280,956
Accounts Receivable	353,388
Allowance for Uncollectible	(27,680)
Unbilled Water and Sewer	149,664
Inventories	167,053
Current Portion of Notes Receivable from DRUC	315,000
Net Pension Asset Account	38,541
Capital Assets:	
Assets Not Being Depreciated:	
Land	210,937
Construction in Progress	1,144,462
Assets Net of Accumulated Depreciation:	
Buildings	140,699
Equipment	157,953
Water Plant	6,879,453
Sewer Plant	24,863,882
Notes Receivable from DRUC	9,515,000
Total Assets	<u>\$ 47,379,108</u>

DEFERRED OUTFLOWS OF RESOURCES

Pension Changes in Contributions after Measurement Date	\$ 27,968
Total Deferred Outflows of Resources	<u>\$ 27,968</u>

LIABILITIES

Accounts Payable	\$ 209,921
Accrued Payroll	18,723
Payroll Deductions Payable	1,319
Refunds Payable	1,690
Accrued Interest Payable	36,383
Due to Other Funds	53,391
Due to State of Tennessee	18,354
DRUC Water Surcharge	2,437
Customer Deposits	338,211
Surcharge Fee Payable	615
Noncurrent Liabilities:	
Due Within One Year	1,162,611
Due in More Than One Year	25,331,191
Total Liabilities	<u>\$ 27,174,846</u>

City of Manchester, Tennessee
Water and Sewer Fund
Statement of Net Position (Cont.)

DEFERRED INFLOWS OF RESOURCES

Pension Changes in Experience	\$ 4,000
Pension Changes in Investment Earnings	22,090
Total Deferred Inflows of Resources	<u>\$ 26,090</u>

NET POSITION

Net Investment in Capital Assets	\$ 17,007,043
Unrestricted	<u>3,199,097</u>
Net Position	<u>\$ 20,206,140</u>

City of Manchester, Tennessee
Water and Sewer Fund
Statement of Revenue, Expenses and Changes in Net Position
For the Year Ended June 30, 2015

Operating Revenues

Water Revenues

Inside Residential/Metered Water Sales	\$ 749,345	
Inside Commercial/Metered Water Sales	556,285	
Inside Industrial/Metered Water Sales	135,209	
Outside Residential/Metered Water Sales	726,943	
Outside Commercial/Metered Water Sales	116,961	
Outside Industrial/Metered Water Sales	381,356	
Ready to Serve	13,841	
Sprinkler System/Fire Protection	55,377	
Sales to Hillsville Utility District	508,631	
Forfeited Discounts/Penalties	98,139	
Water Service Calls	53,504	
Water Tap Fees	31,070	
Miscellaneous - Water	30,959	
Total Water Revenues		\$ 3,457,620

Sewer Revenues

Sewer Charges - Inside Residential	\$ 884,316	
Sewer Charges - Inside Commercial	638,265	
Sewer Charges - Inside Industrial	264,258	
Sewer Charges - Outside Residential	4,344	
Sewer Charges - Outside Commercial	46,988	
Sewer Charges - Outside Industrial	468,396	
Hillsville Sewer	15,860	
Pretreatment Fees	64,572	
Sewer Tap Fees	15,900	
Total Sewer Revenues		2,402,899

Other Revenues from Operations

Billing Administration Fees	\$ 31,898	
Bad Debt Collections	23	
Total Other Revenues from Operations		31,921

Total Operating Revenues **\$ 5,892,440**

City of Manchester, Tennessee

Water and Sewer Fund

Statement of Revenue, Expenses and Changes in Net Position (Cont.)

Operating Expenses

Water Distribution

Electric	\$ 77,439	
Telephone and Telegraph	11,272	
Water Purchased for Resale	1,179,665	
Provision for Depreciation	316,095	
Total Water Distribution		\$ 1,584,471

Shop & Maintenance

Regular Employee Salaries	\$ 832,553	
Salaries - Overtime	42,780	
Accrued Benefits	8,390	
OASI Employer Share	65,061	
Employee Health Insurance	251,507	
Retirement - TCRS	13,909	
Retirement - ING	24,179	
Employee Dental Insurance	13,010	
Employee Life Insurance	1,737	
Worker's Compensation Insurance	22,272	
Unemployment Insurance	1,211	
Education/Training	240	
Electric	3,825	
Telephone and Telegraph	2,468	
Architectural Engineering Service	30,691	
Other Professional Service	42,687	
Repair & Maintenance - Motor Vehicle	13,435	
Repair & Maintenance - Other Machinery	27,557	
Repair & Maintenance Grounds I	637	
Repair & Maintenance - Buildings	2,107	
Repair/Maintenance - Water	98,416	
Repair/Maintenance - Sewer	28,737	
Small Items of Equipment	4,110	
Household & Janitorial Supplies	215	
Clothing and Uniforms	1,266	
Other Operating Supplies	4,864	
Gas, Oil, Diesel, Fuel, Grease	30,908	
Repair Parts - Water/Sewer	8,977	
General Liability Insurance	11,198	
Machinery And Equipment	416	
Provision for Depreciation	15,258	
State - Annual Maintenance	9,775	
Total Shop & Maintenance		1,614,396

City of Manchester, Tennessee
Water and Sewer Fund
Statement of Revenue, Expenses and Changes in Net Position (Cont.)

Operating Expenses (Cont.)

Customer Account & Collection

Regular Employee Salaries	\$ 135,425	
Salaries - Overtime	176	
Accrued Benefits	1,224	
OASI Employers Share	10,123	
Employee Insurance	47,441	
Retirement - ING	8,968	
Dental Insurance	2,448	
Death Benefits Plan	302	
Workman's Comp - Employer	236	
Unemployment Insurance	288	
Education/Training	4,138	
Postage	27,649	
Printing, Duplication, Typing	6,333	
Publication Legal Notice	1,287	
Telephone and Telegraph	475	
Other Utility Services	5,819	
Accounting/Audit Services	8,100	
Architectural/Engineering	270	
Data Processing Support	8,125	
Other Professional Services	1,827	
Repair and Maintenance - Bldg./F	204	
Repair and Maintenance - Computer Equip	3,010	
Office Supplies	2,237	
Small Item of Equipment	165	
Gas, Oil, Diesel, Fuel, Grease	7,608	
General Liability	1,244	
Professional Liability/Surety Bonds	300	
Machinery & Equipment Co	108	
Provision for Depreciation	3,660	
Bad Debt Expense	7,352	
Total Customer Account & Collection	296,542	

Sewer Treatment & Disposal

Regular Employee Salaries	\$ 121,727
Salaries - Overtime	14,902
Accrued Benefits	2,448
OASI Employer Share	10,178
Employee Health Insurance	41,807
Retirement- ING	9,543
Employee Dental Insurance	2,281
Employee Life Insurance	255
Workers Compensation Insurance	2,662

City of Manchester, Tennessee
Water and Sewer Fund
Statement of Revenue, Expenses and Changes in Net Position (Cont.)

Operating Expenses (Cont.)

Sewer Treatment & Disposal (Cont.)

Unemployment Insurance	162	
Education/Training	1,787	
Dues and Subscriptions	45	
Electric	305,514	
Telephone and Telegraph	1,977	
Repair & Maintenance - Other Machinery	35,671	
Small Items of Equipment	15	
Chemical, Lab & Med Supplies	34,029	
Gas, Oil, Diesel, Fuel and Grease	6,509	
Waste Water Pretreatment	33,631	
Sewer General Liability	18,664	
Provision for Depreciation	1,033,848	
State - Annual Maintenance	9,158	
Total Sewer Treatment & Disposal		1,686,813

Mechanical Maintenance

Regular Employee Salaries	\$ 67,488	
Salaries - Overtime	14,908	
Accrued Benefits	612	
OASI Employers Share	6,157	
Employee Health Insurance	19,172	
Retirement- TCRS	2,465	
Employee Dental Insurance	972	
Employee Life Insurance	153	
Unemployment Insurance	162	
Other Operating Supplies	2,607	
Gas, Oil, Diesel, Fuel and Grease	828	
Total Mechanical Maintenance		115,524

Total Operation Expenses \$ 5,297,746

Total Operating Income \$ 594,694

City of Manchester, Tennessee

Water and Sewer Fund

Statement of Revenue, Expenses and Changes in Net Position (Cont.)

Non-operating Revenues (Expenses)

Interest Earnings	\$ 10,969	
Water Tower Leases	119,285	
Coffee County Industrial Park Contract	17,400	
Interest Expense	(567,135)	
Bank Service Charges/Fiscal Agent Fees	(921)	
Total Non-operating Revenues (Expenses)		<u>(420,402)</u>
Change in Net Position	\$ 174,292	
Net Position, Beginning of Year as Previously Reported		19,974,720
Restatement (Note 15)		<u>57,128</u>
Net Position 6/30/2015		<u><u>\$ 20,206,140</u></u>

City of Manchester, Tennessee
Water and Sewer Fund
Statement of Cash Flow
For the Year Ended June 30, 2015

Cash Flows from Operating Activities

Cash received from customers	\$ 5,992,312
Cash paid to employees for services	(1,821,071)
Cash paid to suppliers of goods and services	(2,272,970)
Net Cash provided by operating activities	<u>\$ 1,898,271</u>

Cash Flows from Capital and Related Financing Activities

Acquisitions of capital assets	\$ (104,481)
Interest paid on capital debt	(530,752)
Principal paid on capital debt	(819,602)
Net Cash used by capital and related Financing Activities	<u>\$ (1,454,835)</u>

Cash Flows from Investing Activities

Interest received	\$ 10,969
Other non operating receipts	135,764
Net Cash provided by Investing Activities	<u>\$ 146,733</u>

Net Increase in Cash	\$ 590,169
Cash, Beginning of Year	<u>2,880,587</u>
Cash, End of Year	<u>\$ 3,470,756</u>

Reconciliation of Operating Income to Net Cash Provided by Operations

Operating Income	\$ 594,694
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	1,315,705
(Increase) Decrease in Accounts Receivable	71,569
(Increase) Decrease in Inventories	(14,234)
(Increase) Decrease in Deferred Outflows Related to Pension	(11,594)
Increase (Decrease) in Accounts Payable	(57,869)
Net Cash Provided by Operating Activities	<u>\$ 1,898,271</u>

City of Manchester, Tennessee
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
General Fund
For the Year Ended June 30, 2015

	Actual (GAAP Basis)	Less: Encumbrances 07/01/14	Add: Encumbrances 06/30/15	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance With Final Budget- Positive (Negative)
					Original	Final	
					Original	Final	
Revenues							
Local Taxes	\$ 10,094,596	\$ -	\$ -	\$ 10,094,596	\$ 9,648,246	\$ 9,794,646	\$ 299,950
Licenses and Permits	70,965	-	-	70,965	87,000	72,000	(1,035)
Charges for Current Services	21,066	-	-	21,066	17,150	17,350	3,716
Fines, Forfeitures and Penalties	247,158	-	-	247,158	251,000	251,000	(3,842)
Other Local Revenue	187,040	-	-	187,040	77,300	179,298	7,742
Intergovernmental	1,818,752	-	-	1,818,752	1,575,200	2,005,515	(186,763)
Total Revenues	\$ 12,439,577	\$ -	\$ -	\$ 12,439,577	\$ 11,655,896	\$ 12,319,809	\$ 119,768
Expenditures							
General Government							
City Court	\$ 12,000	\$ -	\$ -	\$ 12,000	\$ 12,000	\$ 12,000	\$ -
Board of Mayor and Aldermen	311,210	-	-	311,210	326,261	348,018	36,808
Financial Administration	330,682	-	-	330,682	350,225	350,225	19,543
Information Systems	93,108	-	1,554	94,662	124,982	102,457	7,795
Planning and Zoning	270,207	-	-	270,207	307,020	310,520	40,313
General Government and Buildings	848,902	(2,276)	9,844	856,470	761,500	1,235,964	379,494
Public Safety							
Police Department	2,586,157	(3,302)	13,402	2,596,257	2,741,179	2,719,381	123,124
Fire Department	1,860,972	-	-	1,860,972	1,873,940	1,945,909	84,937
Public Works							
Public Works Department	1,616,182	(575)	4,997	1,620,604	1,710,310	1,757,538	136,934
Health, Welfare, Culture and Recreation							
Contributions to Other Agencies	142,949	-	-	142,949	142,737	142,737	(212)
Total Expenditures	\$ 8,072,369	\$ (6,153)	\$ 29,797	\$ 8,096,013	\$ 8,350,154	\$ 8,924,749	\$ 828,736
Excess (Deficiency) of Revenues	\$ 4,367,208	\$ 6,153	\$ (29,797)	\$ 4,343,564	\$ 3,305,742	\$ 3,395,060	\$ 948,504
Other Financing Sources (Uses)							
Transfers Out	(3,670,070)	-	-	(3,670,070)	(3,670,070)	(3,670,070)	-
Total Other Financing Sources	\$ (3,670,070)	\$ -	\$ -	\$ (3,670,070)	\$ (3,670,070)	\$ (3,670,070)	\$ -
Net Change in Fund Balance	\$ 697,138	\$ 6,153	\$ (29,797)	\$ 673,494	\$ (364,328)	\$ (275,010)	\$ 948,504
Fund Balance, July 1, 2014	3,070,981	(6,153)	-	3,064,828	3,044,806	3,044,806	20,022
Fund Balance, June 30, 2015	\$ 3,768,119	\$ -	\$ (29,797)	\$ 3,738,322	\$ 2,680,478	\$ 2,769,796	\$ 968,526

The notes to the financial statements are an integral part of this statement.

City of Manchester, Tennessee
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
General Purpose School Fund
For the Year Ended June 30, 2015

	Actual	Budgeted Amounts		Variance With Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Charges for Current Services	\$ 151,300	\$ 152,000	\$ 153,000	\$ (1,700)
Other Local Revenues	43,719	12,500	12,071	31,648
Intergovernmental	11,249,469	15,303,688	11,159,541	89,928
Total Revenues	<u>\$ 11,444,488</u>	<u>\$ 11,444,488</u>	<u>\$ 11,324,612</u>	<u>\$ 119,876</u>
<u>Expenditures</u>				
<u>Instruction</u>				
Regular Instruction Program	\$ 7,329,382	\$ 7,475,334	\$ 7,515,222	\$ 185,840
Alternative Instruction Program	61,938	58,080	62,152	214
Special Education Program	1,477,855	1,469,142	1,522,216	44,361
Student Body Education Program	19,501	21,500	20,000	499
<u>Support Services</u>				
Attendance	101,520	113,485	105,313	3,793
Health Services	161,542	161,242	161,615	73
Other Student Support	237,635	231,465	236,752	(883)
Regular Instruction Program	561,000	591,488	571,039	10,039
Special Education Program	277,794	292,297	285,315	7,521
Board of Education	304,689	288,811	304,322	(367)
Office of the Superintendent	211,397	271,591	265,259	53,862
Office of the Principal	707,598	743,349	719,012	11,414
Fiscal Services	388,117	308,503	310,133	(77,984)
Operation of Plant	833,013	896,181	868,746	35,733
Maintenance of Plant	411,570	422,615	419,877	8,307
Transportation	32,917	37,570	36,076	3,159
Central and Other	278,156	273,755	278,395	239
<u>Operation of Non-instructional Services</u>				
Community Services	299,369	190,800	184,721	(114,648)
Early Childhood Education	277,457	277,456	277,456	(1)
<u>Capital Outlay</u>				
Regular Capital Outlay	730	-	730	-
Total Expenditures	<u>\$ 13,973,180</u>	<u>\$ 14,124,664</u>	<u>\$ 14,144,351</u>	<u>\$ 171,171</u>
Excess (Deficiency) of Revenues	<u>\$ (2,528,692)</u>	<u>\$ (2,680,176)</u>	<u>\$ (2,819,739)</u>	<u>\$ 291,047</u>
<u>Other Financing Sources (Uses)</u>				
Transfers In	\$ 1,678,467	\$ 1,678,467	\$ 1,678,467	\$ -
Total Other Financing Sources	<u>\$ 1,678,467</u>	<u>\$ 1,678,467</u>	<u>\$ 1,678,467</u>	<u>\$ -</u>
Net Change in Fund Balance	\$ (850,225)	\$ (1,001,709)	\$ (1,141,272)	\$ 291,047
Fund Balance, July 1, 2014	3,066,953	2,448,879	2,448,879	618,074
Prior Period Adjustment	(185,872)	-	-	(185,872)
Fund Balance, June 30, 2015	<u>\$ 2,030,856</u>	<u>\$ 1,447,170</u>	<u>\$ 1,307,607</u>	<u>\$ 723,249</u>

City of Manchester, Tennessee
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
Debt Service Fund
For the Year Ended June 30, 2015

	Actual	Budgeted Amounts		Variance With Final Budget Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Other Local Revenues	\$ 39,272	\$ 45,700	\$ 39,875	\$ (603)
Total Revenues	\$ 39,272	\$ 45,700	\$ 39,875	\$ (603)
<u>Expenditures</u>				
Debt Service	\$ 1,490,670	\$ 1,478,598	\$ 1,493,128	\$ 2,458
Total Expenditures	\$ 1,490,670	\$ 1,478,598	\$ 1,493,128	\$ 2,458
Excess (Deficiency) of Revenues	\$ (1,451,398)	\$ (1,432,898)	\$ (1,453,253)	\$ 1,855
<u>Other Financing Sources (Uses)</u>				
Transfers In	\$ 1,488,279	\$ 1,478,598	\$ 1,490,334	\$ 2,055
Total Other Financing Sources	\$ 1,488,279	\$ 1,478,598	\$ 1,490,334	\$ 2,055
Net Change in Fund Balance	\$ 36,881	\$ 45,700	\$ 37,081	\$ 3,910
Fund Balance, July 1, 2014	2,154,687	2,212,885	2,212,885	(58,198)
Fund Balance, June 30, 2015	\$ 2,191,568	\$ 2,258,585	\$ 2,249,966	\$ (54,288)

CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Manchester, Tennessee (the City) operates under a Mayor-Alderperson form of government. The City's major operations include the following departments: general government, public safety, public school system, highways and streets, health and social services, recreation, public improvements, and planning and zoning. In addition, the City owns and provides water and sewer services.

The accounting and reporting policies of the City relating to the funds included in the accompanying financial statements conform to generally accepted accounting principles applicable to state and local governments. Generally accepted accounting principles (GAAP) for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and by the Financial Accounting Standards Board (when applicable). The GASB periodically updates its codification of the existing Governmental Accounting Standards, which, along with the subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant accounting policies of the City are described below.

A. Reporting Entity

The City, for financial purposes, includes all the funds relevant to the operations of the City of Manchester, Tennessee (the primary government). The City is also required to include in its financial statements those separately administered organizations (component units) with which the City has significant operational or financial relationships. The criteria for including organizations as component units within the City's reporting entity include whether the organization is legally separate and whether the City holds the corporate powers, whether the City appoints a majority of the organization's board and is able to impose its will, and the ability of the organization to impose a financial benefit or burden on the City. Based on the foregoing criteria, the City of Manchester has no component units.

CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (CONT.)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. However, when applicable, inter-fund services provided and used between functions are not eliminated in the process of consolidation in the Statement of Activities. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Business-type activities, which rely to a significant extent on fees and charges, are required to be reported separately from governmental activities in government-wide financial statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or identifiable activity are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by the given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

The City of Manchester issues all debt for the Manchester City Schools. There were no debt issues contributed by the City to the City Schools during the year ended June 30, 2015.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (CONT.)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences are recorded only when payment is due.

Property taxes for the period levied, in-lieu-of tax payments, sales taxes, interest, and miscellaneous taxes are all considered to be susceptible to accrual and have been recognized as revenues of the current period. Applicable business taxes, litigation taxes, state-shared taxes, fines, forfeitures, and penalties are not susceptible to accrual since they are not measurable (reasonably estimable). However, July and August 2015 property tax collections have been included in revenues. All other revenue items are considered to be measurable and available only when the City receives cash.

The financial transactions of the City are recorded in individual funds. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classifications within the financial statements.

The City reports the following major governmental funds:

General Fund - The General Fund is the primary operating fund of the City. It is used to account for all financial resources of the general government, except those required to be accounted for in another fund.

CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (CONT.)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Cont.)

General Purpose School Fund – The General Purpose School Fund is used to account for the primary activities of the schools of the City of Manchester.

Debt Service – The Debt Service Fund is used to account for the accumulation of resources for the payment of interest and principal on long-term general obligation debt other than payable from the Proprietary Fund.

The City reports the following major proprietary fund:

Water & Sewer Fund - The Water & Sewer Fund accounts for revenues and expenses related to potable water and waste water services provided to customers of the system.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this rule are charges between the government's water function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water Fund are charges to customers for sales and services. The Water Fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses of the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (CONT.)**

D. DEPOSITS AND INVESTMENTS

State statutes authorize the City to make direct investments in bonds, notes, or treasury bills of the U.S. government and obligations guaranteed by the U.S. government or any of its agencies; deposit accounts at state and federal chartered banks and savings and loan associations; repurchase agreements; the State Treasurer's Investment Pool; bonds of any state or political subdivision rated A or higher by any nationally recognized rating service; nonconvertible debt securities of certain federal government sponsored enterprises; and the City's own legally issued bonds or notes.

The City's Financial Officer maintains a cash and internal investment pool that is used by all funds. Each fund's portion of this pool is displayed on the balance sheets or statements of net position as Investment in Pooled Cash.

Cash consists of cash-on-hand and on-deposit with financial institutions. For purposes of reporting cash on the Statement of Net Position, the City considers unrestricted highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Cash is reported on the Statement of Cash Flows as "Cash". At June 30, 2015, the City had no cash equivalents.

Investments – All investments are stated at fair value for all funds. At June 30, 2015, the City had no investments.

E. RECEIVABLES AND PAYABLES

All property taxes are shown with an allowance for un-collectibles. Allowance for un-collectibles are based on historical collection data.

Property taxes receivable are recognized as of the date an enforceable legal claim to the taxable property arises. This date is January 1 and is referred to as the lien date. However, revenues from property taxes are recognized in the period for which the taxes are levied, which is the ensuing fiscal year. Since the receivable is recognized before the period of revenue recognition, the entire amount of the receivable, less an estimated allowance for uncollectible taxes, is reported as a deferred inflow of resources as of June 30.

**CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (CONT.)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

E. RECEIVABLES AND PAYABLES (CONT.)

Property taxes are levied as of October 1. Taxes become delinquent and begin accumulating interest and penalty the following March 1. Suit must be filed in Court between the following February 1 to April 1 for any remaining unpaid taxes. Additional costs attach to delinquent taxes after a court suit has been filed.

F. INVENTORIES

Inventories of the School Fund consists of food and supplies and is valued at cost and recorded using purchase and consumption methods for fund and governmental activities statement presentation.

Inventory of the Water and Sewer Funds, principally materials, supplies, and replacement parts, is valued at the lower of cost, first-in, first-out, or market.

Inventory of the General Fund, principally materials and gasoline, is valued at cost and recorded as an expenditure at the time individual inventory items are purchased.

G. CAPITAL ASSETS

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, drainage), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. The City's policy is to capitalize the net interest cost incurred during the year resulting from borrowings utilized to finance the construction of assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

**CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (CONT.)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

G. CAPITAL ASSETS (CONT.)

When capital assets are purchased, they are capitalized and depreciated in the government-wide statements and the proprietary fund statements. Capital assets are recorded as expenditures of the current period in the governmental fund financial statements.

Depreciation of capital assets is computed and recorded by the straight-line method over the estimated useful lives of the assets. Estimated useful lives of the various classes of depreciable capital assets are as follows:

	<u>Estimated Useful Life</u>
Buildings	25-50 Years
Infrastructure (roads, bridges)	50 Years
Distribution Systems	10-50 Years
Equipment	3-10 Years
Furniture and Fixtures	3-10 Years

H. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

**CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (CONT.)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

I. COMPENSATED ABSENCES

The City provides for the accumulation of unused vacation. Accumulated vacation and sick leave vest with the employee and may be taken, or paid to the employee upon termination or retirement. For Governmental Fund accounting and reporting purposes, no amounts accrued at June 30, 2015 are expected to be liquidated with expendable available financial resources; accordingly, a liability is not recorded in the fund statements. Compensated absences are accrued when incurred in the governmental activities and proprietary fund financial statements.

J. LONG-TERM OBLIGATIONS

In government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt or other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. In the fund financial statements, issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

Only the matured portion (the portion that has come due for payment) of long-term indebtedness, including bonds payable, is recognized as a liability and expenditure in the governmental fund financial statements. Liabilities and expenditures for other long-term obligations, including compensated absences and other post-employment benefits, are recognized to the extent that the liabilities have matured (come due for payment) each period.

K. RETIREMENT

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

**CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (CONT.)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

L. INTERNAL ACTIVITY (DUE FROM/TO OTHER FUNDS)

Activity between funds that are representative of lending/ borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (the non-current portion of interfund loans) or “advances to/from other funds” (the current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” These balances are eliminated within the governmental activities funds and within the business-type activities funds. Any residual balances outstanding are reported in the government-wide financial statements as “internal balances.”

M. NET POSITION AND FUND BALANCE

In the government-wide financial statements, equity is classified as net position and may be displayed in the following components:

Investment in capital assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation. It should be noted that no outstanding long-term debt exists for this entity.

Restricted net position – Consists of net position with constraints placed on the use either by (A) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or (B) law through constitutional provisions or enabling legislation.

Unrestricted net position – All other net position that does not meet the definition of restricted or net investment in capital assets.

Governmental funds utilize a fund balance presentation of equity. Fund balance is categorized as non-spendable, restricted, committed, assigned, or unassigned.

Non-spendable fund balance - Includes amounts that cannot be spent because they are either not in a spendable form (such as inventory or prepaid) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted fund balance - Includes amounts with external constraints placed on the use of these resources (such as debt covenants, grantors, other governments, etc.) or imposed by enabling legislation.

Committed fund balance - Includes amounts that can be used only for specific purposes imposed by a formal action of the government’s highest level of decision-making authority. The Board of Alderman is the highest level of decision making authority for the Town that can,

**CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (CONT.)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

N. NET POSITION AND FUND BALANCE (CONT.)

by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by ordinance remains in place until a similar action is taken (adoption of another ordinance) to remove or revise the limitation.

Assigned fund balance - Is intended to be used by the City for specific purposes but do not meet the classification as committed. This limitation can be imposed by a designee of the Board of Aldermen. The Board of Aldermen may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment.

Unassigned fund balance - Is the net resources in excess of what can be properly classified in one of the above four categories. Negative unassigned fund balance in other governmental funds represents excess expenditures incurred over the amounts restricted, committed, or assigned to those purposes. Proprietary fund equity is classified the same as in the government-wide statements.

Fund Balance Flow Assumption - When both restricted and unrestricted fund balances are available for use, it is the City's policy to use restricted fund balance first, then unrestricted fund balance. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the policy of the Town that committed fund balances would be reduced first, followed by assigned amounts, and then unassigned amounts.

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide Statement of Net Position

The Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position on page of this report includes explanations of the nature of individual elements of items required to reconcile the balance sheet of governmental funds with the government-wide Statement of Net Position.

**CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (CONT.)**

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONT.)

- B. Explanation of certain differences between the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the government-wide Statement of Activities

The Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities on page of this report includes explanations of the nature of individual elements of items required to reconcile the net change in fund balances – total governmental funds with the change in net position of governmental activities reported in the government-wide Statement of Activities.

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting - General governmental revenue and expenditures accounted for in budgetary funds are controlled by a formal integrated budgetary accounting system in accordance with various legal requirements, which govern the City's operations.

The City is required by state statute to adopt annual budgets. Annual budgets are prepared on the basis in which current available funds must be sufficient to meet current expenditures. Expenditures and encumbrances may not legally exceed appropriations authorized by the City Board and any authorized revisions. Unencumbered appropriations lapse at the end of each fiscal year.

Subsequently the budget is enacted through vote of the Aldermen with an operative date of July 1. Budgets, as adopted and amended, are adopted for the General Fund, and Special Revenue Funds, on a basis consistent with generally accepted accounting principles. These formal budgets are adopted on a departmental basis. The City Mayor is authorized to transfer budgeted amounts between departments within any fund. However, any revision that alters the total expenditures of any fund must be approved by the Board of Aldermen. Expenditures may not legally exceed budgeted appropriations at the fund level. All appropriations that are not expended lapse at year end.

**CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (CONT.)**

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONT.)

The City's budgetary basis of accounting is consistent GAAP, except instances in which encumbrances are treated as budgeted expenditures. The difference between the budgetary basis and GAAP basis is presented on the face of each budgetary schedule.

4. DEPOSITS AND INVESTMENTS

The City of Manchester participates in an internal cash and investment pool through the City Finance Director's office. The city financial officer is responsible for receiving, disbursing, and investing most city funds. Each fund's portion of this pool is displayed on the balance sheets or statements of net position as Investment in Pooled Cash. Cash reflected on the balance sheets or statements of net position represents non-pooled amounts held separately by individual funds.

All deposits with financial institutions must be secured by one of two methods. One method involves financial institutions that participate in the bank collateral pool administered by the state treasurer. Participating banks determine the aggregate balance of their public fund accounts for the State of Tennessee and its political subdivisions. The amount of collateral required to secure these public deposits must equal at least 105% of the average daily balance of public deposits held.

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 account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

For deposits with financial institutions that do not participate in the bank collateral pool, state statutes require that all deposits be collateralized with collateral whose market value is equal to 105% of the uninsured amount of the deposits. The collateral must be placed by the depository bank in an escrow account in a second bank for the benefit of the City.

**CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (CONT.)**

5. RECEIVABLES

ACCOUNTS RECEIVABLE

Accounts Receivable at June 30, 2015 consist of the following:

	General Fund	General Purpose School Fund	Other Governmental Funds	Water and Sewer Fund
Customers	\$ 11,784	\$ -	\$ 87,016	\$ 353,388
Allowance for Uncollectable	(10,992)	-	(67,852)	(27,680)
Due from National Institute for Excellence in Teaching – Teacher Incentive Fund Grant	-	207,051	-	-
Total	\$ 208	\$ 207,051	\$ 19,164	\$ 355,708

OTHER TAXES RECEIVABLE

Other Taxes Receivable at June 30, 2015 consist of the following:

	General Fund	Other Governmental Funds
Wholesale Beer Tax	\$ 116,232	\$ -
Wholesale Liquor Tax	41,036	-
Cable TV Franchise Tax	34,560	-
Room Occupancy Tax	64,773	46,227
Total	\$ 256,601	\$ 46,227

**CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (CONT.)**

5. RECEIVABLES (CONT.)

DUE FROM OTHER GOVERNMENTS

Due from other governments at June 30, 2015, consist of the following:

	General Fund	General Purpose School Fund	Other Governmental Funds
Due from Coffee County:			
Court Fines	\$ -	\$ -	\$ 2,693
Coffee County Shared Revenues:			
Current Property Taxes	-	69,902	-
Trustee's Collections Prior Years	-	10,455	-
Clerk and Mater Property Tax Collections	-	8,705	-
Interest and Penalty on Property Taxes	-	2,173	-
Payments in Lieu of Taxes	-	91	-
Local Option Sales Tax	-	322,896	-
Interstate Telecommunications Tax	-	47	-
Marriage Licenses	-	67	-
Due from State of Tennessee:			
Local Option Sales Tax	724,472	-	-
State Sales Tax	137,460	-	-
State Income Tax	112,565	-	-
State Mixed Drink Tax	6,373	-	-
State Gas and Motor Fuel Tax	48,874	-	-
Early Childhood Education	-	182,117	-
Other State Education Funds	-	65,238	-
Coordinated School Health	-	19,898	-
Alcoholic Beverage Tax	-	181	-
LEAPS Grant	-	122,836	-
Title I Grant	-	-	6,726
English Language Acquisition Grant	-	-	84
Special Education Grants to States	-	-	128,060
Eisenhower Professional Development Grant	-	-	2,244
National School Lunch Program	-	-	32,562
School Breakfast Program	-	-	12,089
City Streets and Transportation	3,430	-	-
State Highway Maintenance Contract	26,776	-	-
CDBG Grant	39,313	-	-
Project Diabetes Implementation Grant	-	-	58,239
Local Parks and Recreation Fund Grant	-	-	32,418
Total	\$ 1,099,263	\$ 804,606	\$ 275,115

**CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (CONT.)**

6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015, was as follows:

<u>Governmental Activities</u>	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
<u>Capital assets not being depreciated:</u>				
Land	\$ 4,396,424	\$ 314,900	\$ -	\$ 4,711,324
Construction in Progress	1,008,575	143,326	1,008,575	143,326
Total Not Being Depreciated	<u>\$ 5,404,999</u>	<u>\$ 458,226</u>	<u>\$ 1,008,575</u>	<u>\$ 4,854,650</u>
<u>Capital assets being depreciated:</u>				
Buildings	\$27,068,945	\$ 170,105	\$ -	\$ 27,239,050
Land Improvements	403,668			403,668
Infrastructure	23,769,245	1,800,765	-	25,570,010
Other Equipment	1,420,889	23,934	-	1,444,823
Heavy Equipment	676,812	18,275	10,300	684,787
Vehicles	4,123,009	259,209	242,340	4,139,878
Total Being Depreciated	<u>\$ 57,462,568</u>	<u>\$ 2,272,288</u>	<u>\$ 252,640</u>	<u>\$ 59,482,216</u>
<u>Accumulated Depreciation</u>				
Buildings	\$11,236,731	\$771,156	\$ 0	\$12,007,887
Land Improvements	136,044	16,052		152,096
Infrastructure	17,568,187	301,040	0	17,869,227
Heavy Equipment	531,418	24,973	10,300	546,090
Other Equipment	1,029,796	99,663	-	1,129,459
Vehicles	2,371,573	263,538	214,840	2,420,271
Total Accumulated Depreciation	<u>\$32,873,749</u>	<u>\$1,476,422</u>	<u>\$ 225,140</u>	<u>\$34,125,030</u>
Net Capital Assets Being Depreciated	<u>\$24,588,819</u>	<u>\$ 795,866</u>	<u>\$ 27,500</u>	<u>\$25,357,186</u>
Net Capital Assets	<u>\$29,993,818</u>	<u>\$1,254,092</u>	<u>\$ 1,036,075</u>	<u>\$30,211,836</u>

Depreciation expense was charged to the following locations:

General government	\$ 44,255
Public Safety	60,915
Fire Dept	102,162
Drug Fund	132,301
Public Works	427,479
Sanitation	29,613
Recreation	270,502
Schools	409,195
Total	<u>\$1,476,422</u>

CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (CONT.)

6. CAPITAL ASSETS (CONT)

<u>Business-type Activities</u>	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
<u>Capital assets not being depreciated:</u>				
Land	\$ 210,937	\$ -	\$ -	\$ 210,937
Construction in Progress	1,615,534	214,917	685,989	1,144,462
Total Not Being Depreciated	<u>\$ 1,826,471</u>	<u>\$ 214,917</u>	<u>\$ 685,989</u>	<u>\$ 1,355,399</u>
<u>Capital assets being depreciated:</u>				
Buildings	\$ 407,201	\$ -	\$ -	\$ 407,201
Other Equipment	1,221,532	-	-	1,221,532
Utility Plant	48,048,035	575,553	-	48,623,588
Total Being Depreciated	<u>\$ 49,676,768</u>	<u>\$ 575,553</u>	<u>\$ -</u>	<u>\$ 50,252,321</u>
<u>Accumulated Depreciation</u>				
Buildings	\$ 260,034	\$ 6,467	\$ -	\$ 266,501
Other Equipment	1,028,048	35,531	-	1,063,579
Utility Plant	15,553,390	1,326,863	-	16,880,253
Total Accumulated Depreciation	<u>\$ 16,841,472</u>	<u>\$ 1,368,861</u>	<u>\$ -</u>	<u>\$ 18,210,333</u>
Net Capital Assets Being Depreciated	<u>\$ 32,835,296</u>	<u>\$ (793,308)</u>	<u>\$ -</u>	<u>\$ 32,041,988</u>
Net Capital Assets	<u>\$ 34,661,767</u>	<u>\$ 578,391</u>	<u>\$ 685,989</u>	<u>\$ 33,397,387</u>

During 2015, depreciation in the amount of \$1,368,861 was charged to operations.

7. INTERFUND TRANSACTIONS

The composition of inter-fund balances as of June 30, 2015 was as follows:

	<u>Due To</u>	<u>Due From</u>
General	\$ -	\$ 1,496
General Purpose Schools	1,496	
Sanitation	53,391	0
Water and Sewer	<u>0</u>	<u>53,391</u>
Total	<u>\$ 54,887</u>	<u>\$ 54,887</u>

**CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (CONT.)**

8. LONG-TERM OBLIGATIONS

Governmental Activities

General Obligation Bonds, Capital Outlay Notes and Other Loans

The City issues general obligation bonds and other loans to provide funds for the acquisition and construction of major capital facilities for the primary government.

General obligation bonds, capital outlay notes and other loans are direct obligations and pledge the full faith and credit of the government. General obligation bonds and other loans outstanding were issued for original terms of up to 30 years for bonds and up to 20 years for other loans. Repayment terms are generally structured with increasing amounts of principal maturing as interest requirements decrease over the term of the debt. All bonds and other loans included in long-term debt as of June 30, 2015, will be retired from the Debt Service Fund.

General obligation bonds capital outlay notes and other loans outstanding as of June 30, 2015, for governmental activities are as follows:

<u>Type</u>	<u>Interest Rate</u>	<u>Final Maturity</u>	<u>Original Amount of Issue</u>	<u>Balance 6-30-2015</u>
Capital Outlay Notes	3.85%	2019	\$ 550,000	\$ 236,340
General Obligation Bonds	2.91% to 4.70%	2038	21,790,000	20,880,000
Other Loans	3.90%	2021	1,460,000	1,010,000

The annual requirements to amortize all general obligation bonds and other loans outstanding as of June 30, 2015, including interest payments and other loan fees, are presented in the following table:

**CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (CONT.)**

8. LONG-TERM OBLIGATIONS (Cont.)

Governmental Activities (Cont.)

General Obligation Bonds, Capital Outlay Notes and Other Loans (Cont.)

Year Ending June 30	Principal	Interest	Total
2016	\$ 648,572	\$ 836,786	\$ 485,358
2017	673,572	822,253	1,495,825
2018	698,570	790,483	1,489,053
2019	670,626	769,036	1,439,662
2020	680,000	740,359	1,420,359
2021-2025	3,790,000	3,389,793	7,179,793
2026-2030	4,525,000	2,752,905	7,277,905
2031-2035	6,060,000	1,949,569	8,009,569
2036-2038	4,380,000	445,250	4,825,250
Total	\$22,126,340	\$12,496,434	\$34,622,774

Long-term obligation activity for the year ended June 30, 2015, was as follows:

	Capital Outlay Notes	General Obligation Bonds	Other Loans
Balance, July 1, 2014	\$ 314,912	\$ 21,310,000	\$ 1,130,000
Additions	-	-	-
Reductions	78,572	430,000	120,000
Balance, June 30, 2015	\$ 236,340	\$ 20,880,000	\$ 1,010,000
Balance Due Within One Year	\$ 78,572	\$ 435,000	\$ 135,000

Capitalized Leases

On January 26, 2015 the City of Manchester entered into a capital lease agreement with Municipal Asset Management, Inc. for the lease of cardio equipment for the Manchester Recreation Center. This agreement requires a monthly payment of \$2,347 with no stipulation of the interest rate for the lease of this equipment. The discount rate of interest used for the equipment is 2.81% and the discounted value on the date of the lease was \$80,942 which exceeded 90% of the estimated value of this equipment on the date of the lease, therefore,

**CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (CONT.)**

8. LONG-TERM OBLIGATIONS (Cont.)

Business-type Activities (Cont.)

this lease has been treated as a capital lease in the financial statements of this report. The principal balance as of June 30, 2015 was \$72,282.

In June 2015 the City of Manchester entered into a capital lease agreement for the purchase of a leaf loader. This agreement required a monthly payment of \$1,054 which includes interest and principal. The lease purchase agreement has a stipulated interest rate of 2.81%. The principal balance of this lease purchase agreement on June 30, 2015 was \$35,895.

In June 2015 the City of Manchester entered into a capital lease agreement for the purchase of a knuckle-boom truck. This agreement required a monthly payment of \$3,664 which includes interest and principal. The lease purchase agreement has a stipulated interest rate of 2.81%. The principal balance of this lease purchase agreement on June 30, 2015 was \$124,750.

General Obligation and Revenue Bonds, and Other Loans

The City issues general obligation and revenue bonds and other loans to provide funds for the acquisition and construction of major capital facilities for the Water and Sewer System.

General obligation and revenue bonds, and other loans are issued pledging the revenue of the Manchester Water and Sewer system and the full faith and credit of the government. These bonds and other loans outstanding were issued for original terms of up to 50 years for bonds and up to 30 years for other loans. Repayment terms are generally structured with increasing amounts of principal maturing as interest requirements decrease over the term of the debt. These bonds and the State Revolving Loan Fund loan as of June 30, 2015, will be retired from the Water and Sewer Fund.

The local Government Improvement Bonds-Series Z-1-B-DRUC Portion and Public Building Authority of Coffee County, TN-Utility Revenue and tax Bonds-Series 2006-DRUC were used by the Duck River Utility Commission to construct their facilities and improvements to utility plant through an agreement between the City of Tullahoma and the City of Manchester. As a result, Duck River Utility Commission (DRUC) is to be primarily responsible for the repayment of the loans. The receivable from DRUC at June 30, 2015, was \$9,830,000. These loans will be retired by the Duck River Utility Commission.

**CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (CONT.)**

8. LONG-TERM OBLIGATIONS (Cont.)

Business-type Activities (Cont.)

General Obligation and Revenue Bonds, and Other Loans (Cont.)

General obligation and revenue bonds and other loans outstanding as of June 30, 2015, for business-type activities are as follows:

Type	Interest Rate	Final Maturity	Original Amount of Issue	Balance 6-30-2015
General Obligation and Revenue Bonds	3.00% to 4.25%	2050	11,413,000	10,222,761
Other Loans	2.16% to 4.74%	2038	18,005,000	1,010,000

The annual requirements to amortize all bonds and other loans outstanding as of June 30, 2015, including interest payments and other loan fees, are presented in the following table:

Year Ending June 30	Principal	Interest	Total
2016	\$ 1,162,611	\$ 921,982	\$ 2,084,593
2017	1,196,472	886,153	2,082,625
2018	1,235,543	845,301	2,080,844
2019	1,274,828	803,379	2,078,207
2020	1,329,333	759,736	2,089,069
2021-2025	7,637,333	3,088,108	10,725,441
2026-2030	7,306,076	1,697,727	9,003,803
2031-2035	2,815,883	816,522	3,632,405
2036-2040	1,778,606	251,122	2,029,728
2041-2045	242,321	55,183	297,504
2046-2050	241,336	16,352	257,686
Total	\$26,220,342	\$10,141,565	\$36,361,905

**CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (CONT.)**

8. LONG-TERM OBLIGATIONS (Cont.)

Business-type Activities (Cont.)

General Obligation and Revenue Bonds, and Other Loans (Cont.)

Long-term obligation activity for the year ended June 30, 2015, was as follows:

	General Obligation Bonds	Other Loans
Balance, July 1, 2014	\$ 10,717,787	\$ 16,627,157
Additions		
Reductions	495,026	120,000
Balance, June 30, 2015	<u>\$ 10,222,761</u>	<u>\$ 1,010,000</u>
Balance Due Within One Year	<u>\$ 515,955</u>	<u>\$ 646,656</u>

Compensated absences and other post-employment benefits will be paid from the employing funds, primarily the General and Schools Funds.

9. EXPENDITURES IN EXCESS OF BUDGET

The City's actual expenditures exceeded the amount appropriated in the final budget. This is contrary to state statutes, which require all expenditures of the general and special revenue funds to be authorized by the governing body.

Total expenditures of the Recreation Fund exceeded appropriations by \$234,733 due to encumbrances for uncompleted contracts for construction in progress.

Expenditures of the General Purpose School Fund exceed appropriations at the level of control for Fiscal Services (\$77,984) and Community Services (114,648).

**CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (CONT.)**

10. RETIREMENT PLANS

Teacher Legacy Pension Plan of TCRS

Plan description. Teachers with membership in the Tennessee consolidated Retirement System (TCRS) before July 1, 2014 of Manchester City Schools are provided with pensions through the Teacher Legacy Pension Plan, a cost sharing multiple-employer pension plan administered by the TCRS. The Teacher Legacy Pension Plan closed to new membership on June 30, 2014, but will continue providing benefits to existing members and retirees. Beginning July 1, 2014, the Teacher Retirement Plan became effective for teachers employed by Local Education Agencies (LEAs) after June 30, 2014. The Teacher Retirement Plan is a separate cost-sharing, multiple-employer defined benefit plan. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS.

Teacher Legacy Pension Plan of TCRS (Cont.)

The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits provided. Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only the Tennessee General Assembly. Members of the Teacher Legacy Pension Plan 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 formula using the member's highest five consecutive year average compensation and the member's years of service credit. A reduced early retirement benefit is available at age 55 and vested. Members are vested 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 (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

**CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (CONT.)**

10. RETIREMENT PLANS (CONT.)

Contributions. Contributions for teachers are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Teachers contribute 5 percent of salary. The Local Education Agencies (LEAs) make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the Teacher Legacy Pension Plan are required to be paid. The TCRS may intercept the state shared taxes of the sponsoring governmental entity of the LEA if the required employer contributions are not remitted.

Employer contributions by Manchester City Schools for the year ended June 30, 2015 to the Teacher Legacy Pension Plan were \$892,131 which is 9.04 percent of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Pension asset. At June 30, 2014, the Manchester City Schools reported an asset of \$28,669 for its proportionate share of net pension asset. The net pension asset was measured as of June 30, 2014, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date. Manchester City Schools' proportion of the net pension liability was based on Manchester City Schools' employer contributions to the pension plan during the year ended June 30, 2014 relative to the contributions of all LEAs for the year ended June 30, 2014. At the June 30, 2014 measurement date, Manchester City Schools' proportion was 0.176430 percent. The proportion measured as of June 30, 2013 was 0.010312 percent.

Pension expense. For the year ended June 30, 2015, Manchester City Schools recognized a pension expense of \$1,240.

Deferred outflows of resources and deferred inflows of resources. For the year ended June 30, 2015, Manchester City Schools reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	69,601	-
Net difference between projected and actual earnings on pension plan investments		2,362,145
Changes in proportion of Net Pension Liability (Asset)	154,962	-
LEA's contributions subsequent to the measurement date of June 30, 2014	892,131	<i>(not applicable)</i>
Total	<u>1,116,694</u>	<u>2,362,145</u>

**CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (CONT.)**

10. RETIREMENT PLANS (CONT.)

Teacher Legacy Pension Plan of TCRS (Cont.)

Manchester City Schools employer contributions of \$892,131, reported as pension related deferred outflows of resources, subsequent to the measurement date, will be recognized as an increase in net pension asset in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and

deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2016	\$ (553,109)
2017	(553,109)
2018	(553,109)
2019	(553,109)
2020	37,427
Thereafter	37,427

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

Actuarial assumptions. The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of pension plan investment expenses, including inflation
Cost-of Living Adjustment	2.5 percent

Mortality rates are customized based on the June 30, 2012 actuarial experience study and included some adjustment for expected future improvement in life expectancy. The actuarial assumptions used in the June 30, 2014 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

**CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (CONT.)**

10. RETIREMENT PLANS (CONT.)

Teacher Legacy Pension Plan of TCRS (Cont.)

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, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method 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. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established 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 inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation</u>
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above. *Discount rate.* The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the all LEAs will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan

**CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (CONT.)**

10. RETIREMENT PLANS (CONT.)

Teacher Legacy Pension Plan of TCRS (Cont.)

investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of net pension liability (asset) to changes in the discount rate. The following presents Manchester City School's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.5 percent, as well as what Manchester City School's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Manchester City School's proportionate share of the net pension liability (asset)	\$4,835,355	\$(28,669)	\$(4,055,554)

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in a separately issued TCRS financial report.

At June 30, 2015, Manchester City Schools reported a payable of \$0 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2015.

**CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (CONT.)**

10. RETIREMENT PLANS (CONT.)

Manchester City Schools Teacher Retirement Plan

Teachers with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014 of Manchester City Schools are provided with pensions through the Teacher Legacy Pension Plan, a cost sharing multiple-employer pension plan administered by the TCRS. The Teacher Legacy Pension Plan is closed to new membership. Teachers with membership in the TCRS after June 30, 2014 are provided with pensions through a legally separate plan referred to as the Teacher Retirement Plan, a cost sharing multiple-employer pension plan administered by the TCRS. The TCRS was created by state statute under

Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publicly available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the Teacher Retirement Plan are eligible to retire at age 65 with 5 years of service credit or pursuant to the rule of 90 in which the member's age and service credit total 90. Members are entitled to receive unreduced service retirement benefits, which are determined by a formula using the member's highest five consecutive year average compensation and the member's 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 (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest. Under the Teacher Retirement Plan, benefit terms and conditions, including COLA, can be adjusted on a prospective basis. Moreover, there are defined cost controls and unfunded liability controls that provide for the adjustment of benefit terms and conditions on an automatic basis.

**CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (CONT.)**

10. RETIREMENT PLANS (CONT.)

Manchester City Schools Teacher Retirement Plan (Cont.)

Contributions for teachers are established in the statutes governing the TCRS and may not only be changed by the Tennessee General Assembly. Teachers contribute 5 percent of salary. The Local Education Agencies (LEAs) make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. Per the statutory provisions governing the TCRS, the employer contribution rate cannot be less than 4 percent, except for in years when the maximum funded level, approved by the TCRS Board of Trustees, is reached. By law, the employer contributions for the Teacher Retirement Plan are required to be paid. The TCRS may intercept the state shared taxes of the sponsoring governmental entity of the LEA if the required employer contributions are not remitted. Employer contributions for the year ended June 30, 2015 to the Teacher Retirement Plan were \$4,532, which is 4 percent of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Since the measurement date is June 30, 2014, which is prior to the July 1, 2014 inception of the Teacher Retirement Plan, there is not a net pension liability to report at June 30, 2015.

Since the measurement date is June 30, 2014, Manchester City Schools did not recognize a pension expense at June 30, 2015.

For the year ended June 30, 2015, Manchester City Schools reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
State Department of Education's contributions subsequent to the measurement date of June 30, 2014	\$ 4,532	<i>(not applicable)</i>

State Department of Education's employer contributions of \$4,532 reported as pension related deferred outflows of resources, subsequent to the measurement date, will be recognized as a reduction in net pension liability in the year ended June 30, 2016.

**CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (CONT.)**

10. RETIREMENT PLANS (CONT.)

Manchester City Schools Teacher Retirement Plan (Cont.)

At June 30, 2015, State Department of Education reported a payable of \$0 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2015.

Manchester General Government Retirement Plan

Plan description. Employees of Manchester are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the TCRS. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits provided. Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Members are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Reduced benefits for early retirement are available at age 55 and vested. Members vest with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 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 (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

**CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (CONT.)**

10. RETIREMENT PLANS (CONT.)

Manchester General Government Retirement Plan (Cont.)

Employees covered by benefit terms. At the measurement date of June 30, 2014, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	0
Inactive employees entitled to but not yet receiving benefits	30
Active employees	127
	157

Contributions. Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5 percent of salary. Manchester makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2015, employer contributions for Manchester were \$231,047 based on a rate of 5.25 percent of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept Manchester's state shared taxes if required employer contributions are not remitted. The employer's actuarially determined contribution (ADC) and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Manchester's net pension liability (asset) was measured as of June 30, 2014, and the total pension liability used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date.

Actuarial assumptions. The total pension liability as of June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of pension plan investment expenses, including inflation
Cost-of-Living Adjustment	2.5 percent

**CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (CONT.)**

10. RETIREMENT PLANS (CONT.)

Manchester General Government Retirement Plan (Cont.)

Mortality rates were based on actual experience from the June 30, 2012 actuarial experience study adjusted for some of the expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2014 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. 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, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method 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. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established 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 inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%

**CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (CONT.)**

10. RETIREMENT PLANS (CONT.)

Manchester General Government Retirement Plan (Cont.)

Discount rate. The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from Manchester will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability (Asset)

	Increase (Decrease)		
	Plan		
	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balance at 6/30/13	2,314,659	2,316,484	(1,825)
Changes for the year:			
Service cost		392,551	392,551
Interest		202,268	202,268
Differences between expected and actual experience		(36,349)	(36,349)
Contributions-employer		236,299	(236,299)
Contributions-employees		225,047	(225,047)
Net investment income		418,209	(418,209)
Benefit payments, including refunds of employee contributions	(20,597)	(20,597)	-
Administrative expense		(4,520)	4,520
Net changes	537,873	854,438	(316,565)
Balance at 6/30/14	2,852,532	3,170,922	(318,390)

**CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (CONT.)**

10. RETIREMENT PLANS (CONT.)

Manchester General Government Retirement Plan (Cont.)

Sensitivity of the net pension liability (asset) to changes in the discount rate. The following presents the net pension liability (asset) of Manchester calculated using the discount rate of 7.5 percent, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Manchester's net pension liability (asset)	\$263,317	\$(318,390)	\$(777,034)

Pension expense. For the year ended June 30, 2015, Manchester recognized pension expense of \$135,270.

Deferred outflows of resources and deferred inflows of resources. For the year ended June 30, 2015, Manchester reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	-	33,045
Net difference between projected and actual earnings on pension plan investments	-	182,491
Contributions subsequent to the measurement date of June 30, 2014	231,047	<i>(not applicable)</i>
Total	231,047	215,536

The amount shown above for "Contributions subsequent to the measurement date of June 30, 2014," will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period.

**CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (CONT.)**

10. RETIREMENT PLANS (CONT.)

Manchester General Government Retirement Plan (Cont.)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2016	(48,927)
2017	(48,927)
2018	(48,927)
2019	(48,927)
2020	(3,304)
Thereafter	(16,520)

At June 30, 2015, *Manchester* reported a payable of \$0 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2015.

11. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description

Manchester City Schools participates in the state-administered Local Government Insurance Plan and the Local Education Group Insurance Plan for healthcare benefits. For accounting purposes, the plan are agent multiple-employer defined OPEB plans. Benefits are established and amended by an insurance committee created by Section 8-27-302, *Tennessee Code Annotated (TCA)*, for local governments. Prior to reaching the age of 65, all members have the option of choosing between the standard or partnership or partnership preferred provider organization (PPO) plan for healthcare benefits subsequent to age 65, members who are also in the state's retirement system may participate in a state-administered Medicare Supplement Plan that does not include pharmacy. The plans are reported in the State of Tennessee Comprehensive Annual Financial Report (CAFR). The CAFR is available on the state's website at <http://tennessee.gov/finance/act/cafr.htm>].

Funding Policy

The premium requirements of plan members are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. The employers in each plan develop their

**CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (CONT.)**

11. OTHER POSTEMPLOYMENT BENEFITS (CONT.)

own contribution policy in terms of subsidizing active employees or retired employees' premiums since the committee is not prescriptive on that issue. The state does not provide a subsidy for local government participants; however, the state does provide a partial subsidy to Local Education Agency pre-65 teachers and a full subsidy based on years of service for post-65 members in the Medicare Supplement Plan. Manchester City Schools recognized expenditures of \$65,216 respectively, for postemployment health care during the year ended June 30, 2015. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the July 1, 2013, actuarial valuation for the Local Education Plan, the projected unit credit actuarial cost method was used, and the actuarial assumptions included a four percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate was seven percent for fiscal year 2015. The trend will decrease to 6.5 percent in fiscal year 2016 and then will be reduced by decrements to an ultimate rate of 4.7 percent by fiscal year 2044. Both rates include a 2.5 percent inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with July 1, 2007.

**CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (CONT.)**

11. OTHER POSTEMPLOYMENT BENEFITS (CONT.)

Annual OPEB Cost and Net OPEB Obligation

	Employee Group Plan
ARC	\$ 149,000
INTEREST ON THE NOPEBO	17,573
ADJUSTMENT TO THE ARC	(17,121)
ANNUAL OPEB COST	149,452
AMOUNT OF CONTRIBUTION	(65,216)
INCREASE /DECREASE IN NOPEBO	84,236
NET OPEB OBLIGATION, 7-1-14	614,816
Net OPEB OBLIGATION 6/30/2015	<u>\$ 699,052</u>

FISCAL YEAR	ANNUAL OPEB COST	% OF ANNUAL OPEB COST CONTRIBUTED	NET OPEB OBLIGATION
			AT YEAR END
06/30/12	\$ 97,048	47%	\$ 340,296
06/30/13	98,166	42%	397,024
06/30/14	81,616	48%	439,340
06/30/15	65,216	44%	523,576

Actuarial present value of benefits	
Active Participants	\$ 2,323,907
Retired Participants	316,281
Total Actuarial Present Value of Benefits	<u>\$ 2,640,188</u>
Actuarial Accrued Liability	
Active Participants	\$ 1,093,000
Retired Participants	307,000
Total Actuarial Accrued Liability	<u>\$ 1,400,000</u>
Normal Cost	\$ 85,000
Amortization of UAAL	59,000
Annual required contribution for FYE 6/30/2014	<u>\$ 144,000</u>

**CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (CONT.)**

11. OTHER POSTEMPLOYMENT BENEFITS (CONT.)

Funded Status and Funding Progress

The funded status of the plan as of July 1, 2013 was as follows:

Actuarial valuation date	07/01/13
Actuarial accrued liability (AAL)	\$ 1,400,000
Actuarial value of plan assets	\$ -
Unfunded actuarial accrued liability (UAAL)	\$ 1,400,000
Actuarial value of assets as a % of the AAL	0%
Covered payroll (active plan members)	\$ 7,038,157
UAAL as a % of covered payroll	19.89%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events for into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about results are compared to past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective. Consist with tat perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the July 1, 2013, actuarial valuation for the projected unit credit actuarial cost method was used, and the actuarial assumptions included a four percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate was seven percent for fiscal year 2015. The trend will decrease to 6.5 percent in fiscal year 2016 and then will be reduced by decrements to an ultimate rate of 4.7 percent by fiscal year 2044. Both rate include a 2.5 percent inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with July 1, 2007.

**CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (CONT.)**

12. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, errors and omissions, damages to assets and injuries to employees. The City participates in the Tennessee Municipal League (TML) Risk Management Pool. The membership allows the Town to share liability and employee related risks.

The TML Risk Management Pool is a governmental entity organized by Tennessee cities as a not-for-profit corporation to provide liability and workers' compensation coverage to Tennessee cities. Emphasis is on risk management and controlling losses, as all costs are shared by the Pool member cities. An extensive program of loss prevention, employee training, and legal counsel supplements experienced claims processing for member cities.

The City is subject to additional assessments as a member of the pool, but such assessments have never been levied on the Town and are not expected. There are no claims or judgments pending and claims paid (settled) have not exceeded insurance coverage in the past three years.

13. COMMITMENTS AND CONTINGENCIES

Pending Lawsuits

The City of Manchester entered into a consent order with the US Department of Environment and Conservation. This order provides for the payment of \$265,200 in civil penalties over the next two years; as of June 30, 2015 the city has paid \$30,200 in accordance with the order. In accordance with this order the remaining \$235,000 of the penalty is waived if the city performs certain reporting and corrective actions. It is the opinion of the City Attorney and the Water and Sewer Director that the reporting and corrective actions will be completed.

The Tullahoma City School Board has initiated arbitration against the city seeking unpaid liquor tax revenue. The amount sought is \$83,360. The City Attorney believes that the City may get a partial offset due to the operation of the Manchester City school system.

14. USE OF ESTIMATES

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

**CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (CONT.)**

15. PRIOR PERIOD ADJUSTMENTS

Implementation of GASB Statement Numbers 68 and 71

Effective for the fiscal year ended June 30, 2015, the district implemented the provisions for GASB 68, *Accounting and Financial Reporting for Pensions* and GASB 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. These statements' primary objective is to improve accounting and financial reporting for pensions. Among the requirements of GASB 68 are the recognition of a net pension liability or asset. The net pension liability or asset is measured as the portion of the actuarial present value of projected benefit payments that is attributed to past period of employee service, net of the pension plan's fiduciary net position. Accounting changes adopted to conform to the provisions of these statements are to be applied retroactively by restating financial statements. The effect on the beginning net position was a decrease of \$1,869,549.

Because the total pension liability has not previously been actuarially calculated, pro forma amounts for year ended June 30, 2014, are not readily determinable.

Other restatements of beginning net position

The beginning net position for the General Purpose School and School Federal Projects Funds was overstated in the amount of \$194,421 due to payroll deductions payable being understated and balances in payroll deduction cash clearing accounts being understated.

The beginning net position for the Sanitation Fund was overstated due to an accounting error in receivables (overstatement of \$41,865) and accounts payable for the amount due to the solid waste vendor (understatement of \$38,769) made in prior years the effect of these errors was an overstatement of net position of \$80,634.

The beginning net position for the Water and Sewer Fund was understated by 28,302. This was due to the overstatement of the liability for uncollected charges included in receivables for billings due to other entities in the amount of \$80,607. Also, it was due to the receivables for 6/30/2014 were overstated and the cash collection checking accounts were overstated by \$52,305.

**CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (CONT.)**

15. PRIOR PERIOD ADJUSTMENTS (CONT.)

Reconciliation of the restatement to the Statement of Activities

Restatement due to Retirement	\$ (1,869,549)
Restatement due to Schools Payroll Deductions Payable	(194,421)
Restatement due to errors in the Sanitation Fund	(80,634)
Restatement due to errors in the Water and Sewer Fund	<u>28,302</u>
Total Restatement of Net Position	<u>\$ (2,116,302)</u>

16. OTHER MATTERS

Subsequent Events

Events that occur after the balance sheet date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about the conditions that existed at the balance sheet date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the balance sheet date require disclosure in the accompanying notes. Management evaluated the activity of the district through October 31, 2014 (the date the financial statements were available to be issued) and concluded that no events should be disclosed as a subsequent event.

Related Entity

The City's officials are also responsible for appointing the members of the boards of other organizations, but the City's accountability for these organizations do not extend beyond making the appointment.

The following organizations are related organizations which have not been included in the reporting entity.

Manchester Housing Authority- The Board and Director of the Authority are appointed by the Mayor and Alderman, but the City does not provide funding, has no obligation for the debt issued by the Authority, and cannot impose its will upon the operations of the Authority.

Manchester Arts commission - The Board and Director of the Commission are appointed by the Mayor and Alderman. The Arts Commission is a Tennessee Chartered Non Profit Corporation. Further, the City has no obligation for any debt issued by the Commission, nor can it impose its will upon the operations of the Commission.

**CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (CONT.)**

16. OTHER MATTERS (CONT.)

Joint Venture

The City, in conjunction with the city of Tullahoma, appoints the Board of the Duck River Utility Commission (DRUC), which operates a water treatment plant providing the citizens of the two cities with water. Each city elects three of the six-member board. Neither city has any other responsibility for the Commission. The City has no equity interest in the net resources of the Commission. Assets of the Utility are pledged to the cities to secure indebtedness to the State of Tennessee which is being repaid from earnings of the Utility. The Commission reported net position of \$2,142,262 in 2015. Complete financial statements of the Utility are available at the Finance Director's office at City Hall.

Manchester City Schools participates in the Volunteer State Cooperative (VOLCO), which represents a cost-sharing arrangement. The cooperative was established through a contractual agreement between the Boards of Education of Bedford County, Coffee County, Dickson County, Fayetteville City, Humphreys County, Marshall County, Maury County, Robertson, County, and Stewart County. The cooperative was established to obtain lower prices for food supplies, materials, equipment, and services by combining the purchasing requirements of each member's school food service systems. The cooperative has coordinating district (Stewart County School Department) and a service provider to offer these services. The cooperative is governed by a Representative Committee, comprising one representative from each of the member districts; and an executive Council, consisting of the chair, vice chair, secretary, treasurer, and a member-at large from the Representative Committee.

Complete financial statements for the Volunteer State Cooperative can be obtained from its administrative office at Volunteer State Cooperative, P O Box 433, 110 Natcor Drive, Dover, TN 37058.

**REQUIRED SUPPLEMENTARY
INFORMATION SECTION**

Copies of the complete financial statements of the City for the current Fiscal Year are available at http://www.comptroller.tn.gov/RA_MA_Financial/Default.aspx

APPENDIX D

GENERAL PURPOSE FINANCIAL STATEMENTS FOR DUCK RIVER

ANNUAL FINANCIAL REPORT

DUCK RIVER UTILITY COMMISSION

ANNUAL FINANCIAL REPORT

JUNE 30, 2015

DUCK RIVER UTILITY COMMISSION

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BELLENFANT

CERTIFIED PUBLIC ACCOUNTING FIRM

Professional Accounting & Consulting Services

INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Duck River Utility Commission
Tullahoma, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of Duck River Utility Commission, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Duck River Utility Commission'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 the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 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 financial statements referred to above present fairly, in all material respects, the respective financial position of Duck River Utility Commission, as of June 30, 2015, and the respective changes in financial position and cash flows, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

P.O. Box 3588 • Brentwood TN 37024 • Tel: 615.370.8700 • Fax: 615.370.4475

www.BellenfantCPA.com

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 5 through 8 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Duck River Utility Commission's basic financial statements. The accompanying information listed as Supplemental Schedules in the Table of Contents is presented for purposes of additional analysis and is not a required part of the financial statements.

The Comparative Schedule of Net Position, Comparative Schedule of Revenues, Expenses and Changes in Net Position, Comparative Schedule of Cost of Sales and Administrative Expenses, and Schedule of Debt Service Requirements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The Schedule of Commissioners, Schedule of Insurance in Force, AWWA WLCC Free Water Audit Software Reporting Worksheet, AWWA WLCC Free Water Audit Software System Attributes and Performance Indicators, and Schedule of Utility Rates in Force have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2015, on our consideration of Duck River Utility Commission'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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and is considering Duck River Utility Commission's internal control over financial reporting and compliance.

Bellenfant & Miles, PLLC

October 19, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Duck River Utility Commission of Tullahoma, Tennessee ("the Utility Commission"), we offer readers of the Utility Commission's financial statements this narrative overview and analysis of the financial activities of the Utility Commission for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with the financial statements.

Financial Highlights

Operating revenues were \$2,634,161 an increase from the year ended June 30, 2014 in the amount of \$91,483 or 3.47%.

Operating income for the year was \$477,423, representing a 26.63% increase of \$100,415 from the year ended June 30, 2014.

The operating ratios (operating revenues divided by operating expenses, less depreciation and amortization) were 1.61 for 2015, and 1.64 for 2014.

Overview of the Financial Statements

Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with, the basic audited financial statements and supplementary information. The MD&A represents management's examination and analysis of the Utility Commission's financial condition and performance. Summary financial statement data, bond resolutions and other management tools were used for this analysis.

The financial statements report information about the Utility Commission using full accrual accounting methods as utilized by similar business activities in the private sector. The financial statements include a Statement of Net Position; a Statement of Revenues, Expenses and Changes in Net Position; a Statement of Cash Flows; and Notes to Financial Statements.

The *Statement of Net Position* presents the financial position of the Utility Commission on a full accrual historical cost basis. The Statement of Net Position presents information on all of the Commission's assets and liabilities, with the difference reported as net position. Over time, increases and decreases in net position are one indicator of whether the financial position of the Utility Commission is improving or deteriorating.

While the Statement of Net Position 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 Utility Commission's recovery of its costs.

The *Statement of Cash Flows* presents changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipt and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The *Notes to 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 Utility Commission's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any. *Supplementary Information* is also provided after the *Notes to Financial Statements*.

The financial statements were prepared from the detailed books and records of the Utility Commission. The financial statements were audited and adjusted, if material, during the independent external audit process.

Summary of Organization and Business

Duck River Utility Commission was created under an agreement between the City of Manchester, Tennessee and the City of Tullahoma, Tennessee on the 14th day of February, 1977. The Utility Commission was created to provide potable water and enable growth in the above mentioned cities.

FINANCIAL ANALYSIS

Condensed Financial Statements

Condensed Statement of Net Position

	June 30		Variance	
	2015	2014	Dollars	%
Capital assets:				
Production assets - net	\$11,176,100	\$ 11,695,834	\$(519,734)	(4.44)
Land	7,324	7,324	-	-
Current assets - restricted assets and				
Other assets	1,636,129	1,451,357	184,772	12.73
Total assets	<u>\$12,819,553</u>	<u>\$ 13,154,515</u>	<u>\$ (334,962)</u>	
Current liabilities	\$ 558,069	\$ 550,664	\$ 7,405	1.34
Non-current liabilities	10,119,222	10,536,088	(416,866)	(3.96)
Total liabilities	<u>10,677,291</u>	<u>11,086,752</u>	<u>(409,461)</u>	
Net position:				
Net Investment in Capital Assets	822,508	935,706	(113,198)	12.10
Unrestricted	1,319,754	1,132,057	187,697	(16.58)
Total net position	<u>2,142,262</u>	<u>2,067,763</u>	<u>74,499</u>	
Total liabilities and net position	<u>\$12,819,553</u>	<u>\$ 13,154,515</u>	<u>\$ (334,962)</u>	

Total assets for year ended June 30, 2015 were \$12,819,553. Total liabilities were \$10,677,291 and total net position was \$2,142,262. Total assets decreased \$334,964 and total net position increased \$74,499 in 2015.

**Condensed Statement of Revenues, Expenses and Changes in Net Position
For the Years ended June 30, 2015 and 2014**

	June 30		Variance	
	2015	2014	Dollars	%
Revenues:				
Water sales revenues	\$ 2,634,161	\$ 2,542,678	\$ 91,483	3.60
Total operating revenues	<u>2,634,161</u>	<u>2,542,678</u>	<u>91,483</u>	3.60
Expenses:				
Cost of sales	1,568,897	1,502,554	66,343	4.41
Administrative	68,108	44,639	23,469	5.26
Depreciation	<u>519,733</u>	<u>618,477</u>	<u>(98,744)</u>	6.07
Total operating expenses	<u>2,156,738</u>	<u>2,165,670</u>	<u>(8,932)</u>	0.41
Operating income	477,423	377,008	100,415	26.63
Non-operating revenue (expenses) - net	<u>(402,924)</u>	<u>(426,035)</u>	<u>23,111</u>	(5.42)
Changes in net position	<u>\$ 74,499</u>	<u>\$ (49,027)</u>	<u>\$ 123,526</u>	251.96

Financial Condition

The Utility Commission's financial condition remained strong at year-end with adequate liquid assets, reliable plants and systems to meet demand and a reasonable level of unrestricted net position. The current financial condition, technical support staff capabilities, and operating and expansion plans to meet anticipated customer needs are well balanced and under control.

Total assets decreased \$334,962 or 2.55%. This decrease was primarily related to interest expense and depreciation of capital assets.

The net position of the Utility Commission increased by \$74,499. Unrestricted net position increased \$187,697, or 16.58% and represent 10.29% of total assets and 61.61% of total net position.

Results of Operations

Operating Revenues:

Revenues from operations fall into one general category: water sales. The Utility Commission has only two wholesale customers. The total operating revenues increased \$91,483.

Capital Contributions and Grants:

The Utility Commission receives additions to its distribution systems from grants. Prior to GASB 33 and 34 implementations, the money and system assets received were recorded as direct contributions to the net assets. GASB 33 and 34 define these grants as non-operating revenues and requires reporting the amounts through the Statement of Revenues, Expenses and Changes in Net Position.

Expenses:

The Utility Commission operates and maintains a portable water delivery system. Total operating expenses of the Utility Commission decreased \$8,932 over fiscal year 2015.

Capital Asset and Debt Administration

Capital Assets:

The Utility Commission's investment in capital assets as of June 30, 2015 amounted to \$822,508 (net of accumulated depreciation), which is a 12.10% decrease from last fiscal year. This investment in capital assets includes land, intake structure, transmission lines, treatment plant, sludge lagoons, equipment, and trucks. The total capital assets decreased \$519,734. There were no major capital asset events during the fiscal year. Additional information on capital assets can be found in Note 5 on page 18 of this report.

Long-term Debt:

As of June 30, 2015, the Utility Commission had long-term debt outstanding of \$10,539,262. Current maturities of that debt amounted to \$420,040. Principal paid on long-term debt during the year amounted to \$406,536. Additional information on long-term debt can be found in Note 6 on pages 19 and 20 of this report.

STATE OF CALIFORNIA
DEPARTMENT OF REVENUE
STATEMENT OF REVENUE

Category	2019-2020	2020-2021
Income Tax	1,234,567,890	1,345,678,901
Sales Tax	987,654,321	1,098,765,432
Excise Tax	456,789,012	567,890,123
Other Taxes	123,456,789	234,567,890
Grants	345,678,901	456,789,012
Interest	234,567,890	345,678,901
Other	123,456,789	234,567,890
Total	3,325,801,272	3,672,908,047

BASIC FINANCIAL STATEMENTS

DUCK RIVER UTILITY COMMISSION
STATEMENT OF NET POSITION
JUNE 30, 2015

ASSETS

Current Assets	
Cash	\$ 1,272,392
Investments	840
Accounts receivable	243,686
Prepaid expenses	33,168
Inventory	<u>83,573</u>
Total current assets	<u>1,633,659</u>
Non-current Assets	
Restricted assets	
Debt service reserve - cash	<u>2,470</u>
Total restricted assets	<u>2,470</u>
Capital Assets	
Land	7,324
Other capital assets - net of accumulated depreciation	<u>11,176,100</u>
Total capital assets	<u>11,183,424</u>
Total non-current assets	<u>11,185,894</u>
TOTAL ASSETS	<u><u>\$ 12,819,553</u></u>

LIABILITIES

Current Liabilities	
Accrued expenses	\$ 138,029
Current maturities on long-term debt	<u>420,040</u>
Total current liabilities	<u>558,069</u>
Non-current Liabilities	
Long-term debt due after one year	9,940,876
Compensated absences	<u>178,346</u>
Total non-current liabilities	<u>10,119,222</u>
TOTAL LIABILITIES	<u><u>\$ 10,677,291</u></u>

NET POSITION

Net Investment in Capital Assets	822,508
Unrestricted	<u>1,319,754</u>
TOTAL NET POSITION	<u><u>\$ 2,142,262</u></u>

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

**DUCK RIVER UTILITY COMMISSION
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2015**

OPERATING REVENUES

Water sales	\$ 2,634,161
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OPERATING EXPENSES

Cost of sales	1,568,897
Administration	68,108
Depreciation	519,733

TOTAL OPERATING EXPENSES	2,156,738
--------------------------	-----------

OPERATING INCOME	477,423
------------------	---------

NONOPERATING REVENUES (EXPENSES)

Interest revenue	5,684
Gain on sale of assets	9,945
Interest expense	(418,553)

NONOPERATING REVENUES (EXPENSES), NET	(402,924)
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CHANGE IN NET POSITION	74,499
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NET POSITION, July 1, 2014	2,067,763
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NET POSITION, June 30, 2015	\$ 2,142,262
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The accompanying notes are an integral part of these financial statements.

**DUCK RIVER UTILITY COMMISSION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015**

CASH FLOWS FROM OPERATING ACTIVITIES:

Receipts from customers and users	\$ 2,614,064
Payments to suppliers	(882,941)
Payments to employees	(747,959)
	983,164

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Principal paid on bonds	(406,536)
Interest paid on bonds	(418,553)
Purchase of capital assets	-
	(825,089)

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest revenue received	5,684
	5,684
Net cash provided by investing activities	5,684
	163,759

CASH - July 1, 2013	1,111,103
CASH - June 30, 2014	\$ 1,274,862

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating income	\$ 477,423
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	519,733
Gain on sale of assets	9,945
(Increase) decrease in accounts receivable	(20,097)
(Increase) decrease in inventory	(6,664)
(Increase) decrease in prepaid expenses	5,749
Increase (decrease) in accrued expenses	(6,099)
Increase (decrease) in compensated absences	3,174
	983,164
Net cash provided by operating activities	\$ 983,164

CASH

Cash	\$ 1,272,392
Debt service reserve - cash	2,470
	1,274,862
Total	\$ 1,274,862

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

DUCK RIVER UTILITY COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Duck River Utility Commission of Tullahoma, Tennessee ("the Commission") have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and reporting principles.

The following is a summary of the more significant accounting policies:

A. Organization

The Commission was formed in February 1977 for the purposes of constructing and operating a raw water intake structure, transmission lines, water treatment plant and related facilities for the City of Manchester, Tennessee and the City of Tullahoma, Tennessee. The Commission is composed of three members appointed by the Board of Mayor and Alderman of Manchester, Tennessee and three members appointed by the Board of Mayor and Alderman of Tullahoma, Tennessee. The Commission is empowered to establish, construct, install, acquire, operate, and maintain such facilities and charge fees and establish rates relating to the facilities.

B. Reporting Entity

In evaluating how to define the reporting entity, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP and GASB issued Statement No. 14, The Financial Reporting Entity. This statement requires that the financial statements present the Commission (the primary government) and any component units. Component units generally are legally separate entities for which a primary government is financially accountable. Financial accountability ordinary involves meeting one of the following criteria; the primary government is accountable for the potential component unit (i.e., the primary government appoints the voting majority of its board and the primary government is able to impose its will upon the potential component unit), or there is a possibility that the potential component unit may provide specific financial benefits or impose specific financial burdens on the primary government.

Based on the forgoing criteria, there are no entities which meet the above criteria for inclusion in the Commission's financial statements.

C. Basic Financial Statements

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

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Commission's operations 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 in the Statement of Net Position. Net Position (i.e., total assets net of total liabilities) are segregated into net investment in capital assets, restricted and unrestricted components.

The financial records are maintained on the accrual basis of accounting. Under this method, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred. Unbilled service receivables are recorded at year-end.

DUCK RIVER UTILITY COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operation. The principal operating revenues of the Commission's enterprise fund is charges to customers for sales and services. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets and amortization. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

E. Cash and Cash Equivalents

For purposes of reporting cash on the Statement of Net Position and Statement of Cash Flows, the Commission considers all unrestricted highly liquid investments with an initial maturity of three months or less when purchased to be cash equivalents. Cash consists of cash-on-hand and on-deposit with financial institutions. These are classified on the Statement of Net Position as "cash" and "debt service reserve-cash". At June 30, 2015, the Commission had no cash equivalents.

F. Investments

Investments are reported at fair value, which is based on quoted market prices.

The Commission is authorized by Tennessee statutes to invest in the following:

1. Bonds, notes or treasury bills of the United States.
2. Nonconvertible debt securities of the Federal Home Loan Bank, the Federal National Mortgage Association, the Federal Farm Credit Bank and the Student Loan Marketing Association.
3. Any obligations which are guaranteed as to principal and interest by the United States or any of its agencies.
4. Certificates of deposit and other evidence of deposit at state and federal chartered banks and savings and loan associations.
5. Obligations of the United States or its agencies under a repurchase agreement for a shorter time than the maturity date of the security itself if the market value of the security itself is more than the amount of funds invested.
6. Money market funds whose portfolios consist of any of the foregoing investments.
7. The local government investment pool.

G. Inventory

Inventory is stated at the lower of cost or market. Cost is determined on the first-in, first-out basis.

DUCK RIVER UTILITY COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Restricted Net Position

Certain proceeds of revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted net position on the Statement of Net Position because their use is limited by applicable bond covenants. The "debt service reserve" account is used to segregate resources accumulated for debt service payments.

I. Capital Assets

Capital assets are defined by the Commission as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major additions are capitalized and depreciated over the estimated useful lives of the related fixed assets. Upon disposal of such assets, the accounts are relieved of the related costs and accumulated depreciation, and resulting gains or losses are reflected in income. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets. The estimated useful lives are as follows:

Intake Structure and Treatment Plant	30-33 years
Transmission Lines	50 years
Sludge Lagoons	7-10 years
Equipment	5-30 years
Trucks	5-10 years

The Commission's policy is to capitalize the net interest cost incurred during the year resulting from borrowings utilized to finance the construction of assets.

J. Compensated Absences

Subject to vesting rules and policy limits, it is the Commission's policy to permit employees to accumulate unused vacation and sick leave, which will be paid to employees upon separation from service.

K. Net Position

Net position are the difference between assets and liabilities. Net invested in capital assets represent capital assets reduced by accumulated depreciation and by any outstanding debt related to the acquisition, construction or improvement of those assets. Restricted net position represents restricted assets reduced by any related outstanding debt.

DUCK RIVER UTILITY COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

M. Proprietary Accounting and Financial Reporting

The Commission has applied all applicable pronouncements of the Governmental Accounting Standards Board (GASB).

N. Net Position Flow Assumption

Sometimes the Commission will fund outlays for a particular purpose from both restricted 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. It is the Commission's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

DUCK RIVER UTILITY COMMISSION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2015

NOTE 3 - DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk is the risk that in the event of a bank failure the Commission's deposits may not be returned to it. The Commission does not have a deposit or investment policy for custodial credit risk, however, the State of Tennessee requires its governmental entities to either meet the deposit and collateralization regulations under TCA Title 9, Chapter 4, Parts 1 and 4, or as provided in the collateral pool. As of June 30, 2015, the carrying amount of the Commission's deposits was \$1,274,860 and the bank balance was \$1,361,564. None of the Commission's bank balances were exposed to custodial credit risk as uninsured or uncollateralized due to the fact that all of its deposits and investments are in a financial institution that is a participant in the State of Tennessee collateral pool or they are collateralized by securities issued by the United States Government that are pledged by the bank.

The carrying amount of the Commission's deposit is classified as follows on the Statement of Net Assets:

Cash	\$ 1,272,390
Debt service reserve - cash	<u>2,470</u>
Total Cash Deposits	<u>\$ 1,274,860</u>

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2015 consist of the following:

Customer receivable - Tullahoma	\$ 124,870
Customer receivable - Manchester	102,029
Receivable - Other	<u>16,787</u>
Total accounts receivable	<u>\$ 243,686</u>

NOTE 5 - RESTRICTED ASSETS

The restricted assets at June 30, 2015 consist of the following:

Debt service reserve - cash	<u>\$ 2,470</u>
Total restricted assets	<u>\$ 2,470</u>

DUCK RIVER UTILITY COMMISSION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2015

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015 was as follows:

	Balance June 30, 2014	Additions	Deductions	Balance June 30, 2015
<i>Capital assets, not being depreciated:</i>				
Land	\$ 7,324	\$ -	\$ -	\$ 7,324
<i>Capital assets, being depreciated:</i>				
Intake structure	176,839	-	-	176,839
Transmission lines	1,070,153	-	-	1,070,153
Treatment plant	18,561,494	-	-	18,561,494
Sludge lagoon	51,019	-	-	51,019
Equipment	2,154,596	-	37,335	2,117,261
Trucks	109,194	-	38,236	70,958
Total capital assets, being depreciated	<u>22,123,295</u>	<u>-</u>	<u>75,571</u>	<u>22,047,724</u>
<i>Accumulated depreciation:</i>				
Intake structure	165,147	2,509	-	167,656
Transmission lines	704,510	21,403	-	725,913
Treatment plant	7,615,826	456,002	-	8,071,828
Sludge lagoon	47,800	2,414	-	50,214
Equipment	1,819,460	32,903	37,335	1,815,028
Trucks	74,719	4,502	38,236	40,985
Total accumulated depreciation	<u>10,427,462</u>	<u>519,733</u>	<u>75,571</u>	<u>10,871,624</u>
Total capital assets, being depreciated, net	<u>11,695,833</u>	<u>(519,733)</u>	<u>-</u>	<u>11,176,100</u>
Total capital assets, net	<u>\$ 11,703,157</u>	<u>\$ (519,733)</u>	<u>\$ -</u>	<u>\$ 11,183,424</u>

DUCK RIVER UTILITY COMMISSION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2015

NOTE 7 - LONG-TERM DEBT

Long-term debt, which consists of bonds payable, loans, and compensated absences, is summarized as follows:

City of Manchester, TN, Water and Sewer Revenue and Tax Refunding Bond - Series 2006, variable annual payments, due 2031, net of deferred amount on refund of \$236,308.	\$ 6,910,000
City of Manchester Local Government Public Improvement Bonds/Series Z-1-B, 5% interest, variable annual payments, due 2038	2,915,000
Public Building Authority of Montgomery County, TN adjustable rate, Pooled Financing Revenue Bonds Series 1999, varying annual payment, due 2020	535,916
Compensated absences	<u>178,346</u>
	10,539,262
Less: current portion of long-term debt	<u>(420,040)</u>
Total long-term debt	<u><u>\$ 10,119,222</u></u>

A summary of changes in long-term debt for the year ended June 30, 2014 is as follows:

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015
Series 2006 (net)	\$ 7,215,000	\$ -	\$ 305,000	\$ 6,910,000
Series Z-1-B	2,920,000	-	5,000	2,915,000
Series 1999	632,452	-	96,536	535,916
Compensated absences	<u>175,172</u>	<u>3,174</u>	<u>-</u>	<u>178,346</u>
Total	<u>\$ 10,942,624</u>	<u>\$ 3,174</u>	<u>\$ 406,536</u>	10,539,262
Less: current portion of long-term debt				<u>(420,040)</u>
Total long-term debt				<u><u>\$ 10,119,222</u></u>

Interest paid on long-term debt during the year ended June 30, 2015 totaled \$418,553.

DUCK RIVER UTILITY COMMISSION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2015

NOTE 7 - LONG-TERM DEBT (CONTINUED)

Debt service requirements to maturity, including interest of \$5,295,869, is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Requirements</u>
2016	420,040	433,238	853,278
2017	433,226	415,305	848,531
2018	452,050	397,120	849,170
2019	465,873	378,590	844,463
2020	494,727	358,930	853,657
2021-2024	1,670,000	1,257,626	2,927,626
2025-2029	2,470,000	1,161,551	3,631,551
2030-2034	2,225,000	673,259	2,898,259
2035-2039	1,730,000	220,250	1,950,250
	<u>\$10,360,916</u>	<u>\$5,295,869</u>	<u>\$ 15,656,785</u>

Note: Compensated absences are not included in the above debt service requirement schedule due to their unestimatable nature.

The bond with the State of Tennessee has been executed by the City of Manchester, Tennessee. The city has pledged assets and future revenues to secure the indebtedness and, in turn, the Commission has pledged all of its assets to the city.

NOTE 8 - COMPLIANCE WITH FINANCE RELATED LEGAL AND CONTRACTUAL PROVISIONS

The Commission has no material violations of finance related legal and contractual provisions.

NOTE 9 - PENSION PLAN

The Commission has established a simplified employee pension plan (SEP), which is a defined contribution plan covering substantially all employees over 18 years old. Required monthly contributions by the Commission are deposited into the employee's own individual retirement account. During the year ended June 30, 2015, the employer contributed 5% of eligible employee's wages or \$26,636 to the plan. The SEP plan covered \$532,720 of the \$631,408 total wages for the year ended June 30, 2015. The Commission incurs no expense nor has any residual interest in the plan.

DUCK RIVER UTILITY COMMISSION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2015

NOTE 10 - DEFERRED COMPENSATION PLAN

The Commission has established an eligible deferred compensation plan as defined in Section 457 (b) of the IRS code. Each employee who has attained age 21 with 3 months of service is eligible to participate. Eligible employees can defer the lesser of \$7,500 or 25% of their taxable compensation. Also, the commission will match the employee's contribution up to 5% of the employee's compensation. All assets of the plan are the property of the Commission, which has a fiduciary responsibility, until paid or made available to the employees. During the year ended June 30, 2015, the commission contributed \$26,916 to the plan.

NOTE 11 - COMMERCIAL INSURANCE

It is the policy of the Commission to purchase commercial insurance for the risks of losses to which it is exposed. These risks include general liability, property and casualty, worker's compensation, and employee health and accident. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE 12 - ECONOMIC DEPENDENCY - RELATED PARTY

The Commission is economically dependent on its only two customers, which are the City of Manchester, Tennessee and the City of Tullahoma, Tennessee. These two cities have created the Commission and provided the bonds payable to finance the construction of the plant.

NOTE 13 - CONTINGENT LIABILITIES

As of June 30, 2015, the Commission does not have any contingent liabilities that would have a material effect on the Commission's financial condition.

NOTE 14 - LITIGATION

As of June 30, 2015, the Commission was not involved in any litigation that would have any material effect on the Commission's financial condition.

NOTE 15 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 19, 2015 which is the date the financial statements were available to be issued.

SUPPLEMENTAL SCHEDULES

DUCK RIVER UTILITY COMMISSION
COMPARATIVE SCHEDULE OF NET POSITION
JUNE 30, 2015 AND 2014

<u>ASSETS</u>	<u>2015</u>	<u>2014</u>
Current Assets		
Cash	\$ 1,272,392	\$ 1,108,633
Investments	840	840
Accounts receivable	243,686	223,589
Prepaid expenses	33,168	38,916
Inventory	83,573	76,909
Total current assets	<u>1,633,659</u>	<u>1,448,887</u>
Non-current Assets		
Restricted assets		
Debt service reserve - cash	2,470	2,470
Total restricted assets	<u>2,470</u>	<u>2,470</u>
Capital Assets		
Land	7,324	7,324
Other capital assets - net of accumulated depreciation	11,176,100	11,695,834
Total capital assets	<u>11,183,424</u>	<u>11,703,158</u>
Total Non-current assets	<u>11,185,894</u>	<u>11,705,628</u>
TOTAL ASSETS	<u>\$ 12,819,553</u>	<u>\$ 13,154,515</u>
<u>LIABILITIES</u>		
Current Liabilities		
Accrued expenses	\$ 138,029	\$ 144,128
Current maturities on long-term debt	420,040	406,536
Total current liabilities	<u>558,069</u>	<u>550,664</u>
Non-current Liabilities		
Long-term debt due after one year	9,940,876	10,360,916
Compensated absences	178,346	175,172
Total Non-current liabilities	<u>10,119,222</u>	<u>10,536,088</u>
TOTAL LIABILITIES	<u>\$ 10,677,291</u>	<u>\$ 11,086,752</u>
<u>NET POSITION</u>		
Net Investment in Capital Assets	822,508	935,706
Unrestricted	1,319,754	1,132,057
TOTAL NET POSITION	<u>\$ 2,142,262</u>	<u>\$ 2,067,763</u>

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

DUCK RIVER UTILITY COMMISSION
COMPARATIVE SCHEDULE OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<u>OPERATING REVENUES</u>		
Water sales	\$ 2,634,161	\$ 2,542,678
<u>OPERATING EXPENSES</u>		
Cost of sales	1,568,897	1,502,554
Administration	68,108	44,639
Depreciation	519,733	618,477
TOTAL OPERATING EXPENSES	<u>2,156,738</u>	<u>2,165,670</u>
OPERATING INCOME	<u>477,423</u>	<u>377,008</u>
<u>NONOPERATING REVENUES (EXPENSES)</u>		
Interest revenue	5,684	6,175
Gain on sale of assets	9,945	-
Interest expense	<u>(418,553)</u>	<u>(432,210)</u>
NET, NONOPERATING REVENUES (EXPENSES)	<u>(402,924)</u>	<u>(426,035)</u>
CHANGES IN NET POSITION	74,499	(49,027)
NET POSITION, BEGINNING OF YEAR	<u>2,067,763</u>	<u>2,116,790</u>
NET POSITION, END OF YEAR	<u>\$ 2,142,262</u>	<u>\$ 2,067,763</u>

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

DUCK RIVER UTILITY COMMISSION
COMPARATIVE SCHEDULE OF COST OF SALES AND ADMINISTRATIVE EXPENSES
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Cost of Sales		
Labor	\$ 631,408	\$ 618,053
Electricity	354,174	347,690
Natural gas	12,321	11,873
Maintenance and repairs	98,832	27,846
Chemicals	202,876	231,825
Employee pension	53,552	53,412
Employee benefits	119,726	114,814
Insurance	40,275	42,600
Laboratory	9,240	7,773
Uniforms	561	847
Payroll taxes	45,932	45,821
	<u>\$ 1,568,897</u>	<u>\$ 1,502,554</u>
Administrative		
Communications	\$ 4,993	\$ 4,963
Travel and training	12,943	12,942
Office supplies	16,590	14,784
Commissioners' allowance	6,900	6,200
Legal and accounting	26,682	5,750
	<u>\$ 68,108</u>	<u>\$ 44,639</u>

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

**DUCK RIVER UTILITY COMMISSION
SCHEDULE OF DEBT SERVICE REQUIREMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

**CITY OF MANCHESTER LOCAL GOVERNMENT PUBLIC IMPROVEMENT BOND
SERIES Z-1-B**

<u>Maturing June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2016	5,000	137,101	142,101
2017	5,000	136,983	141,983
2018	5,000	136,851	141,851
2019	5,000	136,714	141,714
2020	5,000	136,564	141,564
2021	5,000	136,401	141,401
2022	5,000	136,239	141,239
2023	5,000	136,076	141,076
2024	5,000	135,901	140,901
2025	5,000	135,701	140,701
2026	5,000	135,502	140,502
2027	5,000	135,301	140,301
2028	5,000	135,101	140,101
2029	5,000	134,901	139,901
2030	5,000	134,691	139,691
2031	5,000	134,482	139,482
2032	345,000	134,271	479,271
2033	365,000	119,781	484,781
2034	390,000	103,813	493,813
2035	410,000	86,750	496,750
2036	435,000	66,250	501,250
2037	435,000	44,500	479,500
2038	455,000	22,750	477,750
Total	\$ 2,915,000	\$ 2,752,624	\$ 5,667,624

DUCK RIVER UTILITY COMMISSION
SCHEDULE OF DEBT SERVICE REQUIREMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2015

PUBLIC BUILDING AUTHORITY OF MONTGOMERY COUNTY, TN POOLED
FINANCING REVENUE BONDS - SERIES 1999

<u>Maturing</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Requirements</u>
2016	100,040	26,379	126,419
2017	103,226	21,364	124,590
2018	107,050	16,186	123,236
2019	110,873	10,818	121,691
2020	114,727	5,258	119,985
	<hr/>	<hr/>	<hr/>
Total	<u>\$ 535,916</u>	<u>\$ 80,005</u>	<u>\$ 615,921</u>

DUCK RIVER UTILITY COMMISSION
SCHEDULE OF DEBT SERVICE REQUIREMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2015

CITY OF MANCHESTER, TN WATER AND SEWER REVENUE AND TAX REFUNDING
BOND, SERIES 2006

<u>Maturing</u> <u>June 30.</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Requirements</u>
2016	315,000	269,758	584,758
2017	325,000	256,958	581,958
2018	340,000	244,083	584,083
2019	350,000	231,058	581,058
2020	375,000	217,189	592,189
2021	385,000	202,463	587,463
2022	405,000	186,855	591,855
2023	420,000	170,355	590,355
2024	435,000	153,255	588,255
2025	455,000	135,455	590,455
2026	465,000	117,055	582,055
2027	485,000	98,055	583,055
2028	510,000	77,900	587,900
2029	530,000	56,580	586,580
2030	545,000	34,543	579,543
2031	570,000	11,678	581,678
	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 6,910,000</u>	<u>\$ 2,463,240</u>	<u>\$ 9,373,240</u>

DUCK RIVER UTILITY COMMISSION
SCHEDULE OF COMMISSIONERS (UNAUDITED)
JUNE 30, 2015

Bruce Runyan	Chairman
James Waters	Vice Chairman
Duane Thorpe	Secretary
Jesse Potter	Treasurer
David Pennington	Commissioner
James Blanks	Commissioner

DUCK RIVER UTILITY COMMISSION
SCHEDULE OF INSURANCE IN FORCE (UNAUDITED)
JUNE 30, 2015

<u>Type of Coverage</u>	<u>Amount of Coverage</u>	
<u>General Liability</u>		
Each occurrence	\$ 1,000,000	
Property	1,000,000	
<u>Automobile</u>		
Combined liability	1,000,000	
Uninsured motorists	1,000,000	
Medical payments	5,000	any one person
	100,000	any one claim
<u>Workmen's Compensation</u>		
Bodily injury by accident	1,000,000	each accident
Bodily injury by disease	1,000,000	policy limit
	1,000,000	each employee
<u>Public Employee</u>		
Employee fidelity/depositors' forgery/ money orders & counterfeit papers	150,000	
Public officials liability	1,000,000	\$ 5,000 deductible



AWWA Free Water Audit Software: Reporting Worksheet

WAS v5.0
American Water Works Association
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?	Click to access definition	Water Audit Report for: Duck River Utility Commission (TN0000821)	
+	Click to add a comment	Reporting Year: 2014-15 / 7/2014 - 6/2015	

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

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

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

WATER SUPPLIED	Enter grading in column 'E' and 'J'	Pcnt:	Value:	Master Meter and Supply Error Adjustments
Volume from own sources: + ? 10	2,109.898	MGYr	+ ? 10	0.00% <input checked="" type="radio"/> <input type="radio"/>
Water imported: + ? 10	0.000	MGYr	+ ? 10	<input checked="" type="radio"/> <input type="radio"/>
Water exported: + ? 10	2,109.898	MGYr	+ ? 10	0.00% <input checked="" type="radio"/> <input type="radio"/>
WATER SUPPLIED:	0.000	MGYr		Enter negative % or value for under-registration Enter positive % or value for over-registration

AUTHORIZED CONSUMPTION	Enter grading in column 'E' and 'J'	Pcnt:	Value:	Master Meter and Supply Error Adjustments
Billed metered: + ? 10	0.000	MGYr	+ ? 10	0.00% <input checked="" type="radio"/> <input type="radio"/>
Billed unmetered: + ? 10	0.000	MGYr	+ ? 10	<input checked="" type="radio"/> <input type="radio"/>
Unbilled metered: + ? 10	0.000	MGYr	+ ? 10	1.25% <input checked="" type="radio"/> <input type="radio"/>
Unbilled unmetered: + ? 10	0.000	MGYr	+ ? 10	<input checked="" type="radio"/> <input type="radio"/>
Default option selected for Unbilled unmetered - a grading of 5 is applied but not displayed				
AUTHORIZED CONSUMPTION:	?	0.000	MGYr	Click here: ? for help using option buttons below Use buttons to select percentage of water supplied OR value

WATER LOSSES (Water Supplied - Authorized Consumption)	Enter grading in column 'E' and 'J'	Pcnt:	Value:	Master Meter and Supply Error Adjustments
Apparent Losses				
Unauthorized consumption: + ? 10	0.000	MGYr	+ ? 10	0.25% <input checked="" type="radio"/> <input type="radio"/>
Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed				
Customer metering inaccuracies: + ? 10	0.000	MGYr	+ ? 10	0.00% <input checked="" type="radio"/> <input type="radio"/>
Systematic data handling errors: + ? 10	0.000	MGYr	+ ? 10	0.25% <input checked="" type="radio"/> <input type="radio"/>
Apparent Losses:	?	0.000	MGYr	

Real Losses (Current Annual Real Losses or CARL)				
Real Losses = Water Losses - Apparent Losses: ?	0.000	MGYr		
WATER LOSSES:	0.000	MGYr		
NON-REVENUE WATER				
NON-REVENUE WATER: ?	0.000	MGYr		
= Water Losses + Unbilled Metered + Unbilled Unmetered				

SYSTEM DATA	Enter grading in column 'E' and 'J'	Value:	Units	Notes
Length of mains: + ? 10	2.0	miles		
Number of active AND inactive service connections: + ? 10	2			
Service connection density: ?	1	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: + ?		ft		
Average length of customer service line has been set to zero and a data grading score of 10 has been applied				
Average operating pressure: + ? 10	70.0	psi		

COST DATA	Enter grading in column 'E' and 'J'	Value:	Units	Notes
Total annual cost of operating water system: + ? 10	\$2,620,000	\$	Year	
Customer retail unit cost (applied to Apparent Losses): + ? 10	\$1.25	\$	/1000 gallons (US)	
Variable production cost (applied to Real Losses): + ? 10	\$311.00	\$	/Million gallons	<input type="checkbox"/> Use Customer Retail Unit Cost to value real losses

WATER AUDIT DATA VALIDITY SCORE:	*** YOUR SCORE IS: 91 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: Systematic data handling errors	
2: Unauthorized consumption	
3: Unbilled unmetered	



**AWWA Free Water Audit Software:
System Attributes and Performance Indicators**

WAS v5.0
American Water Works Association.
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Water Audit Report for: **Duck River Utility Commission (TN0000821)**
Reporting Year: **2014-15** **7/2014 - 6/2015**

*** YOUR WATER AUDIT DATA VALIDITY SCORE IS: 91 out of 100 ***

System Attributes:

Apparent Losses:	-	MG/Yr
+ Real Losses:	-	MG/Yr
= Water Losses:	-	MG/Yr
? Unavoidable Annual Real Losses (UARL):	See limits in definition	
Annual cost of Apparent Losses:	\$0	
Annual cost of Real Losses:	\$0	Valued at Variable Production Cost

Performance Indicators:

Financial:		
Non-revenue water as percent by volume of Water Supplied:		
Non-revenue water as percent by cost of operating system:		0.0%
Apparent Losses per service connection per day:		0.00 gallons/connection/day
Real Losses per service connection per day:		N/A gallons/connection/day
Real Losses per length of main per day*:		0.00 gallons/mile/day
Real Losses per service connection per day per psi pressure:		N/A gallons/connection/day/psi
From Above, Real Losses = Current Annual Real Losses (CARL):		0.00 million gallons/year
? Infrastructure Leakage Index (ILI) [CARL/UARL]:		

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

DUCK RIVER UTILITY COMMISSION
SCHEDULE OF UTILITY RATES IN FORCE (UNAUDITED)
JUNE 30, 2015

Schedule of Utility Rates in Force

	<u>Number of Customers</u>	<u>Rate</u>
Customer charge	2	\$1.25 per 1,000 gallons

STATE OF CALIFORNIA
DEPARTMENT OF REVENUE
SAN FRANCISCO

COMPLIANCE AND INTERNAL CONTROL



BELLENFANT

CERTIFIED PUBLIC ACCOUNTING FIRM

Professional Accounting & Consulting Services

INDEPENDENT AUDITORS' 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

To the Board of Commissioners
Duck River Utility Commission
Tullahoma, Tennessee

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Duck River Utility Commission, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Duck River Utility Commission's basic financial statements, and have issued our report thereon dated October 19, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Duck River Utility Commission'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 Duck River Utility Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of Duck River Utility Commission'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 over financial reporting 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 Duck River Utility Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Bellonjant & Miles, PLLC

October 19, 2015

DUCK RIVER UTILITY COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2015

SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	Unqualified		
Internal control over financial reporting:			
Material weaknesses identified?	_____ Yes	_____ <u>X</u> No	
Significant deficiencies identified not Considered to be material weaknesses?	_____ Yes	_____ <u>X</u> None Reported	
Noncompliance material to financial statements noted?	_____ Yes	_____ <u>X</u> No	

DUCK RIVER UTILITY COMMISSION
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015

There were no audit findings for the year ended June 30, 2014.