OFFICIAL STATEMENT

NEW ISSUES
BOOK-ENTRY-ONLY

Series 2017A Rating: Standard & Poor's – BAM insured "AA"
"A+" (Underyling)
Series 2017B Rating: Standard & Poor's "A+"
(See "MISCELLANEOUS-Rating" herein)

In the opinion of Bond Counsel, based on existing law and assuming compliance with certain tax covenants of the County, as hereafter defined, interest on the Series 2017A 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 adjusted current earnings of certain corporations for purposes of the alternative minimum tax on corporations. In the opinion of the Bond Counsel, interest on the Series 2017B Bonds will be included in gross income of the owners thereof for federal income tax purposes. 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 Tennessee franchise and excise taxes. (See "LEGAL MATTERS -Tax Matters" herein.)

$11,560,000
MORGAN COUNTY, TENNESSEE
$9,460,000 General Obligation Refunding Bonds, Series 2017A (Bank Qualified)
$2,100,000 General Obligation Refunding Bonds, Series 2017B (Federally Taxable)

Dated: May 31, 2017 Due: June 1, as shown on the inside cover.

The $9,460,000 General Obligation Refunding Bonds, Series 2017A (the "Series 2017A Bonds") and the $2,100,000 General Obligation Refunding Bonds, Series 2017B (Federally Taxable) (the "Series 2017B Bonds) (collectively, the "Bonds") are issuable in fully registered form in denominations of $5,000 and authorized integral multiples thereof. The Bonds will be issued in book-entry-only form and registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). 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 December 1, 2017 and thereafter on each June 1 and December 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-only system, principal of and interest on the Bonds are payable at the designated corporate trust office of the Registration Agent.

The Bonds are payable from unlimited *ad valorem* taxes to be levied on all taxable property within the County. For the prompt payment of principal of and interest on the Bonds, the full faith and credit of the County are irrevocably pledged. See section entitled "SECURITIES OFFERED – Security".

The scheduled payment of principal of and interest on the Series 2017A Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Series 2017A Bonds by **BUILD AMERICA MUTUAL ASSURANCE COMPANY**.

BAM
BUILD AMERICA MUTUAL

The Bonds maturing June 1, 2024 and thereafter are subject to optional redemption prior to maturity on or after June 1, 2023.

This cover page contains certain information for quick reference only. It is not a summary of these issues. 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, subject to the approval of the legality thereof by Bass, Berry & Sims PLC, Knoxville, Tennessee, Bond Counsel, whose opinion will be delivered with the Bonds. Certain legal matters will be passed upon for the County by Andrew Hall, Esq., counsel to the County. It is expected that the Bonds will be available for delivery through the facilities of Depository Trust Company in New York, New York, on or about May 31, 2017.

Cumberland Securities Company, Inc.
Financial Advisor

May 10, 2017

General Obligation Refunding Bonds
Series 2017A (Bank-Qualified)

Due (June 1)	2017A Amount	Interest Rate	Yield		CUSIP**
2019	$ 400,000	3.00%	1.10%		617277 KL1
2020	590,000	3.00	1.25		617277 KM9
2021	615,000	3.00	1.40		617277 KN7
2022	630,000	3.00	1.60		617277 KP2
2023	650,000	2.00	1.75		617277 KQ0
2024	665,000	2.00	1.90	c	617277 KR8
2025	680,000	2.00	2.10		617277 KS6

$5,230,000 2.60% Term Bond Due June 1, 2032 @ 2.60% 617277 KZ0

c = Yield to call on June 1, 2023.

General Obligation Refunding Bonds
Series 2017B (Federally Taxable)

Due (June 1)	2017B Amount*	Interest Rate	Yield	CUSIP**
2018	$ 760,000	1.375%	1.375%	617277 LA4
2019	360,000	1.61	1.61	617277 LB2
2020	190,000	1.92	1.92	617277 LC0
2021	190,000	2.00	2.00	617277 LD8
2022	200,000	2.25	2.25	617277 LE6
2023	200,000	2.40	2.40	617277 LF3
2024	200,000	2.65	2.65	617277 LG1

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, 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 Bond 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, the Financial Advisor 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, the Financial Advisor 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 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.

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.

Build America Mutual Assurance Company ("BAM") makes no representation regarding the Series 2017A Bonds or the advisability of investing in the Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM supplied by BAM and presented under the heading "APPENDIX D – BOND INSURANCE AND SPECIMEN MUNICIPAL BOND INSURANCE POLICY".

** These CUSIP numbers have been assigned by Standard & Poor's CUSIP Service Bureau, a division of the McCraw-Hill Companies, Inc., and are included solely for the convenience of the Bond holders. The County 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.

MORGAN COUNTY, TENNESSEE

OFFICIALS

Don Edwards	*County Executive*
Cheryl Collins	*County Clerk*
Gary Howard	*Director of Finance*
Andrew Hall	*County Attorney*

BOARD OF COUNTY COMMISSIONERS

Janet Adkisson	Randy Roberts
Dennis Freels	Vera Scarbrough
Patricia Goad	Freddie Seavers
Travis Gosnell	Bill Shannon
David Hamby	Lee Smith
Earl Headrick	Fred Snow
David Hennessee	Mark Sweat
Terry Jackson	Steve Walls
Michael McGrath	Jerry Zorsch

UNDERWRITERS

Series 2017A	**Series 2017B**
PNC Capital Markets LLC	Raymond James & Associates, Inc.
Philadelphia, Pennsylvania	Memphis, Tennessee

BOND REGISTRATION AND PAYING AGENT

Regions Bank
Nashville, Tennessee

BOND COUNSEL

Bass, Berry & Sims PLC
Knoxville, Tennessee

FINANCIAL ADVISOR

Cumberland Securities Company, Inc.
Knoxville, Tennessee

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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.*

The Issuer .... Morgan County, Tennessee (the "County" or "Issuer"). See APPENDIX B contained herein.

Securities Offered.......................... $9,460,000 General Obligation Refunding Bonds, Series 2017A (Bank Qualified) (the "Series 2017A Bonds") and $2,100,000 General Obligation Refunding Bonds, Series 2017B (Federally Taxable) (the "Series 2017B Bonds") (collectively, the "Bonds") of the County, dated the date of issuance May 31, 2017. The Series 2017A Bonds mature each June 1 beginning June 1, 2018 through June 1, 2025, inclusive and June 1, 2032. The Series 2017B Bonds mature each June 1 beginning June 1, 2018 through June 1, 2024, inclusive. See the section entitled "SECURITIES OFFERED" herein for additional information.

Security.. The Bonds are payable from unlimited *ad valorem* taxes to be levied on all taxable property within the County. For the prompt payment of principal of and interest on the Bonds, the full faith and credit of the County are irrevocably pledged.

Municipal Bond Insurance........... Build America Mutual ("BAM") has issued a commitment to issue a municipal bond insurance policy covering the Series 2017A Bonds. The policy will guarantee the payment when due of principal of and interest on the Series 2017A Bonds. See "APPENDIX D – BOND INSURANCE AND SPECIMEN MUNICIPAL BOND INSURANCE POLICY".

Purpose .... The Bonds are being issued for the purpose of (i) refinancing, in whole or in part, certain Outstanding Debt (as defined herein) of the County, as described herein; and (ii) payment of the costs related to the issuance and sale of the Bonds. See the section entitled "SECURITIES OFFERED - Authority and Purpose" contained herein.

Optional Redemption .... The Bonds maturing June 1, 2024 and thereafter are subject to optional redemption prior to maturity on or after June 1, 2023. 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 County, interest on the Series 2017A 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 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.

In the opinion of Bond Counsel, interest on the Series 2017B Bonds will be included in gross income for federal income tax purposes.

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 Tennessee franchise and excise taxes. (See "LEGAL MATTERS" herein.)

Bank Qualification....................... The Series 2017A Bonds will be treated 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 – Series 2017ATax Matters" for additional information.

Rating..Standard & Poor's: Series 2015C "AA" (BAM) "A+" (Underlying). See the section entitled "MISCELLANEOUS - Rating" for more information.
S&P: "A+". See the section entitled "MISCELLANEOUS - Rating" for more information.

Financial Advisor ....Cumberland Securities Company, Inc., Knoxville, Tennessee. See the section entitled "MISCELLANEOUS-Financial Advisor; Related parties; Other" herein.

Underwriters.................................Series 2017A: PNC Capital Markets LLC, Philadelphia, Pennsylvania.
Series 2017B: Raymond James & Associates, Inc.

Bond Counsel ....Bass, Berry & Sims PLC, Knoxville, Tennessee.

Book-Entry Only ....The Bonds will be issued under the Book-Entry-Only System except as otherwise described herein. For additional information, see the section entitled "BASIC DOCUMENTATION - Book-Entry-Only System"

Registration Agent.........................Regions Bank, Nashville, Tennessee.

General...The Bonds are being issued in full compliance with applicable provisions of Title 9, Chapter 21, *Tennessee Code Annotated*, as supplemented and revised. See "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.

Disclosure ....In accordance with Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 as amended, the County will provide the Municipal Securities Rulemaking Board (the "MSRB") through the operation of the Electronic Municipal Market Access system ("EMMA") and the State Information Depository ("SID"), if any, annual financial statements and other pertinent credit or event information, including Comprehensive Annual Financial Reports, see the section entitled "MISCELLANEOUS-Continuing Disclosure."

Other Information..........................The information in this *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 County or this *Official Statement* contact Don Edwards, County Executive, P.O. Box 387, Wartburg, Tennessee 37887, (423) 346-6288; or the County's Financial Advisor, Cumberland Securities Company, Inc., Telephone: (865) 988-2663.

GENERAL FUND BALANCES

For the Fiscal Year Ended June 30

	2012	2013	2014	2015	2016
Beginning Fund Balance	$ 1,068,389	$ 1,221,157	$ 1,539,963	$ 1,444,889	$ 1,968,489
Revenues	7,174,645	7,291,934	7,227,647	7,777,415	7,763,189
Expenditures	7,012,695	6,982,385	7,198,663	7,636,160	7,617,242
Revenues Over Expenditures:					
Insurance Recovery	23,640	22,646	-	5,945	6,271
Transfers In	-	13,886	27,567	39,130	23,886
Transfers Out	(32,642)	(101,675)	(151,625)	-	(100,000)
Ending Fund Balance	**$ 1,221,157**	**$ 1,539,963**	**$ 1,444,889**	**$ 1,968,489**	**$ 2,044,593**

Source: Comprehensive Annual Financial Reports of Morgan County, Tennessee.

$11,560,000
MORGAN COUNTY, TENNESSEE

$9,460,000 General Obligation Refunding Bonds, Series 2017A (Bank Qualified)
$2,100,000 General Obligation Refunding Bonds, Series 2017B (Federally Taxable)

SECURITIES OFFERED

AUTHORITY AND PURPOSE

This PRELIMINARY OFFICIAL STATEMENT which includes the Summary Statement hereof and appendices hereto, is furnished in connection with the offering by Morgan County, Tennessee (the "County") of $9,460,000 General Obligation Refunding Bonds, Series 2017A (Bank Qualified) (the "Series 2017A Bonds") and the $2,100,000 General Obligation Refunding Bonds, Series 2017B (Federally Taxable) (the "Series 2017B Bonds") (collectively, the "Bonds").

The Bonds are authorized to be issued pursuant to the provisions of Sections 9-21-101 et. seq., *Tennessee Code Annotated*, and other applicable provisions of law and pursuant to a resolution duly adopted by the Board of Commissioners of the County on April 10, 2017 (the "Resolutions").

The Bonds are being issued for the purpose of (i) refinancing, in whole or in part, certain Outstanding Debt, as described in the section "REFUNDING PLAN" below; and (ii) payment of the costs related to the issuance and sale of the Bonds.

REFUNDING PLAN

The County is proposing to refinance the following: (1) with the proceeds of the Series 2017A Bonds, the amount outstanding under a Loan Agreement, Series VII-A-3, dated August 1, 2008 (the "Series VII-A-3 Loan"), and the related Local Government Public Improvement Bonds, Series VII-A-3, dated August 28, 2008 issued by the Public Building Authority of Sevier County, Tennessee, maturing June 1, 2017 and thereafter; and (2) with the proceeds of the Series 2017B Bonds, the cost of terminating an interest rate swap associated with the Series VII-A-3 Loan and the County's portion of indebtedness outstanding under a Loan Agreement, Series B-13-A, dated October 1, 2007, and the related Local Government Public Improvement Bonds, Series B-13-A, dated October 18, 2007 issued by the Public Building Authority of Blount County, Tennessee, maturing June 1, 2018 and thereafter (collectively, the "Outstanding Debt").

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 Debt was submitted to the Director of the Office of State and Local Finance for review, and a report was received thereon.

DESCRIPTION OF THE BONDS

The Bonds will be dated and bear interest from their date of issuance and delivery May 31, 2017. Interest on the Bonds will be payable semi-annually on June 1 and December 1, commencing December 1, 2017. The Bonds are issuable in book-entry-only form in $5,000 denominations or integral multiples thereof as shall be requested by each respective registered owner.

The Bonds shall be signed by the County Executive and shall be attested by the County Clerk. No Bond shall be valid until it has been authorized by the manual signature of an authorized officer or employee of the Registration Agent and the date of the authentication noted thereon.

SECURITY

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

The County, through its governing body, shall annually levy and collect a tax on all taxable property within the County, 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 County and reimbursement therefore shall be made out of taxes provided by the Resolution when the same shall have been collected. The taxes may be reduced to the extent of direct appropriations from the General Fund of the County to the payment of debt service on the Bonds.

The Bonds are not obligations of the State of Tennessee (the "State") or any political subdivision thereof other than the County.

SERIES 2017A BONDS MUNICIPAL BOND INSURANCE

The scheduled payment of the principal of and interest on the Series 2017A Bonds when due will be guaranteed under a municipal bond insurance policy to be issued simultaneously with the delivery of the Series 2017A Bonds by Build America Mutual Assurance Company. ("BAM"). See “APPENDIX D - BOND INSURANCE AND SPECIMEN MUNICIPAL BOND INSURANCE POLICY.”

SERIES 2017A BONDS AS 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 County as to the Series 2017A Bonds, Bond Counsel has determined that the Series 2017A Bonds upon issuance will be "qualified tax-exempt obligations" within the meaning of the Code.

OPTIONAL REDEMPTION OF THE BONDS

The Bonds maturing June 1, 2024 and thereafter are subject to optional redemption prior to maturity on or after June 1, 2023 at a redemption price of par plus accrued interest.

If less than all the Bonds shall be called for redemption, the maturities to be redeemed shall be designated by the Board of County Commissioners, in its discretion. If less than all the principal amount of the Bonds of a maturity shall be called for redemption, the interests within the maturity to be redeemed shall be selected as follows:

(i) if the Bonds are being held under a Book-Entry System by DTC, or a successor Depository, the amount of the interest of each DTC Participant in 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

(ii) 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.

MANDATORY REDEMPTION

Subject to the credit hereinafter provided, the County shall redeem Bonds maturing June 1, 2032 on the redemption dates set forth below opposite the maturity date, in aggregate principal amounts equal to the respective dollar amounts set forth below opposite the respective redemption dates at a price of par plus accrued interest thereon to the date of redemption. The Bonds to be so redeemed within a maturity shall be selected shall be selected in the manner described above relating to optional redemption.

The dates of redemption and principal amount of Bonds to be redeemed on said dates are as follows:

Maturity	Redemption Date	Principal Amount of Bonds Redeemed
June 1, 2032	June 1, 2026	$690,000
	June 1, 2027	$710,000
	June 1, 2028	$730,000
	June 1, 2029	$745,000
	June 1, 2030	$765,000
	June 1, 2031	$785,000
	June 1, 2032*	$805,000

*Final Maturity

At its option, to be exercised on or before the forty-fifth (45) day next preceding any such redemption date, the County may (i) deliver to the Registration Agent for cancellation Bonds of the maturity to be redeemed, in any aggregate principal amount desired, and/or (ii) receive a credit in respect of its redemption obligation for any Bonds of the maturity to be redeemed which prior to said date have been purchased or redeemed (otherwise than through the operation of this section) and canceled by the Registration Agent and not theretofore applied as a credit against any redemption obligation. Each Bond so delivered or previously purchased or redeemed shall be credited by the Registration Agent at 100% of the principal amount thereof on the obligation of the County on such payment date and any excess shall be credited on future redemption obligations in chronological order, and the principal amount of Bonds to be redeemed by operation shall be accordingly reduced. The County shall on or before the forty-fifth (45) day next preceding each payment date furnish the Registration Agent with its certificate indicating whether or not and to what extent the provisions of clauses (i) and (ii) described above are to be availed of with respect to such payment and confirm that funds for the balance of the next succeeding prescribed payment will be paid on or before the next succeeding payment date.

NOTICE OF REDEMPTION

Notice of call for redemption, whether optional or mandatory, shall be given by the Registration Agent on behalf of the County 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. The notice may state that it is conditioned upon the deposit of moneys in an amount equal to the amount necessary to affect 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 County 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 County pursuant to written instructions from an authorized representative of the County (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 County 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.

PAYMENT OF BONDS

The Bonds will bear interest from their date or from the most recent interest payment date to which interest has been paid or duly provided for, on the dates provided herein, such interest being computed upon the basis of a 360-day year of twelve 30-day months. Interest on each Bond shall be paid by check or draft of the Registration Agent to the person in whose name such Bond is registered at the close of business on the 15th day of the month next preceding the interest payment date. The principal of and premium, if any, on the Bonds shall be payable in lawful money of the United States of America at the principal corporate trust office of the Registration Agent.

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BASIC DOCUMENTATION

REGISTRATION AGENT

The Registration Agent, Regions Bank, Nashville, Tennessee, its successor or the County 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 follows

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-only 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 Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the 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-only 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 effect 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 County 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 County 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-only system has been obtained from sources that the County believes to be reliable, but the County, the Bond Counsel, the Registration Agent and the Financial Advisor 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 County, the Bond Counsel, the Registration Agent or the Financial Advisor 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 County as follows:

(a) an amount, which together with any investment earnings thereon and other legally available funds of the County, if any, will be sufficient to pay principal of, premium, if any, and interest on the loans to be refinanced described in the section "REFUNDING PLAN" above until and through the redemption date therefor shall be paid to a bond trustee as the holder of such Outstanding Debt to be applied on to the earliest optional redemption date therefor;

(b) pay the termination cost of the interest rate swap referenced in the section "REFUNDING PLAN" herein; and

(c) the remainder of the proceeds of the sale of the Bonds shall be used to pay the costs of issuance the Bonds, and all 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 necessary miscellaneous expenses incurred in connection with the issuance and sale of the Bonds.

DISCHARGE AND SATISFACTION OF BONDS

If the County 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 of such notice); or

3. By delivering such Bonds to the Registration Agent, for cancellation by it;

and if the County shall also pay or cause to be paid all other sums payable hereunder by the County 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 County to the holders of such Bonds shall be fully discharged and satisfied and shall thereupon cease, terminate and become void.

If the County 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 deposited as aforesaid.

Except as otherwise provided in this Section, neither Defeasance Obligations nor moneys deposited with the Registration Agent pursuant to this Section 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 County 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 County, as received by the Registration Agent. For the purposes of this Section, Defeasance Obligations shall 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 in this Section, 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 County, including, but not limited to, the right to require the County 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 County 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.

LEGAL MATTERS

LITIGATION

There are no suits threatened or pending challenging the legality or validity of the Bonds or the right of the County to sell or issue the Bonds.

TAX MATTERS – SERIES 2017A BONDS

Federal

General. Bass, Berry & Sims PLC, Knoxville, Tennessee, is Bond Counsel for the Series 2017A Bonds. Their opinion under existing law, relying on certain statements by the County and assuming compliance by the County with certain covenants, is that interest on the Series 2017A Bonds:

- is excluded from a bondholder's federal gross income under the Internal Revenue Code of 1986, as amended (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 Series 2017A Bonds that the County must continue to meet after the Series 2017A Bonds are issued. These requirements generally involve the way that bond proceeds must be invested and ultimately used. If the County does not meet these requirements, it is possible that a bondholder may have to include interest on the Series 2017A Bonds in its federal gross income on a retroactive basis to the date of issue. The County 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 Series 2017A 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 Series 2017A Bonds or affect the market price of the Series 2017A Bonds. See also section below "CHANGES IN FEDERAL AND STATE TAX LAW".

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 Series 2017A Bonds, or under State, local or foreign tax law.

Bond Premium. If a bondholder purchases a Series 2017A Bond for a price that is more than the principal amount, generally the excess is "bond premium" on that Series 2017A 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 Series 2017A Bond will be reduced. The holder of a Series 2017A 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 Series 2017A Bonds. A bondholder in certain circumstances may realize a taxable gain upon the sale of a Series 2017A Bond with bond premium, even though the Series 2017A Bond is sold for an amount less than or equal to the owner's original cost. If a bondholder owns any Series 2017A Bonds with bond premium, it should consult its tax advisor regarding the tax accounting treatment of bond premium.

Original Issue Discount. A Series 2017A Bond will have "original issue discount" if the price paid by the original purchaser of such Bond is less than the principal amount of such Series 2017A Bond. Bond Counsel's opinion is that any original issue discount on these Series 2017A Bonds as it accrues is excluded from a bondholder's federal gross income under the Internal Revenue Code. The tax accounting treatment of original issue discount is complex. It accrues on an actuarial basis and as it accrues a bondholder's tax basis in these Series 2017A Bonds will be increased. If a bondholder owns one of these Series 2017A Bonds, it should consult its tax advisor regarding the tax treatment of original issue discount.

Series 2017A - 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 County as to the Series 2017A Bonds, Bond Counsel has determined that the Series 2017A 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 Series 2017A 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 Series 2017A 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 Series 2017A 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 Series 2017A Bonds and the income therefrom are exempt from all present state, county and municipal taxes in Tennessee except (a) Tennessee excise taxes on interest on the Series 2017A Bonds during the period the Series 2017A 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 (b) Tennessee franchise taxes by reason of the inclusion of the book value of the Series 2017A 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.

FEDERAL TAX MATTERS – SERIES 2017B BONDS

Disclaimer. Any discussion of the tax issues relating to the Series 2017B Bonds in this Official Statement was written to support the promotion or marketing of the Series 2017B Bonds. Such discussion was not intended or written to be used, and it cannot be used, by any person for the purpose of avoiding any tax penalties that may be imposed on such person. Each investor should seek advice with respect to the Series 2017B Bonds based on its particular circumstances from an independent tax advisor.

General. The following is a summary of certain anticipated United States federal income tax consequences of the purchase, ownership and disposition of the Series 2017B Bonds. The summary is based upon the provisions of the Code, the regulations promulgated thereunder and the judicial and administrative rulings and decisions now in effect, all of which are subject to change. The summary generally addresses Series 2017B Bonds held as capital assets and does not purport to address all aspects of federal income taxation that may affect particular investors in light of their individual circumstances or certain types of investors subject to special treatment under the federal income tax laws, including but not limited to financial institutions, insurance companies, dealers in securities or currencies, persons holding such Series 2017B Bonds as a hedge against currency risks or as a position in a “straddle” for tax purposes, or persons whose functional currency is not the United States dollar. Potential purchasers of the Series 2017B Bonds should consult their own tax advisors in determining the federal, state or local tax consequences to them of the purchase, ownership and disposition of the Series 2017B Bonds.

Interest on the Series 2017B Bonds is included from gross income for federal income tax purposes and so will be fully subject to federal income taxation. Purchasers other than those who purchase Series 2017B Bonds in the initial offering at their stated principal amounts will be subject to federal income tax accounting rules affecting the timing and/or characterization of payments received with respect to such Series 2017B Bonds. In general, interest paid on the Series 2017B Bonds and accrual of original issue discount and market discount, if any, will be treated as ordinary income to an owner of Series 2017B Bonds and, after adjustment for the foregoing, principal payments will be treated as a return of capital.

Original Issue Discount. The following summary is a general discussion of certain federal income tax consequences of the purchase, ownership and disposition of Series 2017B Bonds issued with original issue discount ("Discount Series 2017B Bonds"). A Series 2017B Bond will be treated as having original issue discount if the excess of its "stated redemption price at maturity" (defined below) over its issue price (defined as the initial offering price at which a substantial amount of the Series 2017B Bonds of the same maturity have first been sold to the public, excluding Bond houses and brokers) equals or exceeds one quarter of one percent of such Series 2017B Bond's stated redemption price at maturity multiplied by the number of complete years to its maturity.

A Discount Series 2017B Bond's "stated redemption price at maturity" is the total of all payments provided by the Discount Series 2017B Bond that are not payments of "qualified stated interest." Generally, the term "qualified stated interest" includes stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually at a single fixed rate.

In general, the amount of original issue discount includible in income by the initial holder of a Discount Series 2017B Bond is the sum of the "daily portions" of original issue discount with respect to such Discount Series 2017B Bond for each day during the taxable year in which such holder held such Discount Series 2017B Bond. The daily portion of original issue discount on any Discount Series 2017B Bond is determined by allocating to each day in any "accrual period" a ratable portion of the original issue discount allocable to that accrual period.

An accrual period may be of any length, and may vary in length over the term of a Discount Series 2017B Bond, provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs at the end of an accrual period. The amount of original issue discount allocable to each accrual period is equal to the difference between (i) the product of the Discount Series 2017B Bond's adjusted issue price at the beginning of such accrual period and its yield to maturity (determined on the basis of compounding at the close of each accrual period and appropriately adjusted to take into account the length of the particular accrual period) and (ii) the amount of any qualified stated interest payments allocable to such accrual period. The "adjusted issue price" of a Discount Series 2017B Bond at the beginning of any accrual period is the sum of the issue price of the Discount Series 2017B Bond plus the amount of original issue discount allocable to all prior accrual periods minus the amount of any prior payments on the Discount Series 2017B Bond that were not qualified stated interest payments. Under these rules, holders will have to include in income increasingly greater amounts of original issue discount in successive accrual periods.

Holders utilizing the accrual method of accounting may generally, upon election, include all interest (including stated interest, acquisition discount, original issue discount, de minimis original issue discount, market discount, de minimis market discount, and unstated interest, as adjusted by any amortizable Bond premium or acquisition premium) on the Discount Series 2017B Bond by using the constant yield method applicable to original issue discount, subject to certain limitations and exceptions.

Market Discount. Any owner who purchases a Series 2017B Bond at a price which includes market discount in excess of a prescribed de minimis amount (i.e., at a purchase price that is less than its adjusted issue price in the hands of an original owner) will be required to recharacterize all or a portion of the gain as ordinary income upon receipt of each scheduled or unscheduled principal payment or upon other disposition. In particular, such owner will generally be required either (a) to allocate each such principal payment to accrued market discount not previously included in income and to recognize ordinary income to that extent and to treat any gain upon sale or other disposition of such a Series 2017B Bond as ordinary income to the extent of any remaining accrued market discount (under this caption) or (b) to elect to include such market discount in income currently as it accrues on all market discount instruments acquired by such owner on or after the first day of the taxable year to which such election applies.

The Code authorizes the Treasury Department to issue regulations providing for the method for accruing market discount on debt instruments the principal of which is payable in more than one installment. Until such time as regulations are issued by the Treasury Department, certain rules described in the legislative history of the Tax Reform Act of 1986 will apply. Under those rules, market discount will be included in income either (a) on a constant interest basis or (b) in proportion to the accrual of stated interest.

An owner who acquires a Series 2017B Bond at a market discount also may be required to defer, until the maturity date of such Series 2017B Bonds or the earlier disposition in a taxable transaction, the deduction of a portion of the amount of interest that the owner paid or accrued during the taxable year on indebtedness incurred or maintained to purchase or carry a Bond in excess of the aggregate amount of interest (including original issue discount) includable in such owner's gross income for the taxable year with respect to such Series 2017B Bond. The amount of such net interest expense deferred in a taxable year may not exceed the amount of market discount accrued on the Series 2017B Bond for the days during the taxable year on which the owner held the Series 2017B Bond and, in general, would be deductible when such market discount is includable in income. The amount of any remaining deferred deduction is to be taken into account in the taxable year in which the Series 2017B Bond matures or is disposed of in a taxable transaction. In the case of a disposition in which gain or loss is not recognized in whole or in part, any remaining deferred deduction will be allowed to the extent gain is recognized on the disposition. This deferral rule does not apply if the bondowner elects to include such market discount in income currently as described above.

Bond Premium. A purchaser who purchases a Series 2017B Bond at a cost greater than its then principal amount (or, in the case of a Series 2017B Bond issued with original issue premium, at a price in excess of its adjusted issue price) will have amortizable Series 2017B Bond premium. If the holder elects to amortize the premium under Section 171 of the Code (which election will apply to all Series 2017B Bonds held by the holder on the first day of the taxable year to which the election applies, and to all Series 2017B Bonds thereafter acquired by the holder), such a purchaser must amortize the premium using constant yield principles based on the purchaser's yield to maturity. Amortizable Series 2017B Bond premium is generally treated as an offset to interest income, and a reduction in basis is required for amortizable Bond premium that is applied to reduce interest payments. Purchasers of any Series 2017B Bonds who acquire such Series 2017B Bonds at a premium (or with acquisition premium) should consult with their own tax advisors with respect to the determination and treatment of such premium for federal income tax purposes and with respect to state and local tax consequences of owning such Series 2017B Bonds.

Sale or Redemption of Series 2017B Bonds. A Bondowner's tax basis for a Series 2017B Bond is the price such owner pays for the Bond plus the amount of any original issue discount and market discount previously included in income, reduced on account of any payments received (other than "qualified stated interest" payments) and any amortized Series 2017B Bond premium. Gain or loss recognized on a sale, exchange or redemption of a Series 2017B Bond, measured by the difference between the amount realized and the basis of the Series 2017B Bond as so adjusted, will generally give rise to capital gain or loss if the Series 2017B Bond is held as a capital asset (except as discussed above under "Market Discount"). The legal defeasance of Series 2017B Bonds may result in a deemed sale or exchange of such Series 2017B Bonds under certain circumstances; owners of such Series 2017B Bonds should consult their tax advisors as to the Federal income tax consequences of such an event.

Backup Withholding. A Bondowner may, under certain circumstances, be subject to "backup withholding" (currently the rate of this withholding obligation is 28%, but the rate may change in the future) with respect to interest or original issue discount on the Series 2017B Bonds. This withholding generally applies if the owner of a Series 2017B Bond (a) fails to furnish the Trustee or other payor with its taxpayer identification number, (b) furnishes the Trustee or other payor an incorrect taxpayer identification number, (c) fails to report properly interest, dividends or other "reportable payments" as defined in the Code; or (d) under certain circumstances, fails to provide the Trustee or other payor with a certified statement, signed under penalty of perjury, that the taxpayer identification number provided is its correct number and that the holder is not subject to backup withholding. Backup withholding will not apply, however, with respect to certain payments made to bondowners, including payments to certain exempt recipients (such as certain exempt organizations) and to certain Nonresidents (as defined below). Owners of the Series 2017B Bonds should consult their tax advisors as to their qualification for exemption from backup withholding and the procedure for obtaining the exemption.

Backup withholding is not an additional tax. Any amount paid as backup withholding would be credited against the Bondholder's U.S. federal income tax liability, provided that the requisite information is timely provided to the IRS. The amount of "reportable payments" for each calendar year and the amount of tax withheld, if any, with respect to payments on the Series 2017B Bonds will be reported to the Bondowners and to the Internal Revenue Service.

Nonresident Borrowers. Under the Code, interest and original issue discount income with respect to Series 2017B Bonds held by nonresident alien individuals, foreign corporations or other non-United States persons ("Nonresidents") generally will not be subject to the United States withholding tax (or backup withholding) if the County (or other person who would otherwise be required to withhold tax from such payments) is provided with an appropriate statement that the beneficial owner of the Series 2017B Bond is a Nonresident. Notwithstanding the foregoing, if any such payments are effectively connected with a United States trade or business conducted by a Nonresident Bondowner, they will be subject to regular United States income tax, but will ordinarily be exempt from United States withholding tax.

ERISA. The Employees Retirement Income Security Act of 1974, as amended ("ERISA"), and the Code generally prohibit certain transactions between a qualified employee benefit plan under ERISA or tax-qualified retirement plans and individual retirement accounts under the Code (collectively, the "Plans") and persons who, with respect to a Plan, are fiduciaries or other "parties in interest" within the meaning of ERISA or "disqualified persons" within the meaning of the Code. All fiduciaries of Plans, in consultation with their advisors, should carefully consider the impact of ERISA and the Code on an investment in any Series 2017B Bonds.

The opinions of Bond Counsel are not intended or written by Bond Counsel to be used and cannot be used by an owner of the Series 2017B Bonds for the purpose of avoiding penalties that may be imposed on the owner of the Series 2017B Bonds. The opinions of Bond Counsel are provided to support the promotion or marketing of the Series 2017B Bonds. In all events, all investors should consult their own tax advisors in determining the Federal, state, local and other tax consequences to them of the purchase, ownership and disposition of the Series 2017B Bonds.

Prospective Bondholders should consult their own tax advisors regarding the foregoing matters.

State Taxes

Under existing law, the Series 2017B Bonds and the income therefrom are exempt from all present state, county and municipal taxes in Tennessee except (a) Tennessee excise taxes on interest on the Series 2017B Bonds during the period the Series 2017B 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 (b) Tennessee franchise taxes by reason of the inclusion of the book value of the Series 2017B 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 Series 2017A 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 County 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 County Executive 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 County 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 County Executive acting in his official capacity, evidencing delivery of and payment for the Bonds; (iii) a signature identification and incumbency certificate, signed by the County Executive and County Clerk 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 County 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, Knoxville, 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 assigned their municipal bond rating of "AA" (Stable Outlook) to the Series 2017A Bonds with the understanding that upon delivery of the Bonds, a policy guaranteeing the payment when due of the principal of and interest on the Series 2017A Bonds will be issued by Build America Mutual. Such rating reflects only the views of such organization and explanations of the significance of such rating should be obtained from such agency. Additionally, Standard & Poor's has assigned the Series 2017A Bonds an underlying rating of "A+".

S&P has given the Series 2017B Bonds the rating of "A+".

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 and debt of the United States of America, including, without limitation, the general economic conditions in the country, and other political and economic developments that may affect the financial condition of the United States government, the United States debt limit, and the bond ratings of the United States and its instrumentalities, 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 ratings should be obtained from S&P.

COMPETITIVE PUBLIC SALE

The Bonds were offered for sale at competitive public bidding on May 10, 2017. Details concerning the public sale were provided to potential bidders and others in the *Preliminary Official Statement* that was dated April 28, 2017.

The successful bidder for the Series 2017A Bonds was an account led by PNC Capital Markets LLC, Philadelphia, Pennsylvania (the "Underwriters") who contracted with the County, subject to the conditions set forth in the Official Notice of Sale and Bid Form to purchase the Series 2017A Bonds at a purchase price of $9,522,048.25 (consisting of the par amount of the Bonds, plus a net reoffering premium of $133,648.25, less an underwriter's discount of $47,300.00 and a bond insurance premium paid by the underwriter of $24,300.00) or 100.656% of par.

The successful bidder for the Series 2017B Bonds was an account led by Raymond James & Associates, Inc. (the "Underwriters") who contracted with the County, subject to the conditions set forth in the Official Notice of Sale and Bid Form to purchase the Series 2017B Bonds at a purchase price of $2,091,472.37 (consisting of the par amount of the Bonds, less an underwriter's discount of $8,527.63) or 99.594%% 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 County 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 County to compile, create, or interpret any information in the PRELIMINARY OFFICIAL STATEMENT and OFFICIAL STATEMENT relating to the County, including without limitation any of the County's financial and operating data, whether historical or projected. Any information contained in the PRELIMINARY OFFICIAL STATEMENT and OFFICIAL STATEMENT concerning the County, 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 County 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 County in other normal commercial banking capacities, it will be compensated separately for such services.

Official Statement. 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 County and will be compensated and/or reimbursed for such distribution and other such services.

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 County's Dissemination Agent.

If the County chooses to use one or more of these other services provided by Cumberland Securities Company, Inc. including Dissemination Agent 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.

ADDITIONAL DEBT

The County has not authorized any additional debt. However, the County has ongoing captial needs that may or may not require the issuance of additional debt. The County may also authorize the issuance of additional refundings of outstanding debt as savings opportunities arise.

DEBT LIMITATIONS

Pursuant to Title 9, Chapter 21, *Tennessee Code Annotated*, as amended, there is no limit on the amount of bonds that may be issued when the County uses the statutory authority granted therein to issue bonds. (see "DEBT STRUCTURE - Indebtedness and Debt Ratios" for additional information.)

DEBT RECORD

There is no record of a default on principal and interest payments by the County from information available. Additionally, no agreements or legal proceedings of the County relating to securities have been declared invalid or unenforceable.

CONTINUING DISCLOSURE

The County 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 relating to the County by not later than twelve months after the end of each fiscal year commencing with the fiscal year ending June 30, 2017 (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 County. The issuer will provide notice in a timely manner to the MSRB of a failure by the County to provide the annual financial information on or before the date specified in the continuing disclosure agreement. The Annual Report (and audited financial statements if filed separately) and notices described above will be filed by the County 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 Securities Exchange Act Rule 15c2-12(b), as it may be amended from time to time (the "Rule 15c2-12").

Five-Year History of Filing. In the past five years, the County has filed its Annual Reports at www.emma@msrb.org under the base CUSIP Number 617277 which is the base CUSIP Number for the County; however, the County inadvertently failed to also file such Annual Reports under the CUSIP Number of certain conduit issuers of bonds for which the County was an obligated person. The County 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 County'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. The County does not deem any of the forgoing omissions to be material, and therefore, in the judgment of the County, for the past five years, the County has complied in all material respects with its existing continuing disclosure agreements in accordance with Rule 15c2-12.

Content of Annual Report. The County's Annual Report shall contain or incorporate by reference the General Purpose Financial Statements of the County for the fiscal year, prepared in accordance with generally accepted accounting principles, provided, however, if the County'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 through B-11;

3. Information about the bonded debt service requirements for General Obligation as shown on page B-12;

4. The fund balances and retained earnings for the fiscal year as shown on page B-13;

5. Summary of revenues, expenditures and changes in fund balances - general fund for the fiscal year as shown on page B-14;

6. The estimated assessed value of property in the County 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-20;

7. Property tax rates and tax collections of the County for the tax year ending in such fiscal year as well as the uncollected balance for such fiscal year as shown on page B-20; and

8. The ten largest taxpayers as shown on page B-21.

Any or all of the items above may be incorporated by reference from other documents, including Official Statements in final form for debt issues of the County or related public entities, which have been submitted to each of the Repositories or the U.S. Securities and Exchange

Commission. If the document incorporated by reference is a final Official Statement, in final form, it will be available from the Municipal Securities Rulemaking Board. The County shall clearly identify each such other document so incorporated by reference.

Reporting of Significant Events. The County 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 County 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 County 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 County's obligations under the 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 Disclosure Certificate, the County may amend the Disclosure Certificate, and any provision of the 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 (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 Disclosure Certificate, the County 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 County. 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 County to comply with any provision of the 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 County to comply with its obligations under the Disclosure Certificate. A default under the Disclosure Certificate shall not be deemed an event of default, if any, under the Resolution, and the sole remedy under the Disclosure Certificate in the event of any failure of the County to comply with the Disclosure Certificate shall be an action to compel performance.

ADDITIONAL INFORMATION

Use of the words "shall," "must," or "will" in this 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 this 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 this 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 County 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 County has deemed this OFFICIAL STATEMENT as “final” as of its date within the meaning of Rule 15c2-12.

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CERTIFICATION OF THE COUNTY

On behalf of the County, 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/ Don Edwards
County Executive

ATTEST:

/s/ Cheryl Collins
County Clerk

APPENDIX A

LEGAL OPINION

LAW OFFICES OF
BASS, BERRY & SIMS PLC
900 SOUTH GAY STREET, SUITE 1700
KNOXVILLE, TENNESSEE 37902

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by Morgan County, Tennessee (the "Issuer") of its $9,460,000 General Obligation Refunding Bonds, Series 2017A (Bank Qualified) (the "Series 2017A Bonds") and its $2,100,000 General Obligation Refunding Bonds, Series 2017B (Federally Taxable) (the "Series 2017B Bonds," and together with the Series 2017A Bonds, the "Bonds") dated May 31, 2017. 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 obligations of the Issuer.

2. The resolution of the Board of County Commissioners 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 Bonds constitute general obligations of the Issuer to which the Issuer has validly and irrevocably pledged its full faith and credit. The principal of and interest on the Bonds are payable from unlimited ad valorem taxes to be levied on all taxable property within the territorial limits of the Issuer.

4. Interest on the Series 2017A 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, for purposes of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining adjusted current earnings. 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, that must be satisfied subsequent to the issuance of the Series 2017A 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 Series 2017A Bonds to be so included in gross income retroactive to the date of issuance of the Series 2017A 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 Series 2017A Bonds. Interest on the 2017B Bonds will not be excluded from gross income for federal income tax purposes.

5. Under existing law, the Bonds and the income therefrom are exempt from all present state, county and municipal taxes in Tennessee except (a) 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 (b) 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 Series 2017A 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 resolutions 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,

APPENDIX B

SUPPLEMENTAL INFORMATION STATEMENT

GENERAL INFORMATION

LOCATION

Morgan County (the "County") is located in the northeastern part of the State of Tennessee. To the north, the County is bordered by Scott County and to the east, by Anderson County. Roane and Cumberland Counties make up the County's southern border, and Fentress County provides Morgan County's western border. The City of Wartburg, the county seat, is located 45 miles west of Knoxville and was originally settled by German-Swiss colonists. It is named after a castle in Thuringia, Germany.

GENERAL

The governing board of the County is 18-member Board of County Commissioners which is elected to concurrent four-year terms of office by direct vote of the voters in each district represented. The County Mayor is the chief financial and administrative officer of the County and is elected by a direct vote of the people to a four-year term of office.

The County has a land area of approximately 539 square miles, with 28.7% of that area devoted to agriculture. Primary agriculture products include corn, beef cattle and chicken. The County also has an abundance of natural resources such as coal, oil, gas, pine and oak.

The County is part of the Knoxville Metropolitan Statistical Area (the "MSA") that had a population of 837,571 according to the 2010 US Census. The MSA includes Knox (Knoxville and Farragut), Anderson (Oak Ridge and Clinton), Blount (Maryville and Alcoa), Campbell (LaFollette), Grainger (Rutledge), Loudon (Loudon), Morgan (Wartburg), Roane (Harriman) and Union (Maynardville) Counties.

The County is also part of the Knoxville-Sevierville-Harriman Combined Statistical Area (the "CSA"). According to the 2010 Census, the CSA had a population of 1,056,442. The CSA includes Roane, Anderson, Blount, Knox, Loudon, Union, Grainger, Hamblen, Jefferson, Campbell, Cocke and Sevier Counties. The City of Knoxville is the largest city in the CSA with a population of 178,874 according to the 2010 Census. According to the 2010 Census, the County has a population of 21,987, while Wartburg has a population of 918. The Town of Oakdale is the only other incorporated town in Morgan County, with a population of 212.

TRANSPORTATION

Transportation is provided by a network of smaller railroads and highways. The Norfolk-Southern Railroad serves the County. U.S. Highway 27 and State Highways 62, 116, 298, 299 and 328 provide the County's highway transportation. The nearest port if Harriman, TN 16 miles away on the Tennessee River. The community's air service is provided by Rockwood Municipal Airport about 22 miles away with a 5,000-foot asphalt runway. Knoxville's McGhee Tyson Airport, about 55 miles away, is the closest commercial airport.

EDUCATION

The *Morgan County School System* has eight schools: two elementary schools, one middle, one high school and three K-12 schools. The Career and Technical Center, located on the eastern edge of Wartburg, serves all of the high school students in Morgan County. The fall 2015 enrollment was 3,143 students with 207 teachers.

Source: Tennessee Department of Education.

Roane State Community College Morgan County Campus. Roane State Community College, which began operation in 1971 in Harriman, Tennessee, is a two-year higher education institution which serves a fifteen county area. Fall 2016 enrollment was about 5,636 students. Designed for students who plan to transfer to senior institutions, the Roane State academic transfer curricula include two years of instruction in the humanities, mathematics, natural sciences, and social sciences. Approximately 21 college transfer programs and/or options are offered by the college.

Roane State's 104-acre main campus is centrally located in Roane County where a wide variety of programs are offered. Roane State has nine locations across East Tennessee – the Roane County flagship campus; an Oak Ridge campus; campuses in Campbell, Cumberland, Fentress, Loudon, Morgan and Scott Counties; and a center for health science education in West Knoxville.

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

The Tennessee Technology Center at Harriman. The Tennessee Technology Center at Harriman 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 Harriman serves the eastern region of the state including Anderson, Loudon, Meigs, Morgan, Rhea, and Roane Counties. The Technology Center at Harriman began operations in 1970, and the main campus is located in Roane County. Fall 2014 enrollment was 409 students.

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

MANUFACTURING AND COMMERCE

Morgan County has two industrial parks within its boundaries. Advance Transformer Property has a land area of 33 acres. It lies adjacent to U.S. Highway 62 and only 17 miles from Interstate 40. The site is also equipped with full utilities. Sunbright Industrial Park has a land area of 19.23 acres that lies adjacent to U.S. Highway 27 and to the Norfolk/Southern Railroad.

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The following is a list of the major employers in the County:

Major Employers in Morgan County

Company	Product/Service	Employees
Morgan County Correctional Complex	Corrections	561
Morgan County Schools	Education	450
Tennier Industries	Canvas Bags/Sleeping Bags	130
Big South Fork Park	Recreation	60
Morgan County Government	Government	55
Citizens Gas Utility District	Utility	46
Morgan County Head Start	Education	40
R & R Lumber Company	Sawmill	40
Wartburg Tool & Die	Tool & Die	30
Ellison Coating	Rubber coating Products	30
M & G Precision Machining	Tool & Die	30
Heraeus Metal Processing	Metal Processing	29

Source: Department of Economic and Community Development and the Knoxville News Sentinel.

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EMPLOYMENT INFORMATION

Unemployment in the County as of January 2017 stood at 8.1%, representing 7,300 persons employed out of a labor force of 7,940. The chart below depicts unemployment trends in the County for the last five years.

The Knoxville MSA's unemployment for January 2017 was at 5.4% with 390,200 persons employed out of a labor force of 412,560. As of January 2017, the unemployment rate in the Knoxville-Sevierville-Harriman CSA stood at 6.0%, representing 497,220 persons employed out of a workforce of 529,200.

Unemployment

	Annual Average **2012**	Annual Average **2013**	Annual Average **2014**	Annual Average **2015**	Annual Average **2016**
National	8.1%	7.4%	6.2%	5.3%	4.9%
Tennessee	8.0%	8.2%	6.7%	5.8%	4.8%
Morgan County	**10.4%**	**10.6%**	**8.8%**	**7.6%**	**6.6%**
Index vs. National	128	143	142	143	135
Index vs. State	130	129	131	131	138
Knoxville MSA	**6.6%**	**6.9%**	**6.2%**	**5.4%**	**4.5%**
Index vs. National	81	93	100	102	92
Index vs. State	82	84	93	93	94
Knoxville-Sevierville-Harriman CSA	**7.5%**	**7.7%**	**6.5%**	**6.5%**	**4.7%**
Index vs. National	93	104	105	123	96
Index vs. State	94	94	97	112	98

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

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ECONOMIC DATA

Per Capita Personal Income

	2011	2012	2013	2014	2015
National	$42,453	$44,267	$44,462	$46,414	$48,112
Tennessee	$37,452	$38,771	$38,806	$40,233	$42,094
Morgan County	**$24,891**	**$25,470**	**$25,719**	**$25,795**	**$27,329**
Index vs. National	59	58	58	56	57
Index vs. State	66	66	66	64	65
Knoxville MSA	**$36,331**	**$37,981**	**$37,764**	**$39,188**	**$40,870**
Index vs. National	86	86	85	84	85
Index vs. State	97	98	97	97	97
Knoxville-Sevierville-Harriman CSA	**$34,882**	**$36,329**	**$36,275**	**$37,595**	**$39,187**
Index vs. National	82	82	82	81	81
Index vs. State	93	94	93	93	93

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

Social and Economic Characteristics

	National	Tennessee	Morgan County
Median Value Owner Occupied Housing	$178,600	$142,100	$92,900
% High School Graduates or Higher Persons 25 Years Old and Older	86.70%	85.50%	80.0%
% Persons with Income Below Poverty Level	13.50%	16.70%	21.2%
Median Household Income	$53,889	$45,219	$39,049

Source: U.S. Census Bureau State & County QuickFacts - 2015.

TOURISM

Morgan County has access to over 260,000 acres designated for wildlife, park and recreational areas:

Big South Fork National River & Recreation Area. Big South Fork covers over 120,000 acres and was established by Congress in 1974 to protect a unique scenic and cultural area. It is located in Scott, Pickett, Fentress and Morgan Counties. Over 700,000 people visit the park each year. The free-flowing Big South Fork of the Cumberland River and its tributaries pass through 90 miles of scenic gorges and valleys containing a wide range of natural and historic features. The area offers a broad range of recreational opportunities including camping, hunting, fishing, whitewater rafting, kayaking, canoeing, and over 300 miles of hiking, horseback riding, and mountain biking. The U.S. Army Corps of Engineers, with its experience in managing river basins, was charged with land acquisition, planning and development of facilities. Now completed, these lands and facilities are operated and maintained by the National Park Service for the benefit and use of the public. A small portion of the Park extends north into the Daniel Boone National Forest in Kentucky.

Source: National Park Service.

Catoosa Wildlife Management Area. The Catoosa WMA is located in Cumberland and Morgan Counties and consists of about 79,740 acres. Catoosa is also bordered by Obed Wild & Scenic River to the north, a national scenic river recognized for its rugged beauty. For management purposes Catoosa is divided into two sections Genesis (west side) and Bicolor (east side). Daddy's Creek is the dividing line for the two sections. Catoosa was purchased in the 1940's and is managed by the Tennessee Wildlife Resources Agency. Catoosa Wildlife Management Area is one of a few WMA's in Tennessee that has implemented a quality deer management program of sorts with restrictions on antler size as well as food plots, and opportunities to harvest antlerless deer.

Source: Tennessee Wildlife Resources Agency.

Cumberland Trail State Park. The Cumberland Trail is the state's only linear park. It opened in 1998 and upon completion will be 300 miles long, cutting through 11 Tennessee counties from the Cumberland Gap National Historic Park on the Tennessee-Virginia-Kentucky border, to the Signal Point near Chattanooga. Currently about 65 percent of the Trail is open and ready for exploration. In 2017, a private landowner donated a 1,034-acre, $8.27 million parcel that gives access to Soak Creek (that seasonally includes Class III and IV rapids) and adds 5 miles to the trail. The trail is divided into 15 segments. It can be accessed in Morgan County through Frozen Head State Park and Natural Area. The Cumberland Trail wanders among the remnants of the Cumberland Mountains that once rose as high as the Rockies. The trail represented a barrier to all who dared push through storied gaps westward onto and over the Cumberland Plateau. It now provides a linkage north to south, forming natural connections and opportunities for scenic vistas and curious geological formations.

Source: Tennessee State Parks.

Emory River Area. Tennessee State Parks acquired approximately 8,000 acres of the Emory River Valley in Morgan County in October 2007. This property was added to the existing Frozen Head State Park and Natural Area as part of the "Connecting the Cumberlands" land initiative, which protects a total of 127,000 acres in a unique public-private partnership between the state of Tennessee, The Nature Conservancy and two conservation-minded timber companies, Conservation Forestry and Lyme Timber. The priorities for this acquisition include resource protection, preventing further fragmentation of the forest communities and preserving the precious water resources. Lands east of the Emory River will be managed as state park. All lands to the west of the Emory River are protected by conservation easement which allows sustainable timber harvesting, as well as gas and oil exploration to continue. This helps protect both the land and the local economies that rely on taxes collected from these businesses.

Source: Tennessee Wildlife Resources Agency.

Frozen Head State Park and Natural Area. Frozen Head Park is situated in the beautiful Cumberland Mountains of eastern Tennessee in Morgan County. The park has 13,122 acres of relatively undisturbed forest. The mountainous terrain varies from an elevation of 1,340 feet to over 3,000 feet on 16 different mountain peaks. Frozen Head, elevation of 3,324, is one of the highest peaks in Tennessee west of the Great Smoky Mountains. The name “Frozen Head” derives from the peaks that are often capped in a shroud of snow or ice in winter. The majority of this land was acquired by the State in early 1900’s to become a state forest for hardwood timber production, but very little timber was ever harvested. In 1988, all of the Frozen Head State Park acreage except approximately 330 acres was classified as Natural Area. The 330 acres lie in the Flat Fork and Judge Branch watersheds below the 1600-foot elevation contour line, and all present and future park developments will be limited to this recreation area. From its observation tower on a clear day, one can plainly see the Cumberland Plateau, Tennessee Ridge and Valley, and the Great Smoky Mountains. The park's lush vegetation, small streams, waterfalls and beautiful mountains make Frozen Head one of Tennessee's most scenic parks. Over 125,000 people visit the park each year.

Source: Tennessee State Parks.

Historic Ruby. Near the Big South Fork Park in the northern tip of Morgan County, the town of Ruby today is a heritage treasure listed on the National Register of Historic Places since 1972. It is an example of Victorian England in the Tennessee Cumberlands. In 1880 a famous British author, statesman and social reformer Thomas Hughes dedicated America's Rugby. It was to be a cooperative, class-free society where Britain's younger sons of gentry, and artisans, tradesman and farming families, could build a new community through agriculture, temperance and high Christian principles. This would-be Utopia survives in a rugged river gorge setting, little changed by 20th century technology. More than twenty of its decorative, gabled buildings remain. Rugby's British and Appalachian heritage is visible everywhere. In 1880, Rugby's British founder called it a lovely corner of God's earth. In this century, writers call it a town of cultured ghosts and Utopia in the Cumberlands. The National Trust calls it one of the most authentically preserved historic villages in America.

Source: Morgan County Chamber of Commerce

Lone Mountain State Forest. It is located on the Cumberland Plateau in Morgan County and is about 3,624 aces. Near streams on the cooler, lower slopes several areas of cove hardwoods with eastern white pine and eastern hemlock can be found. Recreational uses of the Forest include hunting, hiking, horseback riding, and mountain biking. Approximately 15 miles of trails exist on the Forest, including an interpretive nature trail.

Source: Tennessee Wildlife Resources Agency.

North Cumberland Wildlife Management Area. The North Cumberland WMA (formally Royal Blue WMA & Sundquist WMA) consists of 155,000 acres. Home of Tennessee’s only wild elk population, it is a unique area due to its size, recreational opportunities, and habitat management opportunities/goals. It is the largest Agency owned WMA and is located in four counties: Anderson, Campbell, Morgan and Scott Counties. Recreational opportunities vary from ATV riding, camping, hunting and hiking.

Source: Tennessee Wildlife Resources Agency.

Obed Wild and Scenic River. Located in Cumberland and Morgan Counties in East Tennessee, the national park is on the Cumberland Plateau. The park includes parts of the Obed

River, Clear Creek, Daddys Creek and the Emory River. Over 45 miles of creeks and rivers are included in the wild and scenic river area. These waterways have cut rugged gorges with bluffs as high as 500 feet above the whitewater in the streams. Outdoor recreation such as whitewater boating, rock climbing, hiking and fishing are popular seasonal activities in the Obed. The river includes three different difficulty classifications (II-IV), making it one of the best whitewater rivers in the eastern United States. The Obed's sandstone rock faces provide a challenging opportunity for experienced climbers, with several hundred climbing routes spanning through much of the park.

Source: National Park Service.

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MORGAN COUNTY, TENNESSEE
SUMMARY OF BONDED INDEBTEDNESS

AMOUNT ISSUED		PURPOSE	DUE DATE	INTEREST RATE(S)		(1) As of June 30, 2016 OUTSTANDING
$ 1,750,000		Loan Agreement, Series B-13-A (Taxable)	June 2024	Fixed		$ 1,475,000
10,095,000	(2) & (3)	Loan Agreement, Series VII-A-3	Jun 2026	Synthetic Fixed	(3)	9,425,000
2,000,000		Loan Agreement, Series 2009	May 2029	Variable	(3)	1,555,000
750,000		Loan Agreement, Series B-20-A	June 2027	Fixed		750,000
6,400,000		General Obligation School Bonds, Series 2010	April 2026	Fixed		4,255,000
180,000		G.O. Capital Outlay Notes, Series 2010	Dec. 2017	Fixed		42,913
$ 21,175,000		**TOTAL BONDED DEBT**				$ 17,502,913
$ 9,460,000		General Obligation Refunding Bonds, Series 2017A (Bank-Qualified)	June 2032	Fixed		$ 9,460,000
2,100,000		General Obligation Refunding Bonds, Series 2017B (Federally Taxable)	June 2024	Fixed		2,100,000
(11,845,000)		Less: Refunded Debt (B-13-A & VII-A-3)				(10,900,000)
$ 20,890,000		**NET BONDED DEBT**				$ 18,162,913

NOTES:

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

(2) The Series VII-A-3 Loan has been swapped to an synthetic fixed rate. For more information, see the notes to the Financial Statements in the CAFR. The VII-A-3 Swap was terminated on May 10, 2017 as part of the issuance of teh Series 2017A Bonds and Series 2017B Bonds.

(3) The County budgets to account for interest rate and/or basis risk.

MORGAN COUNTY, TENNESSEE

Indebtedness and Debt Ratios

INTRODUCTION

The 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. The table does not include future funding plans whether disclosed or not in this document.

	For Fiscal Years Ended June 30					After Issuance
INDEBTEDNESS	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
TAX SUPPORTED						
General Obligation Bonds & Notes	$22,430,794	$21,308,659	$20,141,496	$18,869,260	$17,502,913	$18,162,913
TOTAL TAX SUPPORTED	$22,430,794	$21,308,659	$20,141,496	$18,869,260	$17,502,913	$18,162,913
REVENUE SUPPORTED	-	-	-	-	-	-
TOTAL REVENUE SUPPORTED	-	-	-	-	-	-
TOTAL DEBT	$22,430,794	$21,308,659	$20,141,496	$18,869,260	$17,502,913	$18,162,913
Less: Revenue Supported Debt	-	-	-	-	-	-
Less: Debt Service Fund	(1,997,179)	(2,071,439)	(2,376,529)	(2,380,244)	(2,216,046)	(2,216,046)
NET DIRECT DEBT	$20,433,615	$19,237,220	$17,764,967	$16,489,016	$15,286,867	$15,946,867
PROPERTY TAX BASE						
Estimated Actual Value	$1,006,766,860	$1,015,951,617	$1,028,232,989	$1,034,614,373	$1,075,595,520	$1,032,150,401
Appraised Value	1,006,766,860	1,015,951,617	1,028,232,989	1,034,614,373	1,039,025,272	1,032,150,401
Assessed Value	273,039,161	276,461,802	280,791,251	283,205,529	285,720,657	284,941,892

	For Fiscal Years Ended June 30					After Issuance
DEBT RATIOS	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
TOTAL DEBT to Estimated Actual Value	2.23%	2.10%	1.96%	1.82%	1.63%	1.76%
TOTAL DEBT to Appraised Value	2.23%	2.10%	1.96%	1.82%	1.68%	1.76%
TOTAL DEBT to Assessed Value	8.22%	7.71%	7.17%	6.66%	6.13%	6.37%
NET DIRECT DEBT to Estimated Actual Value	2.03%	1.89%	1.73%	1.59%	1.42%	1.55%
NET DIRECT DEBT to Appraised Value	2.03%	1.89%	1.73%	1.59%	1.47%	1.55%
NET DIRECT DEBT to Assessed Value	7.48%	6.96%	6.33%	5.82%	5.35%	5.60%
PER CAPITA RATIOS						
POPULATION (1)	21,931	21,915	21,660	21,498	21,554	21,554
PER CAPITA PERSONAL INCOME (2)	$25,470	$25,719	$25,795	$27,329	$27,329	$27,329
Estimated Actual Value to POPULATION	$45,906	$46,359	$47,472	$48,126	$49,902	$47,887
Assessed Value to POPULATION	$12,450	$12,615	$12,964	$13,174	$13,256	$13,220
Total Debt to POPULATION	$1,023	$972	$930	$878	$812	$843
Net Direct Debt to POPULATION	$932	$878	$820	$767	$709	$740
Total Debt Per Capita as a percent of PER CAPITA PERSONAL INCOME	4.02%	3.78%	3.60%	3.21%	2.97%	3.08%
Net Direct Debt Per Capita as a percent of PER CAPITA PERSONAL INCOME	3.66%	3.41%	3.18%	2.81%	2.60%	2.71%

(1) Per Capita computations are based upon POPULATION data according to the U.S. Census.

(2) PER CAPITA PERSONAL INCOME is based upon the most current data available from the U. S. Department of Commerce.

MORGAN COUNTY, TENNESSEE
BONDED DEBT SERVICE REQUIREMENTS

F.Y. Ended 6/30	Existing Debt - (1) As of June 30, 2016			General Obligation Refunding Bonds, Series 2017A (Bank-Qualified)			% 2017A Principal Repaid	General Obligation Refunding Bonds, Series 2017B (Federally Taxable)			% 2017B Principal Repaid	Less Bonds Being Refunded			Total Bonded Debt Service Requirements (1)			% All Principal Repaid
	Principal	Interest (2)	TOTAL	Principal	Interest (3)	TOTAL		Principal	Interest (4)	TOTAL		Principal	Interest (3)	TOTAL	Principal	Interest (2)	TOTAL	
2017	$ 1,361,307	$ 799,300	$ 2,160,607	$ -	$ -	$ -	0.00%	$ -	$ -	$ -	0.00%	$ (870,000)	$ (176,891)	$ (1,046,891)	$ 491,307	$ 622,409	$ 1,113,716	2.71%
2018	1,401,606	740,629	2,142,235	-	243,605	243,605		760,000	38,400	798,400		(910,000)	(570,883)	(1,480,883)	1,251,606	984,233	2,235,839	
2019	1,467,000	679,365	2,146,365	400,000	242,930	642,930		360,000	27,844	387,844		(980,000)	(519,393)	(1,499,393)	1,247,000	922,295	2,169,295	
2020	1,541,000	613,295	2,154,295	590,000	230,930	820,930		190,000	22,048	212,048		(1,030,000)	(463,410)	(1,493,410)	1,291,000	844,225	2,135,225	
2021	1,632,000	543,463	2,175,463	615,000	213,230	828,230	16.97%	190,000	18,400	208,400	71.43%	(1,105,000)	(404,603)	(1,509,603)	1,332,000	756,693	2,088,693	30.90%
2022	1,697,000	468,585	2,165,585	630,000	194,780	824,780		200,000	14,600	214,600		(1,160,000)	(341,470)	(1,501,470)	1,367,000	663,365	2,030,365	
2023	1,773,000	390,070	2,163,070	650,000	175,880	825,880		200,000	10,100	210,100		(1,215,000)	(275,230)	(1,490,230)	1,408,000	565,950	1,973,950	
2024	1,873,000	307,578	2,180,578	665,000	162,880	827,880		200,000	5,300	205,300		(1,295,000)	(205,883)	(1,500,883)	1,443,000	470,458	1,913,458	
2025	1,935,000	219,627	2,154,627	680,000	149,580	829,580		-	-	-		(1,135,000)	(131,928)	(1,266,928)	1,480,000	369,207	1,849,207	
2026	2,021,000	130,575	2,151,575	690,000	135,980	825,980	52.01%	-	-	-	100.00%	(1,200,000)	(67,800)	(1,267,800)	1,511,000	266,555	1,777,555	70.59%
2027	493,000	37,425	530,425	710,000	118,040	828,040		-	-	-		-	-	-	1,203,000	155,465	1,358,465	
2028	150,000	15,400	165,400	730,000	99,580	829,580		-	-	-		-	-	-	880,000	114,980	994,980	
2029	158,000	7,900	165,900	745,000	80,600	825,600		-	-	-		-	-	-	903,000	88,500	991,500	
2030	-	-	-	765,000	61,230	826,230		-	-	-		-	-	-	765,000	61,230	826,230	
2031	-	-	-	785,000	41,340	826,340	91.49%	-	-	-	100.00%	-	-	-	785,000	41,340	826,340	95.57%
2032	-	-	-	805,000	20,930	825,930	100.00%	-	-	-	100.00%	-	-	-	805,000	20,930	825,930	100.00%
	$17,502,913	$ 4,953,211	$22,456,124	$ 9,460,000	$ 2,171,515	$11,631,515		$ 2,100,000	$ 136,692	$ 2,236,692		$ (10,900,000)	$ (3,157,488)	$ (14,057,488)	$ 18,162,913	$ 6,947,835	$ 25,110,748	

NOTES:

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

(2) The County budgets to account for interest rate and/or basis risk.

(3) Average Coupon 2.54%.

(4) Average Coupon 2.13%.

FINANCIAL OPERATIONS

BASIS OF ACCOUNTING AND PRESENTATION

The accounts of the County are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The modified accrual basis of accounting is used to account for all governmental funds of the County. Revenues for such funds are recognized when they become measurable and available as net current assets. Expenditures, other than interest or long-term debt, are recognized when incurred and measurable.

All proprietary funds are accounted for using the accrual basis of accounting, whereby revenues are recognized when they are earned and expenses are recognized when they are incurred except for prepaid expenses, such as insurance, which are fully expended at the time of payment.

FUND BALANCES AND RETAINED EARNINGS

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

	For the Fiscal Year Ended June 30,				
Fund Type	**2012**	**2013**	**2014**	**2015**	**2016**
Governmental Funds:					
General	$1,221,157	$1,539,963	$1,444,889	$1,968,489	$2,044,593
Solid Waste	177,301	203,467	197,786	239,486	269,136
Highway/Public Works	3,071,702	3,263,254	2,159,777	2,867,487	3,126,373
General Debt Service	1,997,179	2,071,439	2,376,529	2,380,244	2,216,046
Other Governmental	356,975	351,368	74,782	72,545	178,915
Total	**$6,824,314**	**$7,429,491**	**$6,253,763**	**$7,528,251**	**$7,835,063**

Source: Comprehensive Annual Financial Report and Auditor's Report, Morgan County, Tennessee

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

	2012	2013	2014	2015	2016
Revenues:					
Local Taxes	$ 4,460,137	$ 4,689,383	$ 4,788,512	$ 4,998,552	$ 4,941,564
Licenses and Permits	39,686	38,961	40,303	47,434	60,864
Fines, forfeitures and penalties	69,026	79,616	98,455	100,168	106,943
Charges for current services	948,706	928,382	858,962	899,548	886,502
Other local revenue	40,302	83,074	78,167	126,895	179,726
Fees Recv'd from County Officials	682,855	725,023	684,684	772,617	732,961
State of Tennessee	680,492	569,999	460,455	651,669	720,468
Federal Government	18,168	8,000	11,810	2,400	9,296
Other Governments & Citizens Groups	235,273	169,496	206,299	178,132	124,865
Total Revenues	$ 7,174,645	$ 7,291,934	$ 7,227,647	$ 7,777,415	$ 7,763,189
Expenditures and Other Uses:					
General government	$ 857,915	$ 815,164	$ 869,385	$ 867,171	$ 918,214
Finance	725,480	725,188	760,663	809,556	824,583
Administration of justice	715,174	724,357	808,814	797,259	820,286
Public Safety	2,969,072	2,891,740	2,972,702	3,249,436	3,139,097
Public Health & Welfare	1,412,190	1,511,953	1,419,612	1,522,384	1,483,099
Social, Cultural & Recreational Services	97,803	82,959	77,439	87,172	83,277
Agricultural & Natural Resources	68,057	68,528	80,245	56,955	52,164
Other Operations	142,910	162,496	170,512	170,664	185,324
Highways	-	-	-	-	-
Debt Service	24,094	-	39,291	75,563	111,198
Capital Projects	-	-	-	-	-
Total Expenditures	$ 7,012,695	$ 6,982,385	$ 7,198,663	$ 7,636,160	$ 7,617,242
Excess (Deficiency) of Revenues					
Over Expenditures	$ 161,950	$ 309,549	$ 28,984	$ 141,255	$ 145,947
Other Sources & Uses:					
Note Proceeds	$ -	$ -	$ -	$ -	$ -
Insurance Recovery	23,460	22,646	-	5,945	6,271
Operating Transfers - In	-	13,886	27,567	39,130	23,886
Capitalized Lease	-	74,400	-	337,270	-
Operating Transfers - Out	(32,642)	(101,675)	(151,625)	-	(100,000)
Total Other Sources & Uses	$ (9,182)	$ 9,257	$ (124,058)	$ 382,345	$ (69,843)
Net Change in Fund Balances	$ 152,768	$ 318,806	$ (95,074)	$ 523,600	$ 76,104
Fund Balance July 1	1,068,389	1,221,157	1,539,963	1,444,889	1,968,489
Prior Period Adjustment	-	-	-	-	-
Fund Balance June 30	**$ 1,221,157**	**$ 1,539,963**	**$ 1,444,889**	**$ 1,968,489**	**$ 2,044,593**

Source: Comprehensive Annual Financial Report for Morgan County, Tennessee

INVESTMENT AND CASH MANAGEMENT PRACTICES

Investment of idle County operating funds is controlled by state statute and local policies and administered by the County Trustee. 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 demand deposits or Certificates of Deposit are secured by similar grade collateral pledged at 110% of market value for amounts in excess of that guaranteed through federally sponsored insurance programs. For reporting purposes, all investments are stated at cost that 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 I 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 one-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 County reflected a ratio of appraised value to true market value of 1.00. The following table shows pertinent data for tax year 2016[1].

Class	Estimated Assessed Valuation	Assessment Rate	Estimated Appraised Value
Public Utilities	$ 36,088,490	55%	$ 82,676,953
Commercial and Industrial	26,343,600	40%	65,859,000
Personal Tangible Property	9,637,077	30%	32,123,548
Residential and Farm	212,872,725	25%	851,490,900
Total	**$284,941,892**		**$1,032,150,401**

Source: The 2016 Tax Aggregate Report for Tennessee and the County.

The estimated assessed value of property in the County for the fiscal year ending June 30, 2017 (tax year 2016) is $284,941,892 compared to $285,720,657 for the fiscal year ending June 30, 2016 (tax year 2015). The estimated actual value of all taxable property for tax year 2016 is $1,032,150,401 compared to $1,075,595,520 for tax year 2015.

Property Tax Rates and Collections. The following table shows the property tax rates and collections of the County for tax years 2012 through 2016 as well as the aggregate uncollected balances for each fiscal year ending June 30.

PROPERTY TAX RATES AND COLLECTIONS				**Fiscal Yr Collections**		**Aggregate Uncollected Balance**	
Tax Year[1]	**Assessed Valuation**	**Tax Rates**	**Taxes Levied**	**Amount**	**Pct**	**As of June 30, 2016 Amount**	**Pct**
2012	$276,461,802	$3.10	$8,662,778	$8,246,266	95.2%	$106,969	1.2%
2013	280,791,251	3.10	8,707,150	7,945,201	91.2%	140,785	1.6%
2014	283,205,529	3.10	8,746,322	8,197,993	93.7%	208,418	2.4%
2015	285,720,657	3.10	8,799,040	8,101,539	92.1%	437,872	5.0%
2016	284,941,892	3.16	9,066,528	**IN PROCESS**			

[1] The tax year coincides with the calendar year, therefore tax year 2016 is actually fiscal year 2016-15.

Ten Largest Taxpayers. For the fiscal year ending June 30, 2016 (tax year 2015), the ten largest taxpayers in the County are as follows:

	Taxpayer	Business Type	Assessment	Taxes Paid
1.	Norfolk Southern	Railroad	$12,847,477	$ 398,271
2.	Plateau Electric Cooperative	Utility	7,026,113	217,809
3.	East Tennessee Natural Gas	Utility	6,394,421	198,227
4.	Highland Telephone Coop	Utility	4,473,933	138,692
5.	Cobb-Vantress Inc	Research & Development	2,614,360	81,045
6.	AT&T Mobility LLC	Communications	1,468,174	45,514
7.	Coalfield Pipeline Company	Construction	1,467,107	45,480
8.	Emory River LLC	Environmental	1,409,600	43,698
9.	Tyson Foods Inc	Research & Development	1,174,856	36,421
10.	Knox Energy LLC	Construction	1,072,051	33,234
	TOTAL		**$39,948,092**	**$1,238,391**

Source: The County.

PENSION PLAN

Employees of Morgan County are members of the Political Subdivision Pension Plan (PSPP), an agent 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. 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 at the age of 55. 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 system after July 1, 1979, become vested after five years of service, and members joining prior to July 1, 1979, were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of Tennessee Code Annotated. State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Morgan County participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

For additional information on the funding status, trend information and actuarial status of the County's retirement programs, please refer to the General Purpose Financial Statements of the County located in herein.

UNFUNDED ACCRUED LIABILITY FOR POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

GASB Statement 45 establishes standards for the measurement, recognition, and display of Other Post-Employment Benefits ("OPEB") in the financial reports of state and local government employers. The Morgan County School Department participates in the state-administered Local Education Group Insurance Plan for healthcare benefits. For accounting purposes, the plan is an agent multiple-employer defined benefit OPEB plans for teachers.

For additional information, please see the Note H in the Notes to the Financial Statements of the County's Comprehensive Annual Financial Report.

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APPENDIX C

GENERAL PURPOSE FINANCIAL STATEMENTS

OF

MORGAN COUNTY, TENNESSEE

FOR THE FISCAL YEAR ENDED

JUNE 30, 2016

The General Purpose Financial Statements are extracted from the Financial Statements with Report of Certified Public Accountants of the Morgan County for the fiscal year ended June 30, 2016 which is available upon request from the County.

Annual Financial Report

Morgan County, Tennessee

For the Year Ended June 30, 2016

Tennessee Comptroller of the Treasury

Division of Local Government Audit

ANNUAL FINANCIAL REPORT

MORGAN COUNTY, TENNESSEE

FOR THE YEAR ENDED JUNE 30, 2016

COMPTROLLER OF THE TREASURY
JUSTIN P. WILSON

DIVISION OF LOCAL GOVERNMENT AUDIT
JAMES R. ARNETTE
Director

MARK TREECE, CPA, CGFM
Audit Manager

AMY SOSVILLE, CPA
Auditor 4

AMY MOORE, CGFM
ANGIE COLLINS, CPA, CFE
JACOB ROGERS
DOUG SANDIDGE, CISA, CFE
State Auditors

This financial report is available at <u>www.comptroller.tn.gov</u>

MORGAN COUNTY, TENNESSEE
TABLE OF CONTENTS

INTRODUCTORY SECTION

Morgan County Officials
June 30, 2016

Officials

Don Edwards, County Executive
Joseph Miller, Road Superintendent
Ronnie Wilson, Director of Schools
Cindi Jones, Trustee
Gilford Wilson, Assessor of Property
Cheryl Collins, County Clerk
Pamela Keck, Circuit and General Sessions Courts Clerk
Angela Anderson, Clerk and Master
Sandy Leach-Dalton, Register of Deeds
Glendon Freytag, Sheriff
Gary Howard, Director of Finance

Board of County Commissioners

Don Edwards, County Executive, Chairman
David Hennessee
Terry Jackson
Pat Goad
Michael McGrath
Bill Shannon
David Hamby
Earl Headrick
Freddie Seavers
Mark Sweat
Travis Gosnell
Steve Walls
Randy Roberts
Jerry Zorsch
Dennis Freels
Vera Scarbrough
Fred Snow
Janet Adkisson
Lee Smith

Board of Education

Wade Summers, Chairman
Tony Dagley
Deborah Landrum
Glen Moore
Shawn Phillips
William Ward

Financial Management Committee

Earl Headrick, Chairman
Don Edwards, County Executive
Ronnie Wilson, Director of Schools
Joseph Miller, Road Superintendent
Pat Goad
David Hamby
Janet Adkisson

Audit Committee

Bryan Taylor, Chairman
Carla LaRue
Teresa Ryon
Mickey Tucker

FINANCIAL SECTION

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF LOCAL GOVERNMENT AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 401-7841

Independent Auditor's Report

Morgan County Executive and
Board of County Commissioners
Morgan County, Tennessee

To the County Executive and Board of County Commissioners:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Morgan County, Tennessee, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the county's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Morgan County, Tennessee, as of June 30, 2016, and the respective changes in financial position thereof, and the respective budgetary comparison for the General, Solid Waste/Sanitation, and Highway/Public Works funds 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 V.B., Morgan County has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*; GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*; GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*; and GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the schedule of changes in the county's net pension liability and related ratios, schedule of county contributions, schedule of school's proportionate share of the net pension liability, and schedule of funding progress - other postemployment benefits plans on pages 87-94 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Morgan County's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, budgetary comparison schedules of nonmajor governmental funds and the General Debt Service Fund, combining and individual fund financial statements of the Morgan County School Department (a discretely presented component unit), and miscellaneous schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, budgetary comparison schedules of nonmajor governmental funds and the General Debt Service Fund, combining and individual fund financial statements of the Morgan County School Department (a discretely presented component unit), and miscellaneous schedules 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, based on our audit and the procedures performed as described above, the combining and individual nonmajor fund financial statements, budgetary comparison schedules of nonmajor governmental funds and the General Debt Service Fund, combining and individual fund financial statements of the Morgan County School Department (a discretely presented component unit), and miscellaneous schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section 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 it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2016, on our consideration of Morgan County'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* in considering Morgan County's internal control over financial reporting and compliance.

Very truly yours,

Justin P. Wilson
Comptroller of the Treasury
Nashville, Tennessee

December 9, 2016

JPW/sb

Basic Financial Statements

Exhibit A

Morgan County, Tennessee
Statement of Net Position
June 30, 2016

	Primary Government Governmental Activities	Component Unit Morgan County School Department
ASSETS		
Cash	$ 4,568	$ 896
Equity in Pooled Cash and Investments	7,426,673	4,840,623
Accounts Receivable	176,828	132,584
Allowance for Uncollectibles	(58,411)	0
Due from Other Governments	663,453	415,129
Due from Component Units	141,128	0
Property Taxes Receivable	6,652,690	2,939,560
Allowance for Uncollectible Property Taxes	(333,316)	(147,279)
Prepaid Items	127,473	0
Net Pension Asset - Agent Plan	101,964	85,643
Net Pension Asset - Teacher Retirement Plan	0	8,515
Capital Assets:		
Assets Not Depreciated:		
Land	627,952	1,112,193
Assets Net of Accumulated Depreciation:		
Buildings and Improvements	4,482,378	17,717,568
Infrastructure	993,573	0
Other Capital Assets	777,533	2,811,542
Total Assets	$ 21,784,486	$ 29,916,974
DEFERRED OUTFLOW OF RESOURCES		
Pension Changes in Experience	$ 0	$ 101,750
Pension Contributions after Measurement Date	347,105	1,369,738
Pension - Other Deferrals	0	111,052
Accumulated Decrease in Fair Value of Hedging Derivatives	1,892,852	0
Total Deferred Outflow of Resources	$ 2,239,957	$ 1,582,540
LIABILITIES		
Accounts Payable	$ 35,016	$ 0
Accrued Payroll	128,107	0
Accrued Interest Payable	99,964	0
Payroll Deductions Payable	1,257	340,176
Due to Primary Government	0	141,128
Contracts Payable	100,364	0
Retainage Payable	21,317	0
Derivative - Interest Rate Swap	1,892,852	0
Noncurrent Liabilities:		
Due Within One Year	1,713,847	74,623
Due in More Than One Year	16,675,058	765,998
Total Liabilities	$ 20,667,782	$ 1,321,925

(Continued)

Exhibit A

Morgan County, Tennessee
Statement of Net Position (Cont.)

	Primary Government Governmental Activities	Component Unit Morgan County School Department
DEFERRED INFLOWS OF RESOURCES		
Deferred Current Property Taxes	$ 5,974,427	$ 2,639,863
Pension Changes in Experience	143,771	2,096,953
Net Pension Changes in Investment Earnings	99,751	901,658
Pension - Other Deferrals	0	125,429
Total Deferred Inflows of Resources	$ 6,217,949	$ 5,763,903
NET POSITION		
Net Investment in Capital Assets	$ 4,939,290	$ 21,641,303
Restricted for:		
General Government	38,022	0
Administration of Justice	42,563	0
Public Safety	61,082	0
Public Health and Welfare	266,333	0
Highway/Public Works	3,224,423	0
Education	0	1,698,894
Other Purposes	101,964	0
Unrestricted	(11,534,965)	1,073,489
Total Net Position	$ (2,861,288)	$ 24,413,686

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

Exhibit B

Morgan County, Tennessee
Statement of Activities
For the Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Primary Government: Total Governmental Activities	Net (Expense) Revenue and Changes in Net Position: Component Unit: Morgan County School Department
Primary Government:						
Governmental Activities:						
General Government	$ 1,202,737	$ 203,779	$ 50,586	$ 0	$ (948,372)	$ 0
Finance	804,733	443,834	0	0	(360,899)	0
Administration of Justice	874,403	420,354	13,845	0	(440,204)	0
Public Safety	3,241,640	307,069	87,235	112,593	(2,734,743)	0
Public Health and Welfare	3,246,008	1,004,883	245,585	459,475	(1,536,065)	0
Social, Cultural, and Recreational Services	87,277	9,550	4,000	0	(73,727)	0
Agriculture and Natural Resources	52,164	0	0	0	(52,164)	0
Highways	2,726,200	53,939	2,123,079	727,103	177,921	0
Interest on Long-term Debt	863,413	0	0	0	(863,413)	0
Total Primary Government	$ 13,098,575	$ 2,443,408	$ 2,524,330	$ 1,299,171	$ (6,831,666)	$ 0
Component Unit:						
Morgan County School Department	$ 27,486,324	$ 211,496	$ 5,071,899	$ 0	$ 0	$ (22,202,929)
Total Component Units	$ 27,486,324	$ 211,496	$ 5,071,899	$ 0	$ 0	$ (22,202,929)

(Continued)

Exhibit B

Morgan County, Tennessee
Statement of Activities (Cont.)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Primary Government: Total Governmental Activities	Net (Expense) Revenue and Changes in Net Position: Component Unit: Morgan County School Department
General Revenues:						
Taxes:						
Property Taxes Levied for General Purposes					$ 4,727,264	$ 2,752,334
Property Taxes Levied for Solid Waste/Sanitation					832,778	0
Property Taxes Levied for Highway/Public Works					66,632	0
Property Taxes Levied for General Debt Service					608,396	0
Local Option Sales Taxes					926,885	0
Mineral Severance Tax					40,554	0
Other Local Taxes					186,461	0
Grants and Contributions Not Restricted to Specific Programs					1,090,452	66,694
Unrestricted Investment Income					2,715	19,968,153
Miscellaneous					105,403	9,492
Total General Revenues					$ 8,587,540	$ 22,806,282
Change in Net Position					$ 1,755,874	$ 603,353
Net Position, July 1, 2015					(4,617,162)	23,810,333
Net Position, June 30, 2016					$ (2,861,288)	$ 24,413,686

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

Exhibit C-1

Morgan County, Tennessee
Balance Sheet
Governmental Funds
June 30, 2016

	Major Funds				Nonmajor Funds	
	General	Solid Waste / Sanitation	Highway / Public Works	General Debt Service	Other Govern-mental Funds	Total Governmental Funds
ASSETS						
Cash	$ 0	$ 3,250	$ 168	$ 0	$ 1,150	$ 4,568
Equity in Pooled Cash and Investments	1,881,079	268,052	2,966,708	2,139,713	171,121	7,426,673
Accounts Receivable	157,309	19,734	227	0	0	177,270
Allowance for Uncollectibles	(58,411)	0	0	0	0	(58,411)
Due from Other Governments	57,627	5,960	314,757	145,582	139,085	663,011
Due from Other Funds	1,150	0	0	0	0	1,150
Property Taxes Receivable	5,043,668	888,056	71,169	649,797	0	6,652,690
Allowance for Uncollectible Property Taxes	(252,700)	(44,494)	(3,565)	(32,557)	0	(333,316)
Prepaid Items	107,104	9,961	10,408	0	0	127,473
Total Assets	$ 6,936,826	$ 1,150,519	$ 3,359,872	$ 2,902,535	$ 311,356	$ 14,661,108
LIABILITIES						
Accounts Payable	$ 3,564	$ 21,842	$ 0	$ 0	$ 9,610	$ 35,016
Accrued Payroll	92,573	20,591	14,943	0	0	128,107
Payroll Deductions Payable	1,257	0	0	0	0	1,257
Contracts Payable	0	0	0	0	100,364	100,364
Retainage Payable	0	0	0	0	21,317	21,317
Due to Other Funds	0	0	0	0	1,150	1,150
Total Liabilities	$ 97,394	$ 42,433	$ 14,943	$ 0	$ 132,441	$ 287,211
DEFERRED INFLOWS OF RESOURCES						
Deferred Current Property Taxes	$ 4,529,450	$ 797,516	$ 63,913	$ 583,548	$ 0	$ 5,974,427
Deferred Delinquent Property Taxes	235,324	41,434	3,321	30,317	0	310,396

(Continued)

Exhibit C-1

Morgan County, Tennessee
Balance Sheet
Governmental Funds (Cont.)

	Major Funds				Nonmajor Funds	
	General	Solid Waste / Sanitation	Highway / Public Works	General Debt Service	Other Govern-mental Funds	Total Governmental Funds
DEFERRED INFLOWS OF RESOURCES (CONT.)						
Other Deferred/Unavailable Revenue	$ 30,065	$ 0	$ 151,322	$ 72,624	$ 0	$ 254,011
Total Deferred Inflows of Resources	$ 4,794,839	$ 838,950	$ 218,556	$ 686,489	$ 0	$ 6,538,834
FUND BALANCES						
Nonspendable:						
Prepaid Items	$ 107,104	$ 9,961	$ 10,408	$ 0	$ 0	$ 127,473
Restricted:						
Restricted for General Government	38,022	0	0	0	0	38,022
Restricted for Administration of Justice	42,563	0	0	0	0	42,563
Restricted for Public Safety	0	0	0	0	61,082	61,082
Restricted for Public Health and Welfare	0	259,175	0	0	0	259,175
Restricted for Highways/Public Works	0	0	3,084,819	0	0	3,084,819
Committed:						
Committed for Public Safety	5,773	0	0	0	0	5,773
Committed for Public Health and Welfare	1,050	0	0	0	0	1,050
Committed for Social, Cultural, and Recreational Services	21,735	0	0	0	0	21,735
Committed for Highways/Public Works	0	0	31,146	0	0	31,146
Committed for Debt Service	0	0	0	2,216,046	0	2,216,046
Committed for Capital Projects	0	0	0	0	117,833	117,833
Assigned:						
Assigned for General Government	72,413	0	0	0	0	72,413
Assigned for Finance	906	0	0	0	0	906
Assigned for Administration of Justice	248	0	0	0	0	248
Assigned for Public Safety	6,244	0	0	0	0	6,244
Assigned for Public Health and Welfare	6,174	0	0	0	0	6,174

(Continued)

Exhibit C-1

Morgan County, Tennessee
Balance Sheet
Governmental Funds (Cont.)

	Major Funds				Nonmajor Funds	
	General	Solid Waste / Sanitation	Highway / Public Works	General Debt Service	Other Govern-mental Funds	Total Governmental Funds
FUND BALANCES (CONT.)						
Unassigned	$ 1,742,361	$ 0	$ 0	$ 0	$ 0	$ 1,742,361
Total Fund Balances	$ 2,044,593	$ 269,136	$ 3,126,373	$ 2,216,046	$ 178,915	$ 7,835,063
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$ 6,936,826	$ 1,150,519	$ 3,359,872	$ 2,902,535	$ 311,356	$ 14,661,108

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

Exhibit C-2

Morgan County, Tennessee
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2016

Amounts reported for governmental activities in the statement of net position (Exhibit A) are different because:

Total fund balances - balance sheet - governmental funds (Exhibit C-1)		$ 7,835,063
(1) Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Add: land	$ 627,952	
Add: infrastructure net of accumulated depreciation	993,573	
Add: buildings and improvements net of accumulated depreciation	4,482,378	
Add: other capital assets net of accumulated depreciation	777,533	6,881,436
(2) Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.		
Less: bonds payable	$ (4,255,000)	
Less: notes payable	(42,913)	
Less: other loans payable	(13,205,000)	
Less: capital leases payable	(425,331)	
Add: capital lease to be paid by contributions from the School Department	141,128	
Less: compensated absences payable	(205,738)	
Less: landfill closure/postclosure care costs	(171,957)	
Less: accrued interest on bonds, notes, other loans, and capital leases	(99,964)	
Less: unamortized premium on debt	(82,966)	(18,347,741)
(3) Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the governmental funds.		564,407
(4) Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be amortized and recognized as components of pension expense in future years:		
Add: deferred outflows of resources related to pensions	$ 347,105	
Less: deferred inflows of resources related to pensions	(243,522)	103,583
(5) Net pension assets of the agent plan are not current financial resources and therefore are not reported in the governmental funds.		101,964
Net position of governmental activities (Exhibit A)		$ (2,861,288)

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

Exhibit C-3

Morgan County, Tennessee
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2016

	Major Funds				Nonmajor Funds	
	General	Solid Waste / Sanitation	Highway / Public Works	General Debt Service	Other Govern-mental Funds	Total Governmental Funds
Revenues						
Local Taxes	$ 4,941,564	$ 835,437	$ 107,065	$ 1,544,789	$ 0	$ 7,428,855
Licenses and Permits	60,864	0	0	0	0	60,864
Fines, Forfeitures, and Penalties	106,943	0	0	0	65,178	172,121
Charges for Current Services	886,502	228,773	338	0	32,263	1,147,876
Other Local Revenues	179,726	21,223	54,901	0	0	255,850
Fees Received From County Officials	732,961	0	0	0	0	732,961
State of Tennessee	720,468	37,889	2,602,164	0	288,880	3,649,401
Federal Government	9,296	0	248,018	0	411,563	668,877
Other Governments and Citizens Groups	124,865	0	0	590,355	75,000	790,220
Total Revenues	$ 7,763,189	$ 1,123,322	$ 3,012,486	$ 2,135,144	$ 872,884	$ 14,907,025
Expenditures						
Current:						
General Government	$ 918,214	$ 0	$ 0	$ 0	$ 0	$ 918,214
Finance	824,583	0	0	0	82	824,665
Administration of Justice	820,286	0	0	0	32,181	852,467
Public Safety	3,139,097	0	0	0	24,336	3,163,433
Public Health and Welfare	1,483,099	1,084,541	0	0	0	2,567,640
Social, Cultural, and Recreational Services	83,277	0	0	0	0	83,277
Agriculture and Natural Resources	52,164	0	0	0	0	52,164
Other Operations	185,324	20,224	0	0	0	205,548
Highways	0	0	2,756,028	0	0	2,756,028
Debt Service:						
Principal on Debt	97,916	38,636	0	1,431,836	0	1,568,388
Interest on Debt	13,282	3,484	0	833,782	0	850,548
Other Debt Service	0	0	0	33,724	0	33,724

(Continued)

Exhibit C-3

Morgan County, Tennessee
Statement of Revenues, Expenditures,
and Changes in Fund Balances
Governmental Funds (Cont.)

	Major Funds				Nonmajor Funds	
	General	Solid Waste / Sanitation	Highway / Public Works	General Debt Service	Other Govern-mental Funds	Total Governmental Funds
Expenditures (Cont.)						
Capital Projects	$ 0	$ 0	$ 0	$ 0	$ 792,236	$ 792,236
Total Expenditures	$ 7,617,242	$ 1,146,885	$ 2,756,028	$ 2,299,342	$ 848,835	$ 14,668,332
Excess (Deficiency) of Revenues Over Expenditures	$ 145,947	$ (23,563)	$ 256,458	$ (164,198)	$ 24,049	$ 238,693
Other Financing Sources (Uses)						
Insurance Recovery	$ 6,271	$ 53,213	$ 2,428	$ 0	$ 6,207	$ 68,119
Transfers In	23,886	0	0	0	100,000	123,886
Transfers Out	(100,000)	0	0	0	(23,886)	(123,886)
Total Other Financing Sources (Uses)	$ (69,843)	$ 53,213	$ 2,428	$ 0	$ 82,321	$ 68,119
Net Change in Fund Balances	$ 76,104	$ 29,650	$ 258,886	$ (164,198)	$ 106,370	$ 306,812
Fund Balance, July 1, 2015	1,968,489	239,486	2,867,487	2,380,244	72,545	7,528,251
Fund Balance, June 30, 2016	$ 2,044,593	$ 269,136	$ 3,126,373	$ 2,216,046	$ 178,915	$ 7,835,063

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

Exhibit C-4

Morgan County, Tennessee
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2016

Amounts reported for governmental activities in the statement of activities (Exhibit B) are different because:

Net change in fund balances - total governmental funds (Exhibit C-3)		$ 306,812
(1) Governmental funds report 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 expense. The difference between capital outlays and depreciation is itemized as follows:		
Add: capital assets purchased in the current period	$ 166,601	
Less: current-year depreciation expense	(554,488)	(387,887)
(2) The net effect of various miscellaneous transactions involving capital assets (sales, trade-ins, and donations) is to decrease net position.		
Add: assets donated and capitalized		97,588
(3) Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Add: deferred delinquent property taxes and other deferred June 30, 2016	$ 564,407	
Less: deferred delinquent property taxes and other deferred June 30, 2015	(649,083)	(84,676)
(4) The issuance of long-term debt (e.g., bonds, notes, other loans, leases) 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 items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items:		
Add: change in unamortized premium on debt issuances	$ 9,720	
Add: principal payments on bonds	365,000	
Add: principal payments on notes	98,348	
Add: principal payments on other loans	903,000	
Add: principal payments on capital leases	202,040	
Less: contributions from the School Department for capital lease payments	(65,488)	1,512,620
(5) 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.		
Change in accrued interest payable	$ 11,139	
Change in compensated absences payable	(11,835)	
Change in landfill closure/postclosure care costs	115,035	
Change in net pension liability/asset	(66,653)	
Change in deferred outflows related to pensions	11,859	
Change in deferred inflows related to pensions	251,872	311,417
Change in net position of governmental activities (Exhibit B)		$ 1,755,874

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

Exhibit C-5

Morgan County, Tennessee
Statement of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
General Fund
For the Year Ended June 30, 2016

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2015	Add: Encumbrances 6/30/2016	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts Original	Budgeted Amounts Final	Variance with Final Budget - Positive (Negative)
Revenues							
Local Taxes	$ 4,941,564	$ 0	$ 0	$ 4,941,564	$ 4,809,232	$ 4,810,232	$ 131,332
Licenses and Permits	60,864	0	0	60,864	39,600	39,600	21,264
Fines, Forfeitures, and Penalties	106,943	0	0	106,943	103,950	93,402	13,541
Charges for Current Services	886,502	0	0	886,502	981,050	992,850	(106,348)
Other Local Revenues	179,726	0	0	179,726	108,947	115,151	64,575
Fees Received From County Officials	732,961	0	0	732,961	760,000	760,000	(27,039)
State of Tennessee	720,468	0	0	720,468	601,951	701,551	18,917
Federal Government	9,296	0	0	9,296	0	5,000	4,296
Other Governments and Citizens Groups	124,865	0	0	124,865	239,847	144,847	(19,982)
Total Revenues	$ 7,763,189	$ 0	$ 0	$ 7,763,189	$ 7,644,577	$ 7,662,633	$ 100,556
Expenditures							
General Government							
County Commission	$ 62,529	$ 0	$ 0	$ 62,529	$ 69,080	$ 64,780	$ 2,251
County Mayor/Executive	152,456	0	0	152,456	157,612	157,612	5,156
County Attorney	10,136	0	0	10,136	10,500	10,500	364
Election Commission	134,177	(5,654)	0	128,523	134,565	134,565	6,042
Register of Deeds	132,028	(2,800)	2,083	131,311	135,005	135,005	3,694
County Buildings	426,888	(7,500)	24	419,412	414,422	421,790	2,378
Finance							
Accounting and Budgeting	250,431	(1,009)	504	249,926	259,265	259,265	9,339
Property Assessor's Office	192,866	0	372	193,238	203,919	204,204	10,966
Reappraisal Program	24,686	0	0	24,686	34,559	35,112	10,426
County Trustee's Office	172,397	0	0	172,397	174,037	177,862	5,465
County Clerk's Office	184,203	0	30	184,233	193,921	195,921	11,688
Administration of Justice							
Circuit Court	278,306	0	0	278,306	289,641	289,642	11,336
Criminal Court	8,631	0	0	8,631	9,600	9,600	969
General Sessions Court	46,814	(380)	0	46,434	52,703	53,003	6,569
General Sessions Judge	145,243	0	0	145,243	146,216	146,216	973

(Continued)

Morgan County, Tennessee
Statement of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
General Fund (Cont.)

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2015	Add: Encumbrances 6/30/2016	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts Original	Budgeted Amounts Final	Variance with Final Budget - Positive (Negative)
Expenditures (Cont.)							
Administration of Justice (Cont.)							
Drug Court	$ 57,854	$ 0	$ 0	$ 57,854	$ 71,427	$ 72,927	$ 15,073
Chancery Court	165,391	(794)	248	164,845	163,150	166,450	1,605
Juvenile Court	36,912	(35)	0	36,877	39,322	39,322	2,445
Courtroom Security	81,135	0	0	81,135	70,410	82,902	1,767
Public Safety							
Sheriff's Department	1,294,664	(6,246)	6,216	1,294,634	1,277,316	1,297,060	2,426
Jail	1,276,839	(6,561)	28	1,270,306	1,256,425	1,282,130	11,824
Juvenile Services	1,375	0	0	1,375	1,000	1,375	0
Fire Prevention and Control	130,710	0	0	130,710	129,284	131,284	574
Civil Defense	21,603	0	0	21,603	18,455	27,184	5,581
Rescue Squad	3,000	0	0	3,000	3,000	3,000	0
Other Emergency Management	366,730	0	0	366,730	379,879	379,879	13,149
County Coroner/Medical Examiner	37,976	0	0	37,976	25,085	41,060	3,084
Other Public Safety	6,200	(350)	0	5,850	7,800	7,800	1,950
Public Health and Welfare							
Local Health Center	56,313	0	0	56,313	42,829	65,587	9,274
Ambulance/Emergency Medical Services	1,405,315	(1,209)	6,174	1,410,280	1,418,873	1,431,698	21,418
Crippled Children Services	5,360	0	0	5,360	5,937	5,937	577
Other Local Health Services	16,111	0	0	16,111	48,557	48,557	32,446
Social, Cultural, and Recreational Services							
Senior Citizens Assistance	4,199	0	0	4,199	4,200	4,200	1
Libraries	78,020	(26)	0	77,994	69,012	77,994	0
Parks and Fair Boards	1,058	(360)	0	698	2,500	2,500	1,802
Agriculture and Natural Resources							
Agricultural Extension Service	38,164	(558)	0	37,606	67,457	67,457	29,851
Soil Conservation	14,000	0	0	14,000	14,000	14,000	0
Other Operations							
Other Economic and Community Development	23,000	0	0	23,000	0	23,000	0
Veterans' Services	24,388	0	0	24,388	15,500	25,500	1,112

(Continued)

Exhibit C-5

Morgan County, Tennessee
Statement of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
General Fund (Cont.)

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2015	Add: Encumbrances 6/30/2016	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts Original	Budgeted Amounts Final	Variance with Final Budget - Positive (Negative)
Expenditures (Cont.)							
Other Operations (Cont.)							
Miscellaneous	$ 137,936 $	0 $	0 $	137,936 $	140,800 $	140,800 $	2,864
Principal on Debt							
General Government	97,916	0	0	97,916	97,917	97,917	1
Interest on Debt							
General Government	13,282	0	0	13,282	13,283	13,283	1
Total Expenditures	$ 7,617,242 $	(33,482) $	15,679 $	7,599,439 $	7,668,463 $	7,845,880 $	246,441
Excess (Deficiency) of Revenues Over Expenditures	$ 145,947 $	33,482 $	(15,679) $	163,750 $	(23,886) $	(183,247) $	346,997
Other Financing Sources (Uses)							
Insurance Recovery	$ 6,271 $	0 $	0 $	6,271 $	0 $	6,271 $	0
Transfers In	23,886	0	0	23,886	23,886	24,614	(728)
Transfers Out	(100,000)	0	0	(100,000)	0	(100,000)	0
Total Other Financing Sources	$ (69,843) $	0 $	0 $	(69,843) $	23,886 $	(69,115) $	(728)
Net Change in Fund Balance	$ 76,104 $	33,482 $	(15,679) $	93,907 $	0 $	(252,362) $	346,269
Fund Balance, July 1, 2015	1,968,489	(33,482)	0	1,935,007	1,952,703	1,952,703	(17,696)
Fund Balance, June 30, 2016	$ 2,044,593 $	0 $	(15,679) $	2,028,914 $	1,952,703 $	1,700,341 $	328,573

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

Exhibit C-6

Morgan County, Tennessee
Statement of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
Solid Waste/Sanitation Fund
For the Year Ended June 30, 2016

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2015	Add: Encumbrances 6/30/2016	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts Original	Budgeted Amounts Final	Variance with Final Budget - Positive (Negative)
Revenues							
Local Taxes	$ 835,437	$ 0	$ 0	$ 835,437	$ 819,712	$ 819,712	$ 15,725
Charges for Current Services	228,773	0	0	228,773	205,000	205,000	23,773
Other Local Revenues	21,223	0	0	21,223	25,000	25,000	(3,777)
State of Tennessee	37,889	0	0	37,889	33,700	33,700	4,189
Total Revenues	$ 1,123,322	$ 0	$ 0	$ 1,123,322	$ 1,083,412	$ 1,083,412	$ 39,910
Expenditures							
Public Health and Welfare							
Sanitation Management	$ 103,880	$ 0	$ 0	$ 103,880	$ 102,811	$ 104,693	$ 813
Sanitation Education/Information	35,910	(449)	0	35,461	36,292	36,418	957
Waste Pickup	394,916	(7,697)	10,757	397,976	457,220	446,770	48,794
Convenience Centers	298,708	(3,008)	9,000	304,700	318,068	319,443	14,743
Recycling Center	78,547	(182)	0	78,365	82,569	82,569	4,204
Landfill Operation and Maintenance	172,580	(8,025)	11,172	175,727	144,280	204,561	28,834
Other Operations							
Other Charges	18,804	0	0	18,804	22,000	22,000	3,196
Miscellaneous	1,420	0	0	1,420	2,050	2,050	630
Principal on Debt							
General Government	38,636	0	0	38,636	38,637	38,637	1
Interest on Debt							
General Government	3,484	0	0	3,484	3,485	3,485	1
Total Expenditures	$ 1,146,885	$ (19,361)	$ 30,929	$ 1,158,453	$ 1,207,412	$ 1,260,626	$ 102,173
Excess (Deficiency) of Revenues Over Expenditures	$ (23,563)	$ 19,361	$ (30,929)	$ (35,131)	$ (124,000)	$ (177,214)	$ 142,083
Other Financing Sources (Uses)							
Insurance Recovery	$ 53,213	$ 0	$ 0	$ 53,213	$ 0	$ 53,213	$ 0
Total Other Financing Sources	$ 53,213	$ 0	$ 0	$ 53,213	$ 0	$ 53,213	$ 0

(Continued)

Morgan County, Tennessee
Statement of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
Solid Waste/Sanitation Fund (Cont.)

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2015	Add: Encumbrances 6/30/2016	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts Original	Budgeted Amounts Final	Variance with Final Budget - Positive (Negative)
Net Change in Fund Balance	$ 29,650	$ 19,361	$ (30,929)	$ 18,082	$ (124,000)	$ (124,001)	$ 142,083
Fund Balance, July 1, 2015	239,486	(19,361)	0	220,125	227,693	227,693	(7,568)
Fund Balance, June 30, 2016	$ 269,136	$ 0	$ (30,929)	$ 238,207	$ 103,693	$ 103,692	$ 134,515

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

Exhibit C-7

Morgan County, Tennessee
Statement of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
Highway/Public Works Fund
For the Year Ended June 30, 2016

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2015	Add: Encumbrances 6/30/2016	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts Original	Budgeted Amounts Final	Variance with Final Budget - Positive (Negative)
Revenues							
Local Taxes	$ 107,065	$ 0	$ 0	$ 107,065	$ 169,336	$ 169,336	$ (62,271)
Charges for Current Services	338	0	0	338	0	0	338
Other Local Revenues	54,901	0	0	54,901	104,000	104,000	(49,099)
State of Tennessee	2,602,164	0	0	2,602,164	1,988,765	2,715,868	(113,704)
Federal Government	248,018	0	0	248,018	0	11,812	236,206
Total Revenues	$ 3,012,486	$ 0	$ 0	$ 3,012,486	$ 2,262,101	$ 3,001,016	$ 11,470
Expenditures							
Highways							
Administration	$ 136,742	$ 0	$ 0	$ 136,742	$ 140,787	$ 143,990	$ 7,248
Highway and Bridge Maintenance	1,255,497	(374,250)	29,262	910,509	2,557,028	2,553,938	1,643,429
Operation and Maintenance of Equipment	314,924	(13,700)	23,205	324,429	449,386	447,501	123,072
Other Charges	78,421	0	0	78,421	81,600	85,800	7,379
Employee Benefits	29,092	0	0	29,092	29,300	29,300	208
Capital Outlay	941,352	(128,537)	200	813,015	486,000	1,224,915	411,900
Total Expenditures	$ 2,756,028	$ (516,487)	$ 52,667	$ 2,292,208	$ 3,744,101	$ 4,485,444	$ 2,193,236
Excess (Deficiency) of Revenues Over Expenditures	$ 256,458	$ 516,487	$ (52,667)	$ 720,278	$ (1,482,000)	$ (1,484,428)	$ 2,204,706
Other Financing Sources (Uses)							
Insurance Recovery	$ 2,428	$ 0	$ 0	$ 2,428	$ 0	$ 2,428	$ 0
Total Other Financing Sources	$ 2,428	$ 0	$ 0	$ 2,428	$ 0	$ 2,428	$ 0
Net Change in Fund Balance	$ 258,886	$ 516,487	$ (52,667)	$ 722,706	$ (1,482,000)	$ (1,482,000)	$ 2,204,706
Fund Balance, July 1, 2015	2,867,487	(516,487)	0	2,351,000	2,462,187	2,462,187	(111,187)
Fund Balance, June 30, 2016	$ 3,126,373	$ 0	$ (52,667)	$ 3,073,706	$ 980,187	$ 980,187	$ 2,093,519

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

Exhibit D

Morgan County, Tennessee
Statement of Fiduciary Assets and Liabilities
June 30, 2016

	Agency Funds
ASSETS	
Cash	$ 536,735
Accounts Receivable	81
Due from Other Governments	56,332
Property Taxes Receivable	60,106
Total Assets	$ 653,254
LIABILITIES	
Due to Other Taxing Units	$ 116,438
Due to Litigants, Heirs, and Others	536,816
Total Liabilities	$ 653,254

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

MORGAN COUNTY, TENNESSEE
Index of Notes to the Financial Statements

MORGAN COUNTY, TENNESSEE
Index of Notes to the Financial Statements (Cont.)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Morgan County's financial statements are presented in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments.

The following are the more significant accounting policies of Morgan County:

A. Reporting Entity

Morgan County is a public municipal corporation governed by an elected 18-member board. As required by GAAP, these financial statements present Morgan County (the primary government) and its component units. Although required by GAAP, the financial statements of the Morgan County Emergency Communications District, a component unit requiring discrete presentation, were excluded from this report due to materiality calculations; therefore, the effect of its omission did not affect the independent auditor's opinion thereon. The component units discussed below are included in the county's reporting entity because of the significance of their operational or financial relationships with the county.

Discretely Presented Component Units – The following entities meet the criteria for discretely presented component units of the county. They are reported in separate columns in the government-wide financial statements to emphasize that they are legally separate from the county.

The Morgan County School Department operates the public school system in the county, and the voters of Morgan County elect its board. The School Department is fiscally dependent on the county because it may not issue debt, and its budget and property tax levy are subject to the County Commission's approval. The School Department's taxes are levied under the taxing authority of the county and are included as part of the county's total tax levy.

The Morgan County Emergency Communications District provides a simplified means of securing emergency services through a uniform emergency number for the residents of Morgan County, and the Morgan County Commission appoints its governing body. The district is funded primarily through a service charge levied on telephone services. Before the issuance of most debt instruments, the district must obtain the County Commission's approval. The financial statements of the Morgan County Emergency Communications District were not material to the component units' opinion unit and therefore have been omitted from this report.

The Morgan County School Department does not issue separate financial statements from those of the county. Therefore, basic financial statements of the School Department are included in this report as listed in the table of contents. Complete financial statements of the Morgan County Emergency Communications District can be obtained from its administrative office at the following address:

Administrative Office:

Morgan County Emergency
Communications District
P.O. Box 69
Wartburg, TN 37887

Related Organization – The Morgan County Industrial Development Board is a related organization of Morgan County. The county executive nominates and the Morgan County Commission confirms the board members, but the county's accountability for the organization does not extend beyond making the appointments.

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 nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. However, where applicable, interfund services provided and used between functions are not eliminated in the process of consolidation in the Statement of Activities. Governmental activities are normally supported by taxes and intergovernmental revenues. 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. However, the primary government of Morgan County does not have any business-type activities to report. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. The Morgan County School Department component unit only reports governmental activities in the government-wide financial statements.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Morgan County issues all debt for the discretely presented Morgan County School Department. There were no debt issues contributed by the county to the School Department during the year ended June 30, 2016.

Separate financial statements are provided for governmental funds and fiduciary funds. Fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

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 fiduciary funds financial statements, except for agency funds, which have no measurement focus. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Fund financial statements of Morgan County are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, deferred outflow of resources, liabilities, deferred inflow of resources, fund equity, revenues, and expenditures. Funds are organized into three major categories: governmental, proprietary, and fiduciary; however, Morgan County has no proprietary funds to report. An emphasis is placed on major funds within the governmental category.

Separate financial statements are provided for governmental funds and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All other governmental funds are aggregated into a single column on the fund financial statements. Fiduciary funds in total are reported in a single column.

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 become 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 county considers revenues other than grants to be available if they are collected within 30 days after year-end. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met and the revenues are available. Morgan County considers grants and similar revenues to be available if they are collected within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Principal and interest on long-term debt are recognized as fund liabilities when due or when amounts have been accumulated in the General Debt Service Fund for payments to be made early in the following year.

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 litigation taxes, state-shared excise taxes, fines, forfeitures, and penalties are not susceptible to accrual since they are not measurable (reasonably estimable). All other revenue items are considered to be measurable and available only when the county receives cash.

Fiduciary funds financial statements are reported using the economic resources measurement focus, except for agency funds, which have no measurement focus, and the accrual basis of accounting. Revenues are recognized when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Morgan County reports the following major governmental funds:

> **General Fund** – This is the county's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
>
> **Solid Waste/Sanitation Fund** – This special revenue fund accounts for transactions related to the county's garbage collection service. Local taxes and general service charges are the foundational revenues of this fund.
>
> **Highway/Public Works Fund** – This special revenue fund accounts for transactions of the county's Highway Department. Local and state gasoline/fuel taxes are the foundational revenues of this fund.
>
> **General Debt Service Fund** – This fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Additionally, Morgan County reports the following fund types:

> **Capital Projects Fund** – The General Capital Projects Fund is used to account for general construction projects of the county and for the receipt of debt issued by Morgan County and contributed to the School Department for various capital projects.
>
> **Agency Funds** – These funds account for amounts collected in an agency capacity by the constitutional officers, local sales taxes received by the state to be forwarded to the various cities in Morgan County, and property taxes collected for the City of Sunbright. Agency funds are custodial in nature (assets equal liabilities) and do not involve

measurement of results of operations. They do, however, use the accrual basis of accounting to recognize receivables and payables.

The discretely presented Morgan County School Department reports the following major governmental funds:

General Purpose School Fund – This fund is the primary operating fund for the School Department. It is used to account for general operations of the School Department.

School Federal Projects Fund – This special revenue fund is used to account for restricted federal revenues, which must be expended on specific education programs.

Central Cafeteria Fund – This special revenue fund is used to account for the cafeteria operations in each of the schools. Service charges and federal grants are the foundational revenues of this fund.

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Deposits and Investments

State statutes authorize the government 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 county's own legally issued bonds or notes.

The county trustee maintains a cash and internal investment pool that is used by all funds and the discretely presented Morgan County School Department. Each fund's portion of this pool is displayed on the balance sheets or statements of net position as Equity in Pooled Cash and Investments. Most income from these pooled investments is assigned to the General Fund and to the discretely presented School Department's General Purpose School Fund. Morgan County and the School Department have adopted a policy of reporting U.S. Treasury obligations, U.S. agency obligations, and repurchase agreements with maturities of one year or less when purchased on the balance sheet at amortized cost. Certificates of deposit are reported at cost. Investments in the State Treasurer's Investment Pool are reported at amortized cost using a Stable Net Asset Value. State statutes require the state treasurer to administer the pool under the same terms and conditions, including collateral requirements, as prescribed for other funds invested by the state treasurer. All other investments are reported at fair value. No investments required to be reported at fair value were held at the balance sheet date.

2. Receivables and Payables

Activity between funds for unremitted current collections outstanding at the end of the fiscal year is referred to as due to/from other funds.

All ambulance and property taxes receivable are shown with an allowance for uncollectibles. The allowance for uncollectibles for the ambulance service receivables reflected in the General Fund consists of various amounts estimated based on the categories of the payee (Medicare, Medicaid, insurance companies, and individuals). The allowance for uncollectible property taxes is equal to 2.71 percent of total taxes levied.

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 deferred inflow of resources as of June 30.

Property taxes receivable are also reported as of June 30 for the taxes that are levied, collected, and reported as revenue during the current fiscal year. These property taxes receivable are presented on the balance sheet as a deferred inflow of resources to reflect amounts not available as of June 30. Property taxes collected within 30 days of year-end are considered available and accrued. The allowance for uncollectible taxes represents the estimated amount of the receivable that will be filed in court for collection. Delinquent taxes filed in court for collection are not included in taxes receivable since they are neither measurable nor available.

Property taxes are levied as of the first Monday in October. Taxes become delinquent and begin accumulating interest and penalty the following March 1. Suit must be filed in Chancery 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.

Retainage payable in the primary government's nonmajor governmental funds represents amounts withheld from payments made on construction contracts pending completion of the projects. These amounts are held by the county trustee as Equity in Pooled Cash and Investments in the nonmajor governmental funds.

3. **Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as an expenditure when consumed rather than when purchased. Prepaids are offset in the nonspendable fund balance account in governmental funds.

4. **Capital Assets**

Governmental funds do not capitalize the cost of capital outlays; these funds report capital outlays as expenditures upon acquisition.

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, and similar items), are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an estimated useful life of more than two years and with an initial, individual cost based on the following table. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Type	Amount
Land and Construction in Progress	$ 1
Vehicles	5,000
Machinery and Equipment	5,000
Furniture and Fixtures	5,000
Land Improvements	5,000
Intangibles	25,000
Buildings and Improvements	50,000
Infrastructure (Roads and Bridges)	250,000

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.

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

Property, plant, equipment, and infrastructure of the primary government and the discretely presented School Department are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings and Improvements	3 - 40
Other Capital Assets	3 - 30
Infrastructure	15 - 40

5. **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 a consumption of net position that applies to a future period(s) and so will not be recognized as outflow of resources (expense/expenditure) until then. The government has items that qualify for reporting in this category. Accordingly, the items are reported in the government-wide statement of Net Position. These items are for pension changes in experience, pension contributions after the measurement date, and the accumulated decrease in fair values of hedging derivatives.

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. The government has items that qualify for reporting in this category. Accordingly, the items are reported in the government-wide Statement of Net Position and the governmental funds balance sheet. These items are from the following sources: current and delinquent property taxes, pension changes in experience, pension changes in investment earnings, pension other deferrals, and receivables for various revenues, which do not meet the availability criteria for governmental funds.

6. Compensated Absences

Primary Government

It is the primary government's policy to permit employees to accumulate a limited amount of earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since there is no policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide financial statements for the primary government. A liability for vacation pay is reported in governmental funds only if amounts have matured, for example, as a result of employee resignations and retirements.

Discretely Presented Morgan County School Department

It is the School Department's policy to permit support personnel with at least ten years of service to accumulate a limited amount of earned but unused sick pay benefits, which will be paid to those employees upon separation from service. A liability for sick pay is accrued when incurred in the government-wide financial statements for the School Department. A liability for sick pay is reported in governmental funds only if amounts have matured, for example, as a result of employee resignations and retirements. There is no liability for unpaid accumulated sick leave of professional employees since there is no policy to pay any amounts when those employees separate from service. There is also no liability for unpaid vacation pay for any School Department employees since vacation benefits do not accumulate.

7. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. Debt premiums and discounts are deferred and amortized over the life of the new debt using the straight-line method. Debt issuance costs are expensed in the period incurred. In refunding transactions, the difference between the reacquisition price and the net carrying amount of the old debt is reported as a deferred outflow of resources or a deferred inflow of resources and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the refunded debt or the life of the new debt issued, whichever is shorter.

In the fund financial statements, governmental funds recognize debt premiums and discounts, as well as debt issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service 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, landfill postclosure care costs, net pension liability, and other postemployment benefits, are recognized to the extent that the liabilities have matured (come due for payment) each period.

8. <u>Net Position and Fund Balance</u>

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

a. Net investment in capital assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

b. Restricted net position – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or (2) law through constitutional provisions or enabling legislation.

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

The balance in Restricted for Other Purposes for the primary government ($101,964), and a portion of the balance of Restricted for Education for the discretely presented School Department ($94,158) are attributable to Net Pension Assets.

As of June 30, 2016, Morgan County had $13,769,791 in outstanding debt for capital purposes for the discretely presented Morgan County School Department and $2,225,000 in outstanding debt that benefits a joint venture industrial development board. This debt is a liability of Morgan County, but the capital assets acquired are reported in the financial statements of the other entities. Therefore, Morgan County has incurred a liability significantly decreasing its unrestricted net position with no corresponding increase in the county's capital assets.

It is the county's policy that restricted amounts would be reduced first followed by unrestricted amounts when expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available. Also, it is the county's policy that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of these unrestricted fund balance classifications could be used.

In the fund financial statements, governmental funds report fund balance in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in these funds can be spent. These classifications may consist of the following:

> Nonspendable Fund Balance – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
>
> Restricted Fund Balance – includes amounts that have constraints placed on the use of the resources that are either (a) externally imposed by creditors, grantors, contributors or laws and regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.
>
> Committed Fund Balance – includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal resolutions of the County Commission, the county's highest level of decision-making authority and the Board of Education, the School Department's highest level of decision-making authority, and shall remain binding unless removed in the same manner.
>
> Assigned Fund Balance – includes amounts that are constrained by the county's intent to be used for specific purposes, but are neither restricted nor committed (excluding stabilization arrangements). The County Commission makes assignments for the general government and the Board of Education makes assignments for the School Department. Assigned fund balance in the General Fund consists of amounts assigned for encumbrances ($15,679) and amounts appropriated for use in the 2016-2017 budget ($70,306). Assigned fund balance in the School Department's General Purpose School Fund consists of amounts assigned for encumbrances ($492,073) and amounts appropriated for use in the 2016-17 budget ($285,060).
>
> Unassigned Fund Balance – the residual classification of the General and General Purpose School funds. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General and General Purpose School funds.

E. Pension Plans

Primary Government

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 Morgan County's participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System (TCRS), and additions to/deductions from Morgan County's fiduciary net position have been determined on the same basis as they are reported by the TCRS for the Public Employee Retirement Plan. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Public Employee Retirement Plan of TCRS. Investments are reported at fair value.

Discretely Presented Morgan County School Department

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 Retirement Plan and the Teacher Legacy Pension Plan in the Tennessee Consolidated Retirement System, and additions to/deductions from fiduciary net position have 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 Retirement Plan and the Teacher Legacy Pension Plan. Investments are reported at fair value.

II. 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

Primary Government

Exhibit C-2 includes explanations of the nature of individual elements of items required to reconcile the balance sheet of the governmental funds with the government-wide Statement of Net Position.

Discretely Presented Morgan County School Department

Exhibit I-3 includes explanations of the nature of individual elements of items required to reconcile the balance sheet of the governmental funds with the government-wide Statement of Net Position.

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**

Primary Government

Exhibit C-4 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.

Discretely Presented Morgan County School Department

Exhibit I-5 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 Statements of Activities.

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for all governmental funds except the Constitutional Officers - Fees Fund (a special revenue fund), which is not budgeted, and the General Capital Projects Fund, which adopts project length budgets. All annual appropriations lapse at fiscal year end.

The county 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 County Commission and any authorized revisions. Unencumbered appropriations lapse at the end of each fiscal year.

The budgetary level of control is at the major category level established by the County Uniform Chart of Accounts, as prescribed by the Comptroller of the Treasury of the State of Tennessee. Major categories are at the department level (examples of General Fund major categories: County Commission, Board of Equalization, County Mayor/Executive, County Attorney, etc.). Management may make revisions within major categories, but only the County Commission may transfer appropriations between major categories. During the year, several supplementary appropriations were necessary.

The county's budgetary basis of accounting is consistent with 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.

At June 30, 2016, Morgan County and the Morgan County School Department reported the following significant encumbrances:

Funds	Description		Amount
School Department			
Major Fund:			
General Purpose School	Technology Equipment	$	119,156
General Purpose School	Transportation equipment		292,367

B. Cash Shortage – Prior Year

Office of County Clerk

A special report dated February 10, 2011, for the period July 1, 2009, through December 22, 2010, reported a cash shortage of $54,611.33 on December 14, 2010. The state Comptroller's Office conducted a special investigation with the assistance of the Tennessee Bureau of Investigation resulting in the above-noted cash shortage. Subsequently, Carol Hamby, the county clerk during the period examined, liquidated the cash shortage. However, Ms. Hamby was also ordered by the Criminal Court of Morgan County to repay $8,758 to Morgan County for a portion of the extended audit costs associated with the cash shortage. Ms. Hamby has paid $1,626 toward this amount, leaving a balance owed of $7,132 as of the date of this report.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Morgan County and the Morgan County School Department participate in an internal cash and investment pool through the Office of Trustee. The county trustee is the treasurer of the county and in this capacity is responsible for receiving, disbursing, and investing most county funds. Each fund's portion of this pool is displayed on the balance sheets or statements of net position as Equity in Pooled Cash and Investments. Cash reflected on the balance sheets or statements of net position represents nonpooled amounts held separately by individual funds.

Deposits

Legal Provisions. 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 percent 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 percent 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 county.

Investments

Legal Provisions. Counties are authorized 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; deposits at state and federal chartered banks and savings and loan associations; 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 county's own legally issued bonds or notes. These investments may not have a maturity greater than two years. The county may make investments with longer maturities if various restrictions set out in state law are followed. Counties are also authorized to make investments in the State Treasurer's Investment Pool and in repurchase agreements. Repurchase agreements must be approved by the state Comptroller's Office and executed in accordance with procedures established by the State Funding Board. Securities purchased under a repurchase agreement must be obligations of the U.S. government or obligations guaranteed by the U.S. government or any of its agencies. When repurchase agreements are executed, the purchase of the securities must be priced at least two percent below the fair value of the securities on the day of purchase. The county had no pooled and nonpooled investments as of June 30, 2016.

B. Derivative Instrument

At June 30, 2016, Morgan County had the following derivative instrument outstanding:

Instrument	Type	Objective	Original Notional Amount	Effective Date	Maturity Date	Terms
$10M Swap	Pay fixed interest rate swap	Variable to synthetic fixed rate swap	$ 10,000,000	6-7-13	6-1-26	Pay 4.33% receive 70% of LIBOR

The fair value balance and notional amount of the derivative instrument outstanding at June 30, 2016, classified by type, and the changes in fair value using a pay fixed, receive a percentage of LIBOR, pricing model (Level 2 inputs of the GAAP fair value hierarchy) of such derivative instrument for the year then ended as reported in the 2016 financial statements are as follows:

	Changes in Fair Value		Fair Value at June 30, 2016		6-30-16 Notional
Type	Classification	Amount	Classification	Amount	Amount
Governmental Activities:					
Cash Flow Hedge:					
Pay fixed interest rate swap:	Deferred				
$10M Swap	Outflow	($152,678)	Debt	$ (1,892,852)	$ 9,340,000

Derivative Swap Agreement Detail

Under its loan agreement, the Public Building Authority of Blount County, TN, at the request of the county, has entered into an interest rate swap agreement for all of the outstanding Local Government Improvement Bonds, Series A-2-D.

Objective of the Interest Rate Swap. In order to provide a hedge against the potential of rising interest rates and to balance its mixture of variable and fixed rate debt, the county requested the authority, on its behalf, to enter into an interest rate swap in connection with its Series A-2-D variable-rate bonds. The intention of the swap was to effectively change the county's variable interest rate on the bonds to a synthetic fixed rate. The Series A-2-D bonds have since been refunded with a portion of the proceeds of the Series VII-A-3 bonds and the interest rate swap is now associated with the Series VII-A-3 bonds.

Terms. Under the swap, the authority pays the counterparty a fixed payment of 4.33 percent and receives a variable payment computed as 70 percent of the three-month London Interbank Offered Rate (LIBOR). The bonds hedged by the interest rate swap agreement had an original outstanding principal amount of $10 million. The interest rate swap agreement will not exceed the outstanding principal amount on the associated hedged bonds. The bonds' variable-rates have historically approximated the Securities Industry and Financial Markets Association (the "SIFMA"). The bonds and the related swap agreement both mature on June 1, 2026. As of June 30, 2016, rates were as follows:

	Terms	Rates
Interest rate swap:		
Fixed payment to counterparty	Fixed	4.33 %
Variable payment from counterparty	% of LIBOR	-0.45
Net interest rate swap payments		3.88 %
Variable-rate bond coupon payments		1.42
Synthetic interest rate on bonds		5.30 %

Fair Value. As of June 30, 2016, the swap had a negative fair value of $1,892,852. The negative fair value of the swap may be countered by reductions in total interest payments required under the variable rate bond, creating lower synthetic rates. Because the rates on the government's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value model calculates future cash flows by projecting forward rates, and then discounts those cash flows at their present value.

Credit Risk. As of June 30, 2016, the county was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the county would be exposed to credit risk in the amount of the swap agreement's fair value. The swap counterparty, Morgan Keegan Financial Products ("MKFP") was rated "A+" by Standard and Poor's as of June 30, 2016, with its Credit Support Provider, Deutsche Bank, rated Baa2/BBB+/BBB+ by Moody's, Standard and Poor's and Fitch, respectively.

Basis Risk. As noted above, the swap exposes the county to basis risk should the rate on the bonds increase to above 70 percent of LIBOR, thus increasing the synthetic rate on the bonds. If a change occurs that results in the rate on the bonds to be below 70 percent of LIBOR, then the synthetic rate on the bonds will decrease.

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

Swap Payments and Associated Debt. As of June 30, 2016, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Year Ending June 30		Variable Rate Bonds Principal	Interest	Net Interest Rate Swap Payment		Total
2017	$	710,000 $	132,726 $	362,180	$	1,204,906
2018		750,000	122,637	334,648		1,207,285
2019		795,000	111,979	305,565		1,212,544
2020		845,000	100,682	274,737		1,220,419
2021		895,000	88,674	241,970		1,225,644
2022-2026		5,345,000	236,605	645,642		6,227,247
Total	$	9,340,000 $	793,303 $	2,164,742	$	12,298,045

C. Capital Assets

Capital assets activity for the year ended June 30, 2016, was as follows:

Primary Government

Governmental Activities:

	Balance 7-1-15	Increases	Decreases	Balance 6-30-16
Capital Assets Not Depreciated:				
Land	$ 627,952 $	0 $	0 $	627,952
Total Capital Assets Not Depreciated	$ 627,952 $	0 $	0 $	627,952
Capital Assets Depreciated:				
Buildings and Improvements	$ 6,391,018 $	0 $	0 $	6,391,018
Infrastructure	1,435,826	0	0	1,435,826
Other Capital Assets	5,197,828	264,189	(22,950)	5,439,067
Total Capital Assets Depreciated	$ 13,024,672 $	264,189 $	(22,950) $	13,265,911
Less Accumulated Depreciation For:				
Buildings and Improvements	$ 1,712,334 $	196,306 $	0 $	1,908,640
Infrastructure	394,421	47,832	0	442,253
Other Capital Assets	4,374,134	310,350	(22,950)	4,661,534
Total Accumulated Depreciation	$ 6,480,889 $	554,488 $	(22,950) $	7,012,427
Total Capital Assets Depreciated, Net	$ 6,543,783 $	(290,299) $	0 $	6,253,484
Governmental Activities Capital Assets, Net	$ 7,171,735 $	(290,299) $	0 $	6,881,436

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	$	121,846
Administration of Justice		41,950
Public Safety		113,775
Public Health and Welfare		127,600
Highway/Public Works		149,317
Total Depreciation Expense - Governmental Activities	$	554,488

Discretely Presented Morgan County School Department

Governmental Activities:

		Balance 7-1-15		Increases		Decreases		Balance 6-30-16
Capital Assets Not Depreciated:								
Land	$	1,112,193	$	0	$	0	$	1,112,193
Total Capital Assets Not Depreciated	$	1,112,193	$	0	$	0	$	1,112,193
Capital Assets Depreciated:								
Buildings and Improvements	$	48,532,539	$	0	$	0	$	48,532,539
Other Capital Assets		13,092,747		324,898		(25,480)		13,392,165
Total Capital Assets Depreciated	$	61,625,286	$	324,898	$	(25,480)	$	61,924,704
Less Accumulated Depreciation For:								
Buildings and Improvements	$	29,683,443	$	1,131,528	$	0	$	30,814,971
Other Capital Assets		9,625,760		980,343		(25,480)		10,580,623
Total Accumulated Depreciation	$	39,309,203	$	2,111,871	$	(25,480)	$	41,395,594
Total Capital Assets Depreciated, Net	$	22,316,083	$	(1,786,973)	$	0	$	20,529,110
Governmental Activities Capital Assets, Net	$	23,428,276	$	(1,786,973)	$	0	$	21,641,303

Depreciation expense was charged to functions of the discretely presented Morgan County School Department as follows:

Governmental Activities:

Instruction	$ 16,144
Support Services	1,983,465
Operation of Non-instructional Services	112,262
Total Depreciation Expense - Governmental Activities	$ 2,111,871

D. Committed Construction

At June 30, 2016, the General Capital Projects Fund (a nonmajor governmental fund) had uncompleted construction projects of approximately $144,416 for water line expansions. These future expenditures are being funded primarily by federal grants.

E. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of June 30, 2016, was as follows:

Due to/from Other Funds

Receivable Fund	Payable Fund	Amount
General	Nonmajor governmental	$ 1,150

This balance resulted from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur and payments between funds are made.

Due to/from Primary Government and Component Units:

On the government-wide Statement of Net Position, Due from Component Units of $141,128 is reflected in the governmental activities of the primary government. This amount represents capital lease obligations, which are being retired by the School Department. Of that amount, $72,312 is not expected to be received within one year.

Interfund Transfers:

Interfund transfers for the year ended June 30, 2016, consisted of the following amounts:

Primary Government

Transfers Out	Transfers In General Fund	Transfers In Nonmajor Governmental Funds
General Fund	$ 0	$ 100,000
Nonmajor governmental funds	23,886	0
Total	$ 23,886	$ 100,000

Discretely Presented Morgan County School Department

Transfer Out	Transfer In School Federal Projects Fund
General Purpose School Fund	$ 24,501

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

F. Capital Leases

On March 31, 2015, Morgan County entered into a four-year lease-purchase agreement for eight police vehicles. The terms of the agreement require total lease payments of $261,273 plus interest of 5.5 percent. Title to the police vehicles transfers to Morgan County at the end of the lease period. The lease payments are made from the General Fund.

On October 12, 2014, Morgan County entered into a two-year lease-purchase agreement for an ambulance. The terms of the agreement require total lease payments of $75,997 plus interest of 3.49 percent. Title to the ambulance transfers to Morgan County at the end of the lease period. The lease payments are made from the General Fund.

On March 1, 2013, Morgan County entered into a five-year lease-purchase agreement for a garbage truck. The terms of the agreement require total lease payments of $193,342 plus interest of 2.92 percent. Title to the garbage truck transfers to Morgan County at the end of the lease period. The lease payments are made from the Solid Waste/Sanitation Fund.

On April 7, 2008, Morgan County entered into a ten-year lease-purchase agreement for the School Department for football field lighting improvements for various school facilities. The terms of the agreement require total lease payments of $601,414 plus interest of 2.63 percent. Title to the equipment transfers to the School Department immediately upon acceptance of each item.

The assets acquired through capital leases outstanding as of June 30, 2016, are as follows:

	Governmental Activities	
Asset	Primary Government	School Department
Other Capital Assets	$ 530,612	$ 684,414
Less: Accumulated Depreciation	(167,441)	(541,828)
Total Book Value	$ 363,171	$ 142,586

Future minimum lease payments and the net present value of these minimum lease payments as of June 30, 2016, were as follows:

Year Ending June 30	Governmental Funds
2017	229,305
2018	189,793
2019	35,844
Total Minimum Lease Payments	$ 454,942
Less: Amount Representing Interest	(29,611)
Present Value of Minimum Lease Payments	$ 425,331

G. **Long-term Obligations**

Primary Government

General Obligation Bonds, Notes, and Other Loans

Morgan County issues general obligation bonds and other loans to provide funds for the acquisition and construction of major capital facilities for the primary government and the discretely presented School Department. Capital outlay notes are also issued to fund capital facilities and other capital outlay purchases, such as equipment.

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, capital outlay notes, and other loans outstanding were issued for original terms of up to 15 years for bonds, seven years for notes, 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, notes, and other loans included in long-term debt as of June 30, 2016, will be retired from the General Debt Service Fund.

General obligation bonds, capital outlay notes, other loans, and capital leases outstanding as of June 30, 2016, for governmental activities are as follows:

Type	Interest Rate		Final Maturity		Original Amount of Issue		Balance 6-30-16
General Obligation Bonds	2 to 3	%	4-1-26	$	6,400,000	$	4,255,000
Capital Outlay Notes	4.25		12-1-17		180,000		42,913
Other Loans - Fixed Rate	4.25 to 6		6-1-27		2,500,000		2,225,000
Other Loans - Variable Rate	Variable		5-25-29		12,095,000		10,980,000
Capital Leases	2.63 to 5.5		9-30-18		1,132,026		425,331

Morgan County has entered into loan agreements with the Sevier County Public Building Authority, Blount County Public Building Authority, and the City of Clarksville Public Building Authority (PBAs) to finance capital projects for Morgan County and the discretely presented Morgan County School Department. Under the loan agreements, the PBAs issued bonds and made the proceeds available for loan to Morgan County. In addition to repaying the loans, the county pays various other fees (trustee, debt remarketing, etc.) in connection with the variable rate loans. The following table summarizes loan agreements outstanding at June 30, 2016:

Description		Original Amount of Loan Agreement		Outstanding Principal 6-30-16	Interest Type	Interest Rates as of 6-30-16		Approximate Fee Rates as of 6-30-16	
Blount County PBA:									
Series B-13-A	$	1,750,000	$	1,475,000	Fixed	5.6 to 6	%	N/A	
Series B-20-A		750,000		750,000	Fixed	4.25 to 5		N/A	
City of Clarksville PBA:									
Series 2009		2,000,000		1,555,000	Variable	0.46		0.66	%
Sevier County PBA:									
Series VII-A-3		10,095,000		9,425,000	Variable	5.3	(1)	0.25	
Total			$	13,205,000					

(1) This is the synthetic interest rate under a swap agreement that was entered into in connection with the debt. See Note IV.B., Derivative Instrument.

The annual requirements to amortize all general obligation bonds, notes, and other loans outstanding as of June 30, 2016, including interest payments and other loan fees, are presented in the following tables:

Year Ending June 30	Bonds Principal	Bonds Interest	Bonds Total
2017	$ 375,000	$ 112,235	$ 487,235
2018	385,000	104,735	489,735
2019	390,000	96,073	486,073
2020	410,000	86,810	496,810
2021	420,000	76,560	496,560
2022-2026	2,275,000	204,850	2,479,850
Total	$ 4,255,000	$ 681,263	$ 4,936,263

Year Ending June 30	Notes Principal	Notes Interest	Notes Total
2017	$ 28,307	$ 1,527	$ 29,834
2018	14,606	311	14,917
Total	$ 42,913	$ 1,838	$ 44,751

Year Ending June 30	Other Loans Principal	Interest (1)	Other Fees	Total
2017	$ 958,000	$ 629,078	$ 33,826	$ 1,620,904
2018	1,002,000	582,038	31,445	1,615,483
2019	1,077,000	532,785	28,937	1,638,722
2020	1,131,000	479,174	26,285	1,636,459
2021	1,212,000	422,894	23,480	1,658,374
2022-2026	7,024,000	1,147,286	69,385	8,240,671
2027-2029	801,000	19,094	6,053	826,147
Total	$ 13,205,000	$ 3,812,349	$ 219,411	$ 17,236,760

(1) Includes payments under swap agreement discussed in Note IV.B., Derivative Instrument.

There is $2,216,046 available in the General Debt Service Fund to service long-term debt. Debt per capita, including bonds, notes, other loans, and capital leases totaled $815, based on the 2010 federal census.

The School Department is currently servicing some of the debt issued on its behalf by the primary government as noted in the table below. This debt is reflected in the government-wide financial statements as Due to the Primary Government in the financial statements of the School Department and as Due from Component Units in the financial statements of the primary government.

Description of Indebtedness		6-30-16
Capital Lease		
Payable through General Purpose School Fund		
Football Field Lighting	$	141,128

During the year, the School Department contributed $75,986 to the primary government's General Debt Service Fund to service principal and interest on this lease. Also, during the year, the School Department contributed $514,369 to the primary government's General Debt Service Fund to be applied toward the retirement of other school related debt.

Changes in Long-term Obligations

Long-term obligations activity for the year ended June 30, 2016, was as follows:

Governmental Activities:

	Bonds	Notes	Other Loans
Balance, July 1, 2015	$ 4,620,000	$ 141,261	$ 14,108,000
Additions	0	0	0
Reductions	(365,000)	(98,348)	(903,000)
Balance, June 30, 2016	$ 4,255,000	$ 42,913	$ 13,205,000
Balance Due Within One Year	$ 375,000	$ 28,307	$ 958,000

	Capital Leases	Compensated Absences	Landfill Postclosure Care Costs
Balance, July 1, 2015	$ 627,371	$ 193,903	$ 286,992
Additions	0	124,971	2,039
Reductions	(202,040)	(113,136)	(117,074)
Balance, June 30, 2016	$ 425,331	$ 205,738	$ 171,957
Balance Due Within One Year	$ 210,217	$ 123,443	$ 18,880

Analysis of Noncurrent Liabilities Presented on Exhibit A:

Total Noncurrent Liabilities, June 30, 2016	$ 18,305,939
Add: Unamortized Premium on Debt	82,966
Less: Balance Due Within One Year	(1,713,847)
Noncurrent Liabilities - Due in More Than One Year - Exhibit A	$ 16,675,058

Compensated absences will be paid from the employing funds, primarily the General, Solid Waste/Sanitation, and Highway/Public Works funds. Landfill postclosure care costs will be paid from the Solid Waste/Sanitation Fund.

Discretely Presented Morgan County School Department

Changes in Long-term Obligations

Long-term obligations activity for the discretely presented Morgan County School Department for the year ended June 30, 2016, was as follows:
Governmental Activities:

	Other Postemployment Benefits	Termination Benefits	Compensated Absences
Balance July 1, 2015	$ 514,545	$ 146,000	$ 114,838
Additions	209,923	0	27,641
Reductions	(180,190)	(68,000)	(50,921)
Balance June 30, 2016	$ 544,278	$ 78,000	$ 91,558
Balance Due Within One Year	$ 0	$ 38,000	$ 36,623

	Net Pension Liability (Asset) Teacher Legacy Plan *
Balance July 1, 2015	$ (48,605)
Additions	4,292,322
Reductions	(4,116,932)
Balance June 30, 2016	$ 126,785
Balance Due Within One Year	$ 0

* - The Teacher Legacy Plan has a net asset balance on July 1, 2015.

Analysis of Noncurrent Liabilities Presented on Exhibit A:

Total Noncurrent Liabilities, June 30, 2016	$	840,621
Less: Balance Due Within One Year		(74,623)
Noncurrent Liabilities - Due in More Than One Year - Exhibit A	$	765,998

These long-term obligations will be paid from the employing funds, primarily the General Purpose School and School Federal Projects funds.

H. <u>On-Behalf Payments – Discretely Presented Morgan County School Department</u>

The State of Tennessee pays health insurance premiums for retired teachers on-behalf of the Morgan County School Department. These payments are made by the state to the Local Education Group Insurance Plan and the Medicare Supplement Plan. Both of these plans are administered by the State of Tennessee and reported in the state's Comprehensive Annual Financial Report. Payments by the state to the Local Education Group Insurance Plan and the Medicare Supplement Plan for the year ended June 30, 2016, were $45,883 and $15,750, respectively. The School Department has recognized these on-behalf payments as revenues and expenditures in the General Purpose School Fund.

V. OTHER INFORMATION

A. Risk Management

Primary Government

Morgan County carries commercial insurance for risks of loss, including general liability, property, casualty, workers' compensation, and employee health. Retirees are not allowed to participate in the health plan. Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years.

Discretely Presented Morgan County School Department

The discretely presented Morgan County School Department participates in the Local Education Group Insurance Fund (LEGIF), a public entity risk pool established to provide a program of health insurance coverage for employees of local education agencies. In accordance with Section 8-27-301, *Tennessee Code Annotated* (*TCA*), all local education agencies are eligible to participate. The LEGIF is included in the Comprehensive Annual Financial Report of the State of Tennessee, but the state does not retain any risk for losses by this fund. Section 8-27-303, *TCA*, provides for the LEGIF to be self-sustaining through member premiums.

The School Department also participates in the Tennessee Risk Management Trust (TN-RMT), which is a public entity risk pool created under the auspices of the Tennessee Governmental Tort Liability Act to provide governmental insurance coverage. The School Department pays an annual premium to the TN-RMT for its general liability, property, casualty, and workers' compensation insurance coverage. The creation of the TN-RMT provides for it to be self-sustaining through member premiums.

B. Accounting Changes

Provisions of Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application;* Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement No. 68 and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68,* Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments;* and Statement No. 79, *Certain External Investment Pools and Pool Participants* became effective for the year ended June 30, 2016.

GASB Statement No. 72, established general principles for measuring fair value and standards of accounting and financial reporting for assets and liabilities measured at fair value. This standard supersedes previous statements as they relate to measuring fair value of certain assets and liabilities.

GASB Statement No. 73, established accounting and reporting requirements for pensions that are not administered through a trust account and also addresses changes made to Statements No. 67 and No. 68. The changes to Statements No. 67 and No. 68 require new RSI disclosures concerning plan investments and address specific payables to defined benefit plans.

GASB Statement No. 76, addresses changes made to the hierarchy of generally accepted accounting principles. This standard supersedes Statement No. 55 and reduces the hierarchy from four to two categories.

GASB Statement No. 79, addresses issues related to certain external investment pools and pool participants because of changes in Security and Exchange rules relative to money market funds. This standard establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost rather than fair value for financial reporting purposes standards.

C. Change in Administration

Director of Schools, Dr. Edward Diden, resigned June 30, 2015, and was succeeded by Ronnie Wilson effective July 1, 2015.

D. Contingent Liabilities

The Morgan County School System is one of forty-five Tennessee school districts that are members of the Sweetwater Consortium. The consortium was formed in 2012 to negotiate costs with vendors for providing telephone and internet services to member schools, and awarded a contract to Education Networks of America (ENA). The Federal Government subsidizes the costs of these services through the Federal Communications Commission's (FCC) E-Rate Program. The E-Rate program is managed by Universal Services Administration Company (USAC). Another service provider filed a lawsuit in 2012 challenging the contract awarded by the consortium, which resulted in the withholding of E-Rate funding. The case has been heard by an appeals board and members are awaiting a ruling. If the ruling is favorable for the consortium, then E-Rate funding will be reimbursed by the federal government. If the ruling is unfavorable for the consortium, then a hearing before the FCC will be granted. Consortium members could be required to reimburse ENA for the costs of any services not reimbursed by the E-Rate program. The Morgan County School System's share of these costs is estimated at approximately $618,044.

There are several other pending lawsuits in which the county and the discretely presented School Department are involved. Management, based on information from attorneys for the county and the School Department, estimates that the potential claims not covered by insurance resulting from such litigation would not materially affect the financial statements of the county and the School Department.

E. Landfill Closure/Postclosure Care Costs

Morgan County has active permits on file with the state Department of Environment and Conservation for one sanitary landfill and a demolition landfill. The county has provided financial assurances for estimated closure and postclosure liabilities as required by the State of Tennessee. These financial assurances are on file with the Department of Environment and Conservation.

State and federal laws and regulations require Morgan County to place a final cover on its sanitary landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the county reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. Morgan County closed its sanitary landfill in 1995. The $171,957 reported as postclosure care liability at June 30, 2016, represents amounts based on what it would cost to perform all postclosure care in 2016. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

F. Joint Ventures

The Ninth Judicial District Drug Task Force (DTF) is a joint venture formed by an interlocal agreement between the district attorney general of the Ninth Judicial District, Meigs, Morgan, Loudon, and Roane counties, and various cities within this district. The purpose of the DTF is to provide multi-jurisdictional law enforcement to promote the investigation and prosecution of drug-related activities. Funds for the operations of the DTF come primarily from federal grants, drug fines, and the forfeiture of drug-related assets to the DTF. The DTF is overseen by the district attorney general and is governed by a board of directors including the district attorney general, sheriffs, and police chiefs of participating law enforcement agencies within each judicial district. Morgan County made no contributions to the DTF for the year ended June 30, 2016, and does not have any equity interest in this joint venture. Complete financial statements for the DTF can be obtained from its administrative office at the following address:

Administrative Office:

Office of District Attorney General
Ninth Judicial District
P.O. Box 703
Kingston, TN 37763

Morgan County entered into an agreement with the counties of Cumberland and Roane to establish an Industrial Development Board to purchase land for the development of a joint industrial park. Cumberland, Morgan, and Roane counties jointly own the park. The agreement established a nine-member board with each county appointing three members and having responsibility for one-third of the entity's funding. Morgan County made no contributions to the board for the year ended June 30, 2016. Complete financial statements for the Industrial Development Board can be obtained from its administrative office at the following address:

Administrative Office:

The Industrial Development Board of the Counties of
Cumberland, Morgan, and Roane, Tennessee
34 South Main Street
Crossville, TN 38555

G. Retirement Commitments

1. Tennessee Consolidated Retirement System (TCRS)

Primary Government

General Information About the Pension Plan

Plan Description. Employees of Morgan County and non-certified employees of the discretely presented Morgan County School Department are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the TCRS. The primary government employees comprised 54.35 percent and the non-certified employees of the discretely presented School Department comprised 45.65 percent of the plan based on contribution data. The TCRS was created by state statute under *Tennessee Code Annotated (TCA)*, Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publicly available financial report that can be obtained at w-ww.treasury.tn.gov/tcrs.

Benefits Provided. TCA, Title 8, Chapters 34-37 establish 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 five 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 to vested members at age 55. 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 ten percent and include projected service credits. A variety of death benefits is available under various eligibility criteria.

Member and beneficiary annuitants are entitled to an automatic cost of living adjustment (COLA) after retirement. A COLA is granted each July for annuitants retired prior to the second 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 three percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions plus any accumulated interest.

Employees Covered by Benefit Terms. At the measurement date of June 30, 2016, the following employees were covered by the benefit terms:

Inactive Employees or Beneficiaries Currently Receiving Benefits	174
Inactive Employees Entitled to But Not Yet Receiving Benefits	458
Active Employees	335
Total	967

Contributions. Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute five percent of their salary. Morgan County 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, the Actuarial Determined Contribution (ADC) for Morgan County was $621,625 based on a rate of 7.77 percent of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept Morgan County's state shared taxes if required employer contributions are not remitted. The employer's ADC and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Liability (Asset)

Morgan County's net pension liability (asset) was measured as of June 30, 2015, and the total pension liability (asset) 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 the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3%
Salary Increases	Graded Salary Ranges from 8.97% to 3.71% Based on Age, Including Inflation, Averaging 4.25%
Investment Rate of Return	7.5%, Net of Pension Plan Investment Expenses, Including Inflation
Cost of Living Adjustment	2.5%

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, 2015, 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 rate 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 rate of return by the target asset allocation percentage and by adding inflation of three percent. The target allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Percentage Long-term Expected Real Rate of Return		Percentage Target Allocations	
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	
Total			100	%

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 assumes that employee contributions will be made at the current rate and that contributions from Morgan County 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)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance, July 1, 2014	$ 16,709.615	$ 17,144,195	$ (434,580)
Changes for the Year:			
Service Cost	$ 638.132	$ 0	$ 638,132
Interest	1,270,858	0	1,270.858
Differences Between Expected and Actual Experience	(126,191)	0	(126.191)
Contributions-Employer	0	621,625	(621,625)
Contributions-Employees	0	400.020	(400,020)
Net Investment Income	0	530,200	(530,200)
Benefit Payments. Including Refunds of Employee Contributions	(805.944)	(805,944)	0
Administrative Expense	0	(16.019)	16,019
Other Changes	0	0	0
Net Changes	$ 976,855	$ 729.882	$ 246,973
Balance. June 30. 2015	$ 17,686,470	$ 17,874.077	$ (187,607)

Allocation of Agent Plan Changes in the Net Pension Liability (Asset)

		Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Primary Government	54.35%	$ 9,612,596	$ 9.714.561	$ (101.964)
School Department	45.65%	8,073,874	8.159.516	(85.643)
Total		$ 17,686,470	$ 17,874,077	$ (187,607)

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate. The following presents the net pension liability (asset) of Morgan County calculated using the discount rate of 7.5 percent, as well as what the net pension liability (asset) would be if it was calculated using a discount rate that is one percentage point lower (6.5%) or one percentage point higher (8.5%) than the current rate:

Morgan County	1% Decrease 6.5%	Current Discount Rate 7.5%	1% Increase 8.5%
Net Pension Liability	$ 2,116,545	$ (187,607)	$ (2,097,910)

Pension Expense (Income) and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions

Pension Expense. For the year ended June 30, 2016, Morgan County recognized pension expense of $39,872.

Deferred Outflows of Resources and Deferred Inflows of Resources. For the year ended June 30, 2016, Morgan County 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
Difference Between Expected and Actual Experience	$ 0	$ 264,528
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	610,482	794,017
Contributions Subsequent to the Measurement Date of June 30, 2015 (1)	642,686	N/A
Total	$ 1,253,168	$ 1,058,545

(1) The amount shown above for "Contributions Subsequent to the Measurement Date of June 30, 2016," will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period.

Allocation of Agent Plan Deferred Outflows of Resources and Deferred Inflows of Resources

	Deferred Outflows of Resources	Deferred Inflows of Resources
Primary Government	$ 678,902	$ 575,319
School Department	574,266	483,226
Total	$ 1,253,168	$ 1,058,545

Amounts reported as deferred outflows of resources, with the exception of contributions subsequent to the measurement date, and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Amount
2017	$ (191,814)
2018	(191,814)
2019	(191,814)
2020	127,383
2021	0
Thereafter	0

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

Discretely Presented Morgan County School Department

Non-certified Employees

General Information About the Pension Plan

Plan Description. As noted above under the primary government, employees of Morgan County and non-certified employees of the discretely presented Morgan County School Department are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the TCRS. The primary government employees comprise 54.35 percent and the non-certified employees of the discretely presented School Department comprise 45.65 percent of the plan based on contribution data.

Certified Employees

Teacher Retirement Plan

General Information About the Pension Plan

Plan Description. Teachers of the Morgan County School Department with membership in the TCRS before July 1, 2014, 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 (TCA)*, 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 publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits Provided. TCA, Title 8, Chapters 34-37 establish the benefit terms and can be amended only by the Tennessee General Assembly. Members are eligible to retire with an unreduced benefit at age 65 with five years of service credit or pursuant to the rule of 90 in which the member's age and service credit total 90. Benefits are determined by a 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 to vested members at age 60 or pursuant to the rule of 80. 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 ten percent and include projected service credits. A variety of death benefits is available under various eligibility criteria. Member and beneficiary annuitants are entitled to an automatic cost of living adjustment (COLA) after retirement. A COLA is granted each July for annuitants retired prior to the second 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 three percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. Members who leave 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.

Contributions. Contributions for teachers are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly or by automatic cost controls set out in law. Teachers are required to contribute five percent of their salary to the plan. 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 TCRS, the employer contribution rate cannot be less than four percent, except in years when the maximum funded level, approved by the TCRS Board of Trustees, is reached. By law, 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, 2016, to the Teacher Retirement Plan were $27,993, which is four 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 Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension Liabilities (Assets). At June 30, 2016, the Morgan County School Department reported an asset of $8,515 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2016, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date. The Morgan County School Department's proportion of the net pension asset was based on the Morgan County School Department's share of contributions to the pension plan relative to the contributions of all participating LEAs. At the measurement date of June 30, 2016, the Morgan County School Department's proportion was .211662 percent.

Pension Expense. For the year ended June 30, 2016, the Morgan County School Department recognized pension expense of $11,159.

Deferred Outflows of Resources and Deferred Inflows of Resources. For the year ended June 30, 2016, the Morgan County School Department reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	$ 0	$ 2,772
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	688	0
LEA's Contributions Subsequent to the Measurement Date of June 30, 2015	27,993	N/A
Total	$ 28,681	$ 2,772

The Morgan County School Department's employer contributions of $27,993, reported as pension related deferred outflows of resources subsequent to the measurement date, will be recognized as a decrease (increase) of net pension liability (asset) in the year ending June 30, 2017. 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 Ending June 30	Amount
2017	$ (59)
2018	(59)
2019	(59)
2020	(59)
2021	(231)
Thereafter	(1,617)

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, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3%
Salary Increases	Graded Salary Ranges from 8.97% to 3.71% Based on Age, Including Inflation, Averaging 4.25%
Investment Rate of Return	7.5%, Net of Pension Plan Investment Expenses, Including Inflation
Cost of Living Adjustment	2.5%

Mortality rates are customized based on the June 30, 2012, actuarial experience study and some included adjustment for expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2016, 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 rate 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 rate of return by the target asset allocation percentage and by adding inflation of three 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	Percentage Long-term Expected Real Rate of Return		Percentage Target Allocations	
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	
Total			100	%

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 assumes that employee contributions will be made at the current rate and that contributions from all the 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 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 the Morgan County School Department's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.5 percent, as well as what the Morgan County School Department's proportionate share of the net pension liability (asset) would be if it was calculated using a discount rate that is one percentage point lower (6.5%) or one percentage point higher (8.5%) than the current rate:

School Department's Proportionate Share of the Net Pension Liability (Asset)		1% Decrease 6.5%		Current Discount Rate 7.5%		1% Increase 8.5%
Net Pension Liability	$	1,510	$	(8,515)	$	(15,868)

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

Teacher Legacy Pension Plan

General Information About the Pension Plan

Plan Description. Teachers of the Morgan County School Department with membership in the TCRS before July 1, 2014, 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 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 (TCA)*, 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 publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits Provided. TCA, Title 8, Chapters 34-37 establish the benefit terms and can be amended only by the Tennessee General Assembly. Members of the Teacher Legacy Pension Plan are eligible to retire with an unreduced benefit at age 60 with five 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. A reduced early retirement benefit is available to vested members at age 55. 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 ten percent and include projected service credits. A variety of death benefits is available under various eligibility criteria. Member and beneficiary annuitants are entitled to an automatic cost of living adjustment (COLA) after retirement. A COLA is granted each July for annuitants retired prior to the second 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 three percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest. Under the Teacher Legacy Pension Plan, benefit terms and conditions, including COLAs 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.

Contributions. Contributions for teachers are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Teachers are required to contribute five percent of their salaries. 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 the Morgan County School Department for the year ended June 30, 2016, to the Teacher Legacy Pension Plan were $1,046,164 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 Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension Liability (Assets). At June 30, 2016, the Morgan County School Department reported a liability of $126,785 for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of that date. The Morgan County School Department's proportion of the net pension liability (asset) was based on the Morgan County School Department's long-term share of contributions to the pension plan relative to the contributions of all participating LEAs. At the measurement date of June 30, 2015, the Morgan County School Department's proportion was .309507 percent. The proportion measured at June 30, 2014, was .299122 percent.

Negative Pension Expense. For the year ended June 30, 2016, the Morgan County School Department recognized negative pension expense of $109,914.

Deferred Outflows of Resources and Deferred Inflows of Resources. For the year ended June 30, 2016, the Morgan County School Department 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
Difference Between Expected and Actual Experience	$ 101,750	$ 1,973,424
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	2,289,337	3,107,899
Changes in Proportion of Net Pension Liability (Asset)	111,052	125,429
LEA's Contributions Subsequent to the Measurement Date of June 30, 2015	1,046,164	N/A
Total	$ 3,548,303	$ 5,206,752

The Morgan County School Department's employer contributions of $1,064,164 reported as pension related deferred outflows of resources subsequent to the measurement date, will be recognized as a decrease (increase) in net pension liability (asset) in the year ending June 30, 2017. 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 Ending June 30	Amount
2017	$ (840,842)
2018	(840,842)
2019	(840,842)
2020	195,124
2021	(377,210)
Thereafter	0

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, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3%
Salary Increases	Graded Salary Ranges from 8.97% to 3.71% Based on Age, Including Inflation, Averaging 4.25%
Investment Rate of Return	7.5%, Net of Pension Plan Investment Expenses, Including Inflation
Cost of Living Adjustment	2.5%

Mortality rates are customized based on the June 30, 2012, actuarial experience study and some included adjustments for expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2015, 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 rate 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 rate of return by the target asset allocation percentage and by adding inflation of three 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	Percentage Long-term Expected Real Rate of Return		Percentage Target Allocations	
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	
Total			100	%

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 assumes that employee contributions will be made at the current rate and that contributions from all the 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 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 the Morgan County School Department's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.5 percent, as well as what the Morgan County School Department's proportionate share of the net pension liability (asset) would be if it was calculated using a discount rate that is one percentage point lower (6.5%) or one percentage point higher (8.5%) than the current rate:

School Department's Proportionate Share of the Net Pension Liability (Asset)		1% Decrease 6.5%		Current Discount Rate 7.5%		1% Increase 8.5%
Net Pension Liability	$	8,643,761	$	126,785	$	(6,924,267)

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

2. **Deferred Compensation**

Teachers hired after July 1, 2014, by the discretely presented Morgan County School Department are required to participate in a hybrid pension plan administered by the Tennessee Consolidated Retirement System. This hybrid pension plan requires that these teachers contribute five percent of their salaries into a deferred compensation plan managed by the hybrid plan pursuant to IRC Section 401(k). As part of their employment package, the Morgan County School Department has assumed all costs of funding this program on-behalf of the plan participants. The Section 401(k) plan assets remain the property of the participating teachers and are not presented in the accompanying financial statements. IRC Section 401(k), establishes participation, contribution, and withdrawal provisions for the plans. During the year, the Morgan County School Department contributed $30,551 to the 401(k) portion of the hybrid pension plan on-behalf of the plan participants.

H. Other Postemployment Benefits (OPEB)

Plan Description

The Morgan County School Department participates in the state-administered Local Education Group Insurance Plan for healthcare benefits. For accounting purposes, the plan is an agent multiple-employer defined benefit OPEB plan. Benefits are established and amended by an insurance committee created by Section 8-27-302, *Tennessee Code Annotated,* for teachers. Prior to reaching the age of 65, all members have the option of choosing between the standard 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/article/fa-accfin-cafr.

Funding Policy

The premium requirements of plan members are established and may be amended by the insurance committee. The plan is 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 own contribution policy in terms of subsidizing active employees or retired employees' premiums since the committee is not prescriptive on that issue. The state provides a partial subsidy to Local Education Agency pre-65 teachers and a full subsidy based on years of service for post-65 teachers in the Medicare Supplement Plan. The Morgan County School Department does not pay any premiums for retiree health insurance. However, since pre-65 retirees are allowed to remain on the plan, an implicit rate subsidy exists and is accounted for as other postemployment benefits.

Annual OPEB Cost and Net OPEB Obligation

		Local Education Group Plan
ARC	$	210,000
Interest on the NOPEBO		19,295
Adjustment to the ARC		(19,373)
Annual OPEB cost	$	209,922
Amount of contribution		(180,190)
Increase/decrease in NOPEBO	$	29,733
Net OPEB obligation, 7-1-15		514,545
Net OPEB Obligation, 6-30-16	$	544,278

Fiscal Year Ended	Plan		Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed		Net OPEB Obligation at Year End
6-30-14	Local Education Group	$	154,534	103	% $	513,515
6-30-15	"		159,530	99		514,545
6-30-16	"		209,923	86		544,278

Funded Status and Funding Progress

The funded status of the plan as of July 1, 2015, was as follows:

	Local Education Group Plan
Actuarial valuation date	7/1/2015
Actuarial accrued liability (AAL)	$ 1,973,000
Actuarial value of plan assets	$ 0
Unfunded actuarial accrued liability (UAAL)	$ 1,973,000
Actuarial value of assets as a % of the AAL	0%
Covered payroll (active plan members)	$ 12,473,279
UAAL as a % of covered payroll	15.82%

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.

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. 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, 2015, actuarial valuation for the Local Education Plan, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 3.75 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 6.5 percent initially. The trend rate will decrease to six percent in fiscal year 2016 and then be reduced by decrements to an ultimate rate of 4.7 percent by fiscal year 2050. The rate includes 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. Payroll is assumed to grow at a rate of three percent.

I. Termination Benefits

The Morgan County Board of Education offers a one-time payment of $5,000 to eligible employees as an early retirement bonus. During the 2015-16 year, five employees accepted the offer. The financial statements of this report reflect expenditures of $25,000 in the General Purpose School Fund for the retirement incentive payments, and there is no further liability to those retirees under the incentive plan.

The Morgan County Board of Education also provides $2,000 per year for medical insurance premiums to eligible employees for a maximum of five years following retirement or until the retiree is eligible for Medicare. These payments are made directly to the retiree. During the 2015-16 year, 21 retirees were eligible for this benefit. The financial statements of this report reflect expenditures of $42,000 in the General Purpose School Fund for these payments, and a long-term liability for future known amounts due under this policy is reflected in the government-wide statements for the School Department.

J. Office of Central Accounting, Budgeting, and Purchasing

Morgan County operates under the provisions of the County Financial Management System of 1981. This act provides for a central system of accounting, budgeting, and purchasing for all county departments. The act also provides for the creation of a Finance Department operated under the direction of the finance director.

K. Purchasing Law

The County Financial Management System of 1981 provides for the finance director or a deputy appointed by him to serve as the county purchasing agent. The finance director serves as the purchasing agent for Morgan County. All purchase orders are issued by the Finance Department. Purchases exceeding $10,000 are required to be competitively bid.

Copies of the complete financial statements of the County for the current Fiscal Year are available at http://www.comptroller.tn.gov/la/CountySelect.asp.

APPENDIX D

BOND INSURANCE AND SPECIMEN MUNICIPAL BOND INSURANCE POLICY

BOND INSURANCE

BOND INSURANCE POLICY

Concurrently with the issuance of the Bonds, Build America Mutual Assurance Company ("BAM") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

BAM is a New York domiciled mutual insurance corporation. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure obligations of states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM.

The address of the principal executive offices of BAM is: 200 Liberty Street, 27th Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: www.buildamerica.com.

BAM is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York and in particular Articles 41 and 69 of the New York Insurance Law.

BAM's financial strength is rated "AA/Stable" by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"). An explanation of the significance of the rating and current reports may be obtained from S&P at www.standardandpoors.com. The rating of BAM should be evaluated independently. The rating reflects the S&P's current assessment of the creditworthiness of BAM and its ability to pay claims on its policies of insurance. The above rating is not a recommendation to buy, sell or hold the Bonds, and such rating is subject to revision or withdrawal at any time by S&P, including withdrawal initiated at the request of BAM in its sole discretion. Any downward revision or withdrawal of the above rating may have an adverse effect on the market price of the Bonds. BAM only guarantees scheduled principal and scheduled interest payments payable by the issuer of the Bonds on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the Policy), and BAM does not guarantee the market price or liquidity of the Bonds, nor does it guarantee that the rating on the Bonds will not be revised or withdrawn.

Capitalization of BAM

BAM's total admitted assets, total liabilities, and total capital and surplus, as of March 31, 2017 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were $504.2 million, $71.5 million and $432.7 million, respectively.

BAM is party to a first loss reinsurance treaty that provides first loss protection up to a maximum of 15% of the par amount outstanding for each policy issued by BAM, subject to certain limitations and restrictions.

BAM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading "BOND INSURANCE".

Additional Information Available from BAM

Credit Insights Videos**.** For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM's analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM's website at buildamerica.com/creditinsights/. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Credit Profiles**.** Prior to the pricing of bonds that BAM has been selected to insure, BAM may prepare a pre-sale Credit Profile for those bonds. These pre-sale Credit Profiles provide information about the sector designation (e.g. general obligation, sales tax); a preliminary summary of financial information and key ratios; and demographic and economic data relevant to the obligor, if available. Subsequent to closing, for any offering that includes bonds insured by BAM, any pre-sale Credit Profile will be updated and superseded by a final Credit Profile to include information about the gross par insured by CUSIP, maturity and coupon. BAM pre-sale and final Credit Profiles are easily accessible on BAM's website at buildamerica.com/obligor/. BAM will produce a Credit Profile for all bonds insured by BAM, whether or not a pre-sale Credit Profile has been prepared for such bonds. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Disclaimers. The Credit Profiles and the Credit Insights videos and the information contained therein are not recommendations to purchase, hold or sell securities or to make any investment decisions. Credit-related and other analyses and statements in the Credit Profiles and the Credit Insights videos are statements of opinion as of the date expressed, and BAM assumes no responsibility to update the content of such material. The Credit Profiles and Credit Insight videos are prepared by BAM; they have not been reviewed or approved by the issuer of or the underwriter for the Bonds, and the issuer and underwriter assume no responsibility for their content.

BAM receives compensation (an insurance premium) for the insurance that it is providing with respect to the Bonds. Neither BAM nor any affiliate of BAM has purchased, or committed to purchase, any of the Bonds, whether at the initial offering or otherwise

MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

BONDS: $__________ in aggregate principal amount of [NAME OF TRANSACTION] [and maturing on]

Effective Date: _________

Risk Premium: $_________
Member Surplus Contribution: $_________
Total Insurance Payment: $_________

BUILD AMERICA MUTUAL ASSURANCE COMPANY ("BAM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") for the Bonds named above (as set forth in the documentation providing for the issuance and securing of the Bonds), for the benefit of the Owners or, at the election of BAM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the first Business Day following the Business Day on which BAM shall have received Notice of Nonpayment, BAM will disburse (but without duplication in the case of duplicate claims for the same Nonpayment) to or for the benefit of each Owner of the Bonds, the face amount of principal of and interest on the Bonds that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by BAM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of such principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in BAM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by BAM is incomplete, it shall be deemed not to have been received by BAM for purposes of the preceding sentence, and BAM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, any of whom may submit an amended Notice of Nonpayment. Upon disbursement under this Policy in respect of a Bond and to the extent of such payment, BAM shall become the owner of such Bond, any appurtenant coupon to such Bond and right to receipt of payment of principal of or interest on such Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under such Bond. Payment by BAM either to the Trustee or Paying Agent for the benefit of the Owners, or directly to the Owners, on account of any Nonpayment shall discharge the obligation of BAM under this Policy with respect to said Nonpayment.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent (as defined herein) are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless BAM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration) and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment made to an Owner by or on behalf of the Issuer of principal or interest that is Due for Payment, which payment has been recovered from such Owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means delivery to BAM of a notice of claim and certificate, by certified mail, email or telecopy as set forth on the attached Schedule or other acceptable electronic delivery, in a form satisfactory to BAM, from and signed by an Owner, the Trustee or the Paying Agent, which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount, (d) payment instructions and (e) the date such claimed amount becomes or became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer, the Member or any other person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

BAM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee, the Paying Agent, the Member and the Issuer specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee, the Paying Agent, the Member or the Issuer (a) copies of all notices required to be delivered to BAM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to BAM and shall not be deemed received until received by both and (b) all payments required to be made by BAM under this Policy may be made directly by BAM or by the Insurer's Fiscal Agent on behalf of BAM. The Insurer's Fiscal Agent is the agent of BAM only, and the Insurer's Fiscal Agent shall in no event be liable to the Trustee, Paying Agent or any Owner for any act of the Insurer's Fiscal Agent or any failure of BAM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, BAM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to BAM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy. This Policy may not be canceled or revoked.

This Policy sets forth in full the undertaking of BAM and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity. This Policy is being issued under and pursuant to, and shall be construed under and governed by, the laws of the State of New York, without regard to conflict of law provisions. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. THIS POLICY IS ISSUED WITHOUT CONTINGENT MUTUAL LIABILITY FOR ASSESSMENT.

In witness whereof, BUILD AMERICA MUTUAL ASSURANCE COMPANY has caused this Policy to be executed on its behalf by its Authorized Officer.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: ______________________________________
Authorized Officer

Notices (Unless Otherwise Specified by BAM)

Email:
claims@buildamerica.com
Address:
1 World Financial Center, 27th floor
200 Liberty Street
New York, New York 10281
Telecopy:
212-962-1524 (attention: Claims)