OFFICIAL STATEMENT

NEW ISSUE Rating: S&P: "A+"
BOOK-ENTRY-ONLY (See "MISCELLANEOUS-Rating")

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

$8,360,000
CITY OF LAFOLLETTE, TENNESSEE
General Obligation Bonds, Series 2017

Dated: May 25, 2017 Due: March 1 (as indicated below)

The $8,360,000* General Obligation Bonds, Series 2017 (the "Bonds") shall be issued by the City of LaFollette, Tennessee (the "City") as book-entry-only Bonds in denominations of $5,000 and authorized integral multiples thereof. The Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC") except as otherwise described herein. DTC will act as securities depository of the Bonds. So long as Cede & Co. is the registered owner of the Bonds, as the nominee for DTC, principal and interest with respect to the Bonds shall be payable to Cede & Co., as nominee for DTC, which will, in turn, remit such principal and interest to the DTC participants for subsequent disbursements to the beneficial owners of the Bonds. Individual purchases of the Bonds will be made in book-entry-only form, in denominations of $5,000 or integral multiples thereof and will bear interest at the annual rates as shown below. Interest on the Bonds is payable semi-annually from the date thereof commencing on September 1, 2017 and thereafter on each March 1 and September 1 by check or draft mailed to the owners thereof as shown on the books and records of Regions Bank, Nashville, Tennessee, the registration and paying agent (the "Registration Agent"). In the event of discontinuation of the book-entry system, principal of and interest on the Bonds are payable at the designated corporate trust office of the Registration Agent.

The Bonds shall be payable from unlimited ad valorem taxes to be levied on all taxable property within the corporate limits of the City. For the prompt payment of principal of, premium, if any, and interest on the Bonds, the full faith and credit of the City have been irrevocably pledged. The Bonds shall be additionally payable from and secured by a pledge of the revenues to be derived from the operation of the City's electric system.

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

Due (March 1)	Amount*	Interest Rate	Yield		CUSIPs**	Due (March 1)	Amount*	Interest Rate	Yield		CUSIPs**
2021	$ 390,000	3.00%	1.50%		503030 NK0	2030	$ 495,000	2.75%	2.50%	c	503030 NU8
2022	410,000	3.00	1.60		503030 NL8	2031	510,000	3.00	2.65	c	503030 NV6
2023	420,000	3.00	1.80		503030 NM6	2032	525,000	3.00	2.75	c	503030 NW4
2024	430,000	2.00	1.90	c	503030 NN4	2033	540,000	3.00	2.85	c	503030 NX2
2025	440,000	2.25	2.10	c	503030 NP6	2034	555,000	3.00	2.90	c	503030 NY0
2026	450,000	2.25	2.20	c	503030 NQ7	2035	575,000	3.25	3.00	c	503030 NZ7
2027	460,000	2.50	2.25	c	503030 NR5	2036	595,000	3.25	3.10	c	503030 PA0
2028	470,000	2.50	2.30	c	503030 NS3	2037	610,000	3.25	3.20	c	503030 PB8
2029	485,000	2.50	2.40	c	503030 NT1						

c = Yield to call March 1, 2023.

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

The Bonds are offered when, as and if issued by the City, subject to the approval of the legality thereof by Bass, Berry & Sims PLC, Knoxville, Tennessee, bond counsel, whose opinion will be delivered with the Bonds. Certain legal matters will be passed upon from Troutman & Troutman, P.C., counsel to the City. It is expected that the Bonds will be available for delivery through the facilities of DTC, New York, New York, on or about May 25, 2017.

Cumberland Securities Company, Inc.
Financial Advisor

May 3, 2017

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

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

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

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

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

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

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

CITY OF LAFOLLETTE, TENNESSEE

OFFICIALS

Honorable Michael Stanfield	*Mayor*
Terry Sweat	*Finance Director*
James Jeffries	*City Administrator*
Stan Foust	*City Clerk*
Reid Troutman	*City Attorney*
Walter M. (Kenny) Baird, Jr.	*Utilities General Manager*

COUNCIL MEMBERS

Joe Bolinger, Vice Mayor

Ann Thompson

Bill Archer

Lonnie Wilson

REGISTRATION AND PAYING AGENT

Regions Bank
Nashville, Tennessee

BOND COUNSEL

Bass, Berry & Sims PLC
Knoxville, Tennessee

UNDERWRITER

Wells Fargo Bank National Association
Charlotte, North Carolina

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.*

Issuer	City of LaFollette, Tennessee (the "City", "Municipality" or "Issuer") See APPENDIX B contained herein.
The Bonds	$8,360,000* General Obligation Bonds, Series 2017 (the "Bonds").
Security	The Bonds shall be payable from unlimited ad valorem taxes to be levied on all taxable property within the City. For the prompt payment of the principal of, premium, if any, and interest on the Bonds, the full faith and credit of the City are irrevocably pledged. The Bonds shall be additionally payable and secured by a pledge of the City's revenues to be derived from the operation of the City's electric system. The City may hereinafter issue any bonds or other indebtedness secured on a parity with the pledge of the revenues from the operation of the System hereunder by designating such bonds or other indebtedness as being on such a parity of lien, with such lien being on such terms and based upon such covenants as the City approves in connection with the issuance of such parity bonds or indebtedness.
Purpose	The Bonds are being issued for the purpose of providing funds for (i) the acquisition of land and the construction, renovation, extension and equipping of site improvements, facilities and equipment for the City's electric system (the "System"); (ii) the acquisition of all property, real and personal, appurtenant to the foregoing (collective, the "Projects"); and (iii) the payment of legal, fiscal, administrative costs incident to the indebtedness described herein.
Optional Redemption	The Bonds are subject to optional redemption prior to maturity on or after March 1, 2023, at the redemption price of par plus accrued interest. See section entitled "SECURITIES OFFERED - Optional Redemption".
Tax Matters	In the opinion of Bond Counsel, based on existing law and assuming compliance with certain tax covenants of the City, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account in determining the adjusted current earnings of certain corporations for purposes of the alternative minimum tax on corporations. Interest on the Bonds will be exempt from certain taxation in Tennessee, all as more fully described in the section entitled "LEGAL MATTERS-Tax Matters" and APPENDIX A (form of opinion) included herein.
Bank Qualification	The Bonds have been designated or deemed designated as "qualified tax-exempt obligations" within the meaning of Section 265 of the Internal Revenue Code of 1986, as amended. See the section entitled "LEGAL MATTERS - Tax Matters" for additional information.
Rating	S&P: "A+". See the section entitled "MISCELLANEOUS - Rating" for more information.
Registration and Paying Agent	Regions Bank, Nashville, Tennessee (the "Registration Agent").
Bond Counsel	Bass, Berry & Sims PLC, Knoxville, Tennessee.

Financial Advisor	Cumberland Securities Company, Inc., Knoxville, Tennessee. See the section entitled "MISCELLANEOUS - Financial Advisor; Related Parities; Others", herein.
Underwriter....................................	Wells Fargo Bank National Association, Charlotte, North Carolina.
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".
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 the section entitled SECURITIES OFFERED herein. The Bonds will be issued with CUSIP numbers and delivered through the facilities of the Depository Trust Company, New York, New York.
Disclosure	In accordance with Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 as amended, the City will provide the Municipal Securities Rulemaking Board ("MSRB") through the operation of the Electronic Municipal Market Access system ("EMMA") and the State Information Depository ("SID") established in Tennessee, if any, annual financial statements and other pertinent credit information, including the Comprehensive Annual Financial Reports. For additional information, see the section entitled "MISCELLANEOUS - Continuing Disclosure" for additional information.
Other Information..........................	The information in the *Official Statement* is deemed "final" within the meaning of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 as of the date which appears on the cover hereof. For more information concerning the City, or the OFFICIAL STATEMENT, contact Kenny Baird, General Manager, 302 North Tennessee Avenue, LaFollette, Tennessee 37766, Telephone: (423) 562-3316; or the City's Financial Advisor, Cumberland Securities Company, Inc., Telephone: (865) 988-2663.

GENERAL FUND BALANCES

Summary of Changes In Fund Balances

(In Thousands)

For the Fiscal Year Ended June 30

....	**2012**	**2013**	**2014**	**2015**	**2016**
Beginning Fund Balance	$4,719,849	$5,171,150	$4,734,537	$3,714,571	$3,928,663
Revenues	5,364,885	5,263,404	5,636,509	6,324,231	6,321,408
Expenditures	7,344,816	6,217,558	7,218,629	6,887,542	7,484,111
Other Financing Sources:					
Transfers In	66,000	-	-	11,000	-
Transfers Out	(460,562)	(478,718)	(494,171)	(338,747)	(38,256)
Bond/Note Proceeds	1,863,321	-	-	-	-
Transfers In Lieu of	962,473	996,259	1,056,325	1,105,150	1,182,650
Adjustments	-	-	-	-	14,773
Ending Fund Balance	**$5,171,150**	**$4,734,537**	**$3,714,571**	**$3,928,663**	**$3,925,127**

Source: Comprehensive Annual Financial Reports of the City of LaFollette, Tennessee.

$8,360,000*
CITY OF LAFOLLETTE, TENNESSEE
General Obligation Bonds, Series 2017

SECURITIES OFFERED

AUTHORITY AND PURPOSE

This OFFICIAL STATEMENT which includes the Summary Statement hereof and appendices hereto is furnished in connection with the offering by the City of LaFollette, Tennessee (the “City”, “Municipality” or “Issuer”) of its $8,360,000* General Obligation Bonds, Series 2017 (the “Bonds”).

The Bonds are authorized to be issued pursuant to the provisions of Title 9, Chapter 21, *Tennessee Code Annotated*, as amended, and other applicable provisions of the law and pursuant to resolutions (the “Resolution”) adopted by the City Council of the City (the “Board”) on April 4, 2017.

The Bonds are being issued for the purpose of providing funds for (i) the acquisition of land and the construction, renovation, extension and equipping of site improvements, facilities and equipment for the City's electric system (the "System"); (ii) the acquisition of all property, real and personal, appurtenant to the foregoing (collective, the "Projects"); and (iii) the payment of legal, fiscal, administrative costs incident to the indebtedness described herein.

DESCRIPTION OF THE BONDS

The Bonds will be dated and bear interest from the date of issuance May 25, 2017. Interest on the Bonds will be payable semi-annually on March 1 and September 1, commencing September 1, 2017. The Bonds are issuable in registered book-entry form only and in $5,000 denominations or integral multiples thereof as shall be requested by each respective registered owner.

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

SECURITY

The Bonds shall be payable from unlimited ad valorem taxes to be levied on all taxable property within the City. For the prompt payment of the principal of, premium, if any, and interest on the Bonds, the full faith and credit of the City are irrevocably pledged. The Bonds shall be additionally payable and secured by a pledge of the City's revenues to be derived from the operation of the City’s electric system. The City may hereinafter issue any bonds or other indebtedness secured on a parity with the pledge of the revenues from the operation of the System hereunder by designating such bonds or other indebtedness as being on such a parity of lien, with such lien being on such terms and based upon such covenants as the City approves in connection with the issuance of such parity bonds or indebtedness.

The City through its governing body, shall annually levy and collect a tax on all taxable property within the City, in addition to all other taxes authorized by law, sufficient to pay the principal of and interest on the Bonds when due. Principal and interest on the Bonds falling due at any time when there are insufficient funds from such tax shall be paid from the current funds of the City and reimbursement therefore shall be made out of taxes provided by the Resolution when the same shall have been collected. The tax required to be levied as described above may be reduced to the extent of any direct appropriations form other funds, taxes and revenues of the Municipality to the payment of debt service on the Bonds, including revenues of the electric system.

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

QUALIFIED TAX-EXEMPT OBLIGATIONS

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

OPTIONAL REDEMPTION

Bonds maturing March 1, 2024, and thereafter, shall be subject to optional redemption prior to maturity at the option of the City on March 1, 2023 and thereafter, as a whole or in part, at any time, at the redemption price of par plus accrued interest to the redemption date.

If less than all the Bonds shall be called for redemption, the maturities to be redeemed shall be designated by the Board of Mayor Alderman of the City, 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.

NOTICE OF REDEMPTION

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

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BASIC DOCUMENTATION

REGISTRATION AGENT

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

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

BOOK-ENTRY-ONLY SYSTEM

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

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

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

DTC and its Participants. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National

Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a S&P rating of AA+. The DTC Rules applicable to its Participants are on file with the U.S. Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

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

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

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

DISCONTINUANCE OF BOOK-ENTRY-ONLY SYSTEM

In the event that (i) DTC determines not to continue to act as securities depository for the Bonds or (ii) to the extent permitted by the rules of DTC, the City 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 City will attempt to locate another qualified securities depository, and if no qualified securities depository is available, Bond certificates will be printed and delivered to beneficial owners.

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

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

DISPOSITION OF BOND PROCEEDS

The proceeds of the sale of the Bonds shall be deposited with a financial institution regulated by the Federal Deposit Insurance Corporation or similar federal agency in special funds known as the Electric System Construction Funds (the "Construction Fund"), or such other designation as shall be determined by the Mayor to be kept separate and apart from all other funds of the City. The City shall disburse funds in the Construction Fund to pay costs of issuance including necessary legal, accounting and fiscal expenses, printing, engraving, advertising and similar expenses, administrative and clerical costs, Registration Agent fees, bond insurance premiums, if any, and other necessary miscellaneous expenses incurred in connection with the issuance and sale of the Bonds. The remaining funds in the Construction Fund shall be disbursed solely to pay the costs of the Project. Money in the Construction Funds shall be secured in the manner prescribed by applicable statutes relative to the securing of public or trust funds, if any, or, in the absence of such a statute, by a pledge of readily marketable securities having at all times a market value of not less than the amount in said Construction Fund. Money in the Construction Funds shall be expended only for the purposes authorized by the Resolution. Moneys in the Construction Fund shall be invested at the direction of the City in such investments as shall be permitted by applicable law to the extent permitted by applicable law. Earnings from such investments shall be deposited in the City’s electric debt service fund. After completion of the Project including earnings from such investments, shall be deposited to the City’s electric debt service fund.

DISCHARGE AND SATISFACTION OF BONDS

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

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

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

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

and if the City shall also pay or cause to be paid all other sums payable hereunder by the City with respect to such Bonds, or make adequate provision therefor, and by resolution of the Governing Body instruct any such escrow agent to pay amounts when and as required to the Registration Agent for the payment of principal of and interest on such Bonds when due, then and in that case the indebtedness evidenced by such Bonds shall be discharged and satisfied and all covenants, agreements and obligations of the City to the holders of such Bonds shall be fully discharged and satisfied and shall thereupon cease, terminate and become void; and if the City shall pay and discharge the indebtedness evidenced by any of the Bonds in the manner provided in either clause (a) or clause (b) above, then the registered owners thereof shall thereafter be entitled only to payment out of the money or Defeasance Obligations (defined herein) deposited as aforesaid.

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

REMEDIES OF BONDHOLDERS

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

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

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

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LEGAL MATTERS

LITIGATION

There are no claims against the City, including claims in litigation, which, in the opinion of the City, would have a material adverse effect on the City's financial position. There are no suits threatened or pending challenging the legality or validity of the Bonds or the right of the City to sell or issue the Bonds.

TAX MATTERS

Federal

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

- is excluded from a bondholder's federal gross income under the Internal Revenue Code of 1986, 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 Bonds that the City must continue to meet after the Bonds are issued. These requirements generally involve the way that Bond proceeds must be invested and ultimately used. If the City does not meet these requirements, it is possible that a bondholder may have to include interest on the Bonds in its federal gross income on a retroactive basis to the date of issue. The City has covenanted to do everything necessary to meet these requirements of the Code.

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

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

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

Bond Counsel is not responsible for updating its opinion in the future. It is possible that future events or changes in applicable law could change the tax treatment of the interest on the Bonds or affect the market price of the Bonds. See also the section "CHANGES IN FEDERAL AND STATE TAX LAW" below.

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

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

Original Issue Discount. A 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 Bond. Bond Counsel's opinion is that any original issue discount on these 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 Bonds will be increased. If a bondholder owns one of these Bonds, it should consult its tax advisor regarding the tax treatment of original issue discount

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

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

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

State Taxes

Under existing law, the Bonds and the income therefrom are exempt from all present state, county and municipal taxes in Tennessee except (a) Tennessee excise taxes on interest on the Bonds during the period the Bonds are held or beneficially owned by any organization or entity, or other than a sole proprietorship or general partnership doing business in the State of Tennessee, and (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.

CHANGES IN FEDERAL AND STATE TAX LAW

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

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

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 given the Bonds the rating of "A+".

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

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

COMPETITIVE PUBLIC SALE

The Bonds were offered for sale at competitive public bidding on May 3, 2017. Details concerning the public sale were provided to potential bidders and others in the *Preliminary Official Statement* that was dated April 20, 2017.

The successful bidder for the Bonds was an account led by Wells Fargo Bank National Association, Charlotte, North Carolina (the "Underwriters") who contracted with the City, subject to the conditions set forth in the Official Notice of Sale and Bid Form to purchase the Bonds at a purchase price of $8,430,619.41 (consisting of the par amount of the Bonds, plus a reoffering premium of $139,894.55 and less an underwriter's discount of $69,275.14) or 100.845% of par.

FINANCIAL ADVISOR; RELATED PARTIES; OTHER

Financial Advisor. Cumberland Securities Company, Inc., Knoxville, Tennessee, has served as financial advisor (the "Financial Advisor") to the City for purposes of assisting with the development and implementation of a bond structure in connection with the issuance of the Bonds. The Financial Advisor has not been engaged by the City to compile, create, or interpret any information in the PRELIMINARY OFFICIAL STATEMENT and OFFICIAL STATEMENT relating to the City, including without limitation any of the City's financial and operating data, whether historical or projected. Any information contained in the PRELIMINARY OFFICIAL STATEMENT and OFFICIAL STATEMENT concerning the City, any of its affiliated or constractors 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 Finaincial Advisor as to its accuracy or completeness or otherwise. The Financial Advoisor is not a public accounting firm and has not been engaged by the City to review or audit any information in the PRELIMINARY OFFICIAL STATEMENT and OFFICIAL STATEMENT in accordance with accounting standards.

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

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

Cumberland Securities Company, Inc. distributed the *Preliminary Official Statement*, in final form, and the *Official Statement*, in final form on behalf of the City and will be compensated and/or reimbursed for such distribution and other such services.

Bond Counsel. From time to time, Bass, Berry & Sims PLC has represented the Bank on legal matters unrelated to the City and may do so again in the future.

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

DEBT RECORD

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

ADDITIONAL DEBT

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

CONTINUING DISCLOSURE

The City will at the time the Bonds are delivered execute a Continuing Disclosure Certificate under which it will covenant for the benefit of holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the City and the Electric System by not later than twelve months after the end of each fiscal year commencing with the fiscal year ending June 30, 2017 (the "Annual Reports"), and to provide notice of the occurrence of certain significant events not later than ten business days after the occurrence of the events and notice of failure to provide any required financial information of the City. The Annual Reports (and audited financial statements if filed separately) and notices described above will be filed by the City with the Municipal Securities Rulemaking Board ("MSRB") at www.emma.msrb.org and with any State Information Depository which may be established in Tennessee (the "SID"). The specific nature of the information to be contained in the Annual Reports 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. For the past five years there was no general obligation debt of the City not expected to be paid from the revenue of a Utility System of the City (CUSIP 503030), so there are no existing disclosure filing requirements for such general obligation debt of the City.

For the past five years, the only general obligation debt (CUSIP 503030) with disclosure filing requirements to be paid by water and sewer revenues consists of the City's General Obligation Bonds, Series 2014A, dated December 5, 2014. These requirements have been met on time every year since Fiscal Year 2015.

The City also had general obligation debt payable from the City's electric system (CUSIP 503030). With respect to such debt, the City did not file its Annual Report with the certain required operating statistics on the City's CUSIP of 503030 for Fiscal Years 2012 or 2013. Instead, the required information was filed on the CUSIP applicable to the revenue bonds payable from the City's electric system of 506837 for Fiscal Years 2012 or 2013 on time. All debt on Electric System CUSIP of 506837 was redeemed on March 31, 2015.

Historically, the City did not make all filings for rating changes. To correct this situation, the City filed the current ratings as of July 16, 2014 on the Electric System Revenue Bonds, Series 2005, dated September 1, 2005 that were redeemed in full on March 1, 2015. And the City has posted a material event notice for the redemption of its outstanding Electric System Revenue Refunding and Improvement Bonds, Series 1999, dated March 1, 1999 that were redeemed in full on September 1, 2014.

The City has hired Cumberland Securities Company, Inc. to act as its Dissemination Agent on the its outstanding debt in the future.

The City does not deem any of the forgoing omissions to be material, and therefore, in the judgment of the City, for the past five years, the City has complied in all material respects with its existing continuing disclosure agreements in accordance with Rule 15c2-12.

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

1. Summary of bonded indebtedness as of the end of such fiscal year as shown on page B-17;

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-18 and B-19;

3. Information about the Bonded Debt Service Requirements – General Obligation Debt Service Fund as of the end of such fiscal year as shown on page B-20;

4. Information about the Bonded Debt Service Requirements –Water and Sewer Debt Service Fund as of the end of such fiscal year as shown on page B-21;

5. Information about the Bonded Debt Service Requirements – Electric Debt Service Fund as of the end of such fiscal year as shown on page B-22;

6. The fund balances and retained earnings for the fiscal year as shown on page B-23;

7. Summary of Revenues, Expenditures and Changes in Fund Balances - General Fund for the fiscal year as shown on page B-24;

8. Summary of Revenues, Expenditures and Changes in Fund Balances - Electric Fund for the fiscal year as shown on page B-25;

9. The estimated assessed value of property in the City for the tax year ending in such fiscal year and the total estimated actual value of all taxable property for such year as shown on page B-32;

10. Property tax rates and tax collections of the City for the tax year ending in such fiscal year as well as the uncollected balance for such fiscal year as shown on page B-32; and

11. The ten largest taxpayers as shown on page B-33.

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

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

1. Upon the occurrence of a Listed Event (as defined in (3) below), the City shall in a timely manner, but in no event more than ten (10) business days after the occurrence of such event, file a notice of such occurrence with the MSRB and SID, if any.

2. For Listed Events where notice is only required upon a determination that such event would be material under applicable Federal securities laws, the City shall determine the materiality of such event as soon as possible after learning of its occurrence.

3. The following are the Listed Events:

   a. Principal and interest payment delinquencies;

   b. Non-payment related defaults, if material;

   c. Unscheduled draws on debt service reserves reflecting financial difficulties;

   d. Unscheduled draws on credit enhancements reflecting financial difficulties;

   e. Substitution of credit or liquidity providers, or their failure to perform;

   f. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;

   g. Modifications to rights of Bondholders, if material;

   h. Bond calls, if material, and tender offers;

   i. Defeasances;

   j. Release, substitution, or sale of property securing repayment of the securities, if material;

   k. Rating changes;

   l. Bankruptcy, insolvency, receivership or similar event of the obligated person;

   m. The consummation of a merger, consolidation or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

   n. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

Termination of Reporting Obligation. The City's obligations under the 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 City 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 either (i) is approved by the Holders of the Bonds, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or beneficial owners of the Bonds.

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

Default. In the event of a failure of the City to comply with any provision of the Disclosure Certificate, any Bondholder or any beneficial owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under the 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 City to comply with the Disclosure Certificate shall be an action to compel performance.

ADDITIONAL INFORMATION

Use of the words "shall," "must," or "will" in the PRELIMINARY OFFICIAL STATEMENT and OFFICIAL STATEMENT in summaries of documents or laws to describe future events or continuing obligations is not intended as a representation that such event will occur or obligation will be fulfilled but only that the document or law contemplates or requires such event to occur or obligation to be fulfilled.

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

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

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

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

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CERTIFICATION OF ISSUER

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

/s/ Michael Stanfield
City Mayor

ATTEST:

/s/ Stan Foust
City Recorder

APPENDIX A

FORM OF 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 the City of LaFollette, Tennessee (the "Issuer") of the $____________ General Obligation Bonds, Series 2017 (the "Bonds") dated _________________, 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 City Council 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 corporate limits of the Issuer. The Bonds shall be additionally payable from and secured by a pledge of the Issuer's revenues to be derived from the operation of the Issuer's electric system on a parity with any parity debt herebefore or hereinafter issued by the Issuer secured by such revenues and designated as parity debt.

4. Interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, 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 Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. Failure to comply with certain of such requirements could cause interest on the Bonds to be so included in gross income retroactive to the date of issuance of the Bonds. The Issuer has covenanted to comply with all such requirements. Except as set forth in this Paragraph 4 and Paragraph 6 below, we express no opinion regarding the federal tax consequences arising with respect to the Bonds.

5. Under existing law, the Bonds and the income therefrom are exempt from all present state, county and municipal taxes in Tennessee except (a) 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 Bonds are "qualified tax-exempt" obligations under 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

The City of LaFollette (the "City") is located in Campbell County (the "County") in the northeastern portion of the State of Tennessee between the Cumberland Mountains and foothills of the Great Smoky Mountains. Claiborne County and Union County make up the eastern border of Campbell County. To the south, the County is bordered by Anderson County and to the west by Scott County. The State of Kentucky makes up the northern border of Campbell County. The Town of Jacksboro serves as the county seat and is located 35 miles northeast of Knoxville.

GENERAL

The County has a land area of approximately 447 square miles or 286,080 acres. The principal industries in the County are light manufacturing in general and involve metal components and fabrication in specific. The textile industry also retains a solid position in the County's employment structure. Natural resources composed of our timber, coal limestone, and iron ore are economic staples and vital to the employment base. Twenty-eight percent (28%) of the land area is devoted to farming, with primary agricultural interests being cattle, swine, tobacco, potatoes, hay and corn.

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-Morristown-Sevierville Combined Statistical Area (the "CSA"). According to the 2010 Census, the CSA had a population of 1,056,442. The CSA includes Anderson, Blount, Campbell, Cocke, Grainger, Hamblen, Jefferson, Knox, Loudon, Morgan, Roane, Sevier and Union Counties. The City of Knoxville is the largest city in the CSA with a population of 178,874 according to the 2010 Census. The Town of Jacksboro has a population of 12,020 according to the 2010 Census. The County has a population of 40,716, according to the 2010 Census.

TRANSPORTATION

Transportation facilities are provided by the CSX Railway, U.S. Highway 25-W, State and County Highways 63 and 90, and by Interstate Highway 75, which traverses the County. Campbell County also is served by its own airport with an asphalt runway of over 3,500 feet in length. The nearest commercial airport is the McGhee Tyson Airport 41 miles away in Knoxville.

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EDUCATION

The Campbell County Board of Education operates fourteen schools: eight elementary schools, three middle schools, two high schools and an adult high school in the County. The school system had a fall 2015 enrollment of 5,744 with about 391 teachers.

Source: Tennessee Department of Education.

Campbell County has many opportunities for higher education. Lincoln Memorial University is only 30 miles away in Harrogate, and the University of Tennessee-Knoxville campus is only a brief drive down Interstate I-75 South (35 miles).

The Tennessee Technology Center at Jacksboro. The Tennessee Technology Center at Jacksboro 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 Jacksboro serves the northeast region of the state including Campbell and Union Counties. The Technology Center at Jacksboro began operations in 1967, and the main campus is located in Campbell County. Fall 2014 enrollment was 325 students.

Source: Tennessee Technology Centers.

Roane State Community College Campbell County Branch. Roane State Community College, which began operation in 1971 in Harriman, Roane County, 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.

HEALTHCARE

There are two hospitals that serve the County. *Jellico Community Hospital*, opened since 1974, operates as a nonprofit acute care facility with 54 beds under the direction of the Adventist Health System.

LaFollette Medical Center (previously St. Mary's Medical Center of Campbell County) is part of the Tennova Healthcare system and is located in Lafollette. It has 66 beds with 116 doctors and just recently finished a $5 million renovation and expansion project. The hospital offers a full array of medical services such as a 24-hour emergency department, general surgery and state-of-the-art diagnostic equipment like MRI, CT, nuclear medicine, x-ray and mammography. As of 2011, the Medical Center's parent company, Mercy Health Partners, was sold to create a new system, Tennova Healthcare.

Source: Knoxville News Sentinel.

MANUFACTURING AND COMMERCE

Campbell County is home to several industrial parks. Campbell County Industrial Park Jacksboro consists of a total of 120,000 square feet on 20 acres. Campbell County Industrial Park Mueller Building consists of a total of 63,000 square feet on 12 acres. The Hollingsworth Industrial Park is located near Jacksboro, and the Oswego Industrial Park is located near Jellico in the northern area of the County. The City of Caryville has two industrial parks complete with infrastructure. The Collins Industrial Park is located adjoining Interstate 75 on 20 acres and the McGee Industrial Park near Highway 25W and Interstate 75. The City of LaFollette also has a fifteen-acre industrial site available for private development.

In addition to existing Industrial Parks, Campbell County has two new parks each within five minutes of access to Interstate 75. These parks have elaborate infrastructure in place to include roads, natural gas, electrical service, water and sewage. Both are within corporate limits and are served with fire and police protection.

Campbell County also has sites available in the Oswego Industrial Park, near Jellico, TN and supports marketing efforts by the City of LaFollette in promoting their business park property.

The following is a list of the larger employers located in the City and the County:

Company	Product	Employment
Campbell County School System*	Administration/teachers/services	411
WalMart	Retail	330
A & S Building Systems	Prefabricated Steel Buildings	300
Campbell County Government	County Government	290
St. Mary's Hospital (Lafollette)	Medical Center	275
Advance Food	Frozen Food Processor	225
Camel Manufacturing	Canvas	183
Jellico Community Hospital	Medical Center	175
B/S/H Home Appliance Corp.	Barbeque Equipment	125
Natural Sorb	Defense Dept. Sewn Products	110
Masco Corp.	Refrigeration	95
Muller Gas	Gas Burners	87
City of Lafollette	Government	84
Matix Corp.	Automotive Parts	80

** Teachers and Administrators only*

Source: Department of Economic Development.

EMPLOYMENT INFORMATION

For the month of December 2016, the unemployment rate for the County stood at 7.2% with 14,110 persons employed out of a labor force of 15,210.

The Knoxville MSA's unemployment for December 2016 was at 4.6% with 398,100 persons employed out of a labor force of 417,410. As of December 2016, the unemployment rate in the Knoxville-Morristown-Sevierville CSA stood at 4.9%, representing 508,290 persons employed out of a workforce of 534,320.

Unemployment

	Annual Average **2011**	Annual Average **2012**	Annual Average **2013**	Annual Average **2014**	Annual Average **2015**
National	8.9%	8.1%	7.4%	6.2%	5.3%
Tennessee	9.2%	8.0%	8.2%	6.7%	5.8%
Campbell County	**11.5%**	**10.5%**	**10.8%**	**9.4%**	**8.1%**
Index vs. National	129	129	146	152	153
Index vs. State	125	130	132	140	140
Knoxville MSA	**7.3%**	**6.6%**	**6.9%**	**6.2%**	**5.4%**
Index vs. National	82	81	93	100	102
Index vs. State	79	82	84	93	93
Knoxville-Sevierville-Harriman CSA	**8.3%**	**7.5%**	**7.7%**	**6.5%**	**6.5%**
Index vs. National	93	93	104	105	123
Index vs. State	90	94	94	97	112

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

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ECONOMIC DATA

Per Capita Personal Income

	2010	2011	2012	2013	2014
National	$40,277	$42,453	$44,266	$44,438	$46,049
Tennessee	$35,601	$37,323	$39,137	$39,312	$40,457
Campbell County	**$27,213**	**$28,154**	**$29,090**	**$29,634**	**$30,473**
Index vs. National	68	66	66	67	66
Index vs. State	76	75	74	75	75
Knoxville MSA	**$34,799**	**$36,850**	**$38,557**	**$38,359**	**$39,530**
Index vs. National	86	87	87	86	86
Index vs. State	98	99	99	98	98
Knoxville-Sevierville-Harriman-LaFollette CSA	**$33,312**	**$35,215**	**$36,675**	**$36,614**	**$37,718**
Index vs. National	83	83	83	82	82
Index vs. State	94	94	94	93	93

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

Social and Economic Characteristics

	National	Tennessee	Campbell County	LaFollette
Median Value Owner Occupied Housing	$178,600	$142,100	$89,400	$73,800
% High School Graduates or Higher Persons 25 Years Old and Older	86.70%	85.50%	72.2%	70.1%
% Persons with Income Below Poverty Level	13.50%	16.70%	26.2%	31.9%
Median Household Income	$53,889	$45,219	$32,028	$25,330

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

RECREATION

There are several parks in the County. Each of these parks makes available the full menu of traditional, recreational activities. There are also numerous privately operated recreational facilities available that include sites such as Deerfield, with its own landing strip providing visitors the opportunity to fly in and taxi to their own condo or take their golf cart to the first hole to tee off.

Chuck Swan Wildlife Management Area. Chuck Swan encompasses 24,444 acres of Union and Campbell counties in the ridge and valley section of East Tennessee. The area is located between the Clinch River arm and the Powell River arm of Norris Lake. The property is jointly managed by TWRA and the Tennessee Division of Forestry (TDF). The area has a fifty-yard and a one hundred-yard firing range. Camping is permitted in three designated campgrounds on the area located near the checking station.

Source: Tennessee Wildlife Resources Agency.

Cove Lake State Park. Located in Campbell County, Cove Lake's 673 acres are situated in a beautiful mountain valley setting on the eastern edge of the Cumberland Mountains. Year-round fishing is permitted on 210-acre Cove Lake. There are scenic nature trails and bike trails leading through the open grasslands and woodlands. In the winter, several hundred Canada Geese make this lakeshore their feeding ground. Nearby is the Devil's Race Track whose steep pinnacle rock affords a panoramic view. The park has an indoor pavilion, a restaurant, a swimming pool and many campsites and picnic areas. The Cumberland Trail State Park, the state's only linear park, can be accessed from Cove Lake.

Source: Tennessee State Parks.

Cumberland Gap National Historical Park. Cumberland Gap National Historical Park is a total of 20,463 acres and includes sections in southeastern Kentucky, northeastern Tennessee, and southwestern Virginia. In Tennessee it is located in Campbell County. This mountain pass on the Wilderness Road, explored by Daniel Boone, developed into a main artery of the great trans-Allegheny migration for settlement of "the Old West" and an important military objective in the Civil War. Visitors to Cumberland Gap can journey back into history by participating in activities including nature hikes, Appalachian music and Saturday evening campfire programs. On a daily basis, visitors can enjoy self-guided hikes, spend time in the visitor center museum and movie theater, or join park rangers on guided tours.

Source: National Park Service.

Cumberland Trail State Park. The Cumberland Trail is the state's only linear park. It opened in 1998 and upon completion around 2016 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 196 miles are open and ready for exploration. The trail is divided into 15 segments. It can be accessed in Campbell County through Cove Lake State Park in Caryville. 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.

Indian Mountain State Park. Indian Mountain State Park is a multi-use facility in Campbell County near Tennessee's northern border at the base of Indian Mountain. The park has only 200 acres but over 297,000 people visit on average each year. In addition to providing camping and recreation opportunities, the 200-acre park is unique in that it was developed on reclaimed strip mine land. Park visitors can enjoy fishing at the two small lakes, picnicking, camping, and two walking trails.

Source: Tennessee State Parks.

Norris Dam, Reservoir and State Park. Tennessee Valley Authority's ("TVA") Norris Dam, the first dam TVA built, is located in neighboring Anderson County on the Clinch River. Norris Reservoir extends 73 miles up the Clinch River and 56 miles up the Powell from Norris Dam. It covers 5 counties: Anderson, Campbell, Union, Claiborne and Grainger Counties. Norris provides 809 miles of shoreline and 33,840 acres of water surface. It is the largest reservoir on a tributary of the Tennessee River. Norris Reservoir is an important component of the system TVA set up to reduce the risks of these disasters. The area around the Clinch River receives more than 45 inches of rain a year. In the past, floodwaters on the Clinch sometimes inundated areas hundreds of miles downstream. The recreational use of Norris Reservoir exceeds that of any other tributary reservoir in the TVA river system. Water sports at Norris include boating, water skiing, swimming, and excellent fishing.

The town of Norris, built to house workers on the dam, was a planned community that became a model for others throughout the nation. It was sold to private owners in 1948. In the 1930s, TVA established demonstration public parks at several locations on Norris Reservoir, including Cove Lake, Big Ridge, and the area around Norris Dam. These parks later became the nucleus of Tennessee's state park system. Norris Dam State Park has 4,000 acres located in Anderson County.

Source: Tennessee Valley Authority and Knoxville News Sentinel.

RECENT DEVELOPMENTS

PACA Body Armor. In March of 2012 PACA Body Armor closed the facility in Jacksboro. About 90 employees were laid off. The company was founded in 1975 and is based in Florida.

Source: WBIR, Knoxville, TN.

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THE CITY OF LAFOLLETTE'S ELECTRIC SYSTEM

UTILITIES BOARD

The LaFollette Utilities Board (the "LUB") is a municipally-owned electrical power distributor, water and wastewater utility owned by the City of LaFollette, Tennessee (the "City"). The City is located about 45 miles north of Knoxville, Tennessee, in Campbell County. LUB serves approximately 21,990 electric, 9,739 water and 3,534 wastewater customers as of June 30, 2016.

HISTORY AND ORGANIZATION

The LaFollette Electric System (the "System") was established in 1939 and is governed, pursuant to the provisions of Chapter 32 of the 1935 Public Acts of the State of Tennessee, by an Electric System Board appointed by the City Council of the City. The System is operated by the City as a separate department under the supervision of LUB, which employs a General Manager. LUB also operates the water and sewer system on behalf of the City.

Today, LUB's Electric Department serves customers in the majority of Campbell County and portions of Claiborne and Union Counties. The System's total customer count as of June 30, 2016 was 21,990. The System employs 70 equivalent full time people and maintains 1,659 miles of line.

ELECTRIC BOARD OF DIRECTORS

A five-member Board of Directors (the "Board") that is appointed by the Mayor and City Council governs the System. Members of the Board as of June 30, 2016 are as follows:

Member	Term Expires	Occupation
Kent Younce – Chairperson*	June 30, 2016	Governmental Affairs Director
James Walker – Vice-Chairman	June 30, 2017	Retired – Railroad
David Longmire – Sec./Treasurer	June 30, 2018	Real Estate and Auctioneer
Boyd Henegar	June 30, 2019	Retired – Railroad
James Campbell	June 30, 2020	Retired – Utility

*Joseph H. Willoughby replaced Kent Younce on the Board of Directors on July 1, 2016. His term expires on June 30, 2021. His employment status is Retired – Workforce Development Director.

Walter M. (Kenny) Baird, Jr., General Manager. The Board has delegated responsibility for the day to day operation of the System to a General Manager, Mr. Walter M. (Kenny) Baird, Jr. Mr. Baird was initially employed by the Board as a part-time staff accountant in June 1987. He was hired as a full-time staff accountant upon the completion of his bachelor's degree in May 1988. Mr. Baird holds a Bachelor of Business Administration degree in Accounting from

Lincoln Memorial University and a Master of Business Administration degree from the University of Tennessee at Chattanooga, as well as an Associate in Applied Science degree in Electric Power Technology from Bismarck State College. Mr. Baird left the System in November 1989 and returned as the Director of Accounting & Finance in March 1993. He also served a brief term on the Board, from July 1992 until February 1993. He is also a Certified Public Accountant in the State of Tennessee. Mr. Baird serves on the boards of numerous charitable and civic organizations.

SERVICE AREA

The System's service area encompasses approximately 500 square miles in Campbell and portions of Claiborne and Union Counties, Tennessee, including approximately 4.9 square miles within the limits of the City of LaFollette. The System is the exclusive distributor of electric power within this service area.

DISTRIBUTION SYSTEM

Wholesale power is purchased from the Tennessee Valley Authority at four delivery points at 161 kV.

The System's distribution system serves approximately 21,990 residential, commercial, and industrial customers located within the City of LaFollette and most of Campbell County, along with several customers in Claiborne and Union Counties. The 7.2/12.47 kV distribution system consists of approximately 1,543 pole line miles of overhead conductor and approximately 116 miles of underground conductor. Numerous circuits from the eleven distribution substations provide for continuity of service via multiple interconnections throughout the System. The eleven substations are continuously monitored by an automated Supervisory Control and Data Acquisition (SCADA) system.

RECENT UPGRADES

Several distribution system improvements were completed throughout the System's service territory in 2016. The System began upgrade work at several distribution substations in 2016, with the work at the Caryville substation being substantially completed during the fiscal year. LUB continues to strive to upgrade distribution facilities according to a long-range capital improvements plan based on engineering and operations studies.

Several general plant improvements were completed in 2016. Construction began on a new vehicle maintenance facility on property adjacent to LUB's headquarters building. Construction will be completed in early 2017.

SOURCE OF ELECTRIC POWER

Since its inception as a municipal system in 1939, the System has purchased all of its energy requirements from the Tennessee Valley Authority (the "TVA") pursuant to the standard contract (the "Power Contract"). The most recent renewal of the purchase contract was made effective September 16, 1979 for a period of 20 years. In 1989, a rolling ten year contract was executed. The contract is subject to earlier termination by either party on not less than ten years' prior written notice. Under the Power Contract, TVA agrees to supply the amount of electric power required for service to the System's customers and the System agrees to purchase all of its electric power from TVA.

The cost and availability of power to the System may be affected by, among other things, factors relating to TVA's nuclear program, fuel supply, environmental considerations such as future legislation regulating the mining of coal, the construction and financing of future generating and transmission facilities and other factors relating to TVA's ability to supply the power demands of its customers, including the System. The power sold to the System is supplied from the entire TVA system and not one specific generating facility.

The Power Contract provides that TVA shall make every reasonable effort to increase the generating capacity of its system and to provide the transmission facilities required to deliver the output thereof so as to be in a position to supply additional power when and to the extent needed by the System. Neither TVA nor the System is liable for breach of contract if the availability or use of power is interrupted or curtailed or if either party is prevented from performing under the Power Contract by circumstances reasonably beyond its control. The amount of power supplied by TVA and the contractual obligation to supply such power are limited by the capacity of the TVA's generating and transmission facilities.

The Power Contract provides that the System may sell power to all customers in its service area, except certain Federal installations and large customers that TVA may serve directly.

The Power Contract specifies the wholesale purchase rates and the monthly resale rates to be adhered to by the System, which may be revised periodically by TVA, through the publication of an Adjustment Addendum, to cover increased costs to TVA. (SEE "ELECTRIC RATES" below.)

THE TENNESSEE VALLEY AUTHORITY

The Tennessee Valley Authority Act of 1933, as amended, established TVA as a wholly owned corporate agency and instrumentality of the United States of America. The Act's objective is the development of the resources of the Tennessee Valley and adjacent areas in order to strengthen the regional and national economy and the national defense. Its specific purposes include: (1) flood control on the Tennessee River and its tributaries, and assistance to flood control on the lower Ohio and the Mississippi Rivers; (2) a modern navigable channel for the Tennessee River; (3) ample supply of power within an area of 80,000 square miles; (4) development and introduction of more efficient soil fertilizers; and (5) greater agricultural and industrial development and improved forestry in the region. All powers of TVA are vested in its Board. The Consolidated Appropriations Act of 2005 amended the TVA Act, restructuring the TVA Board from 3 full-time members to 9 part-time members, at least 7 of whom must be legal residents of the TVA service area. TVA Board members are appointed by the President of the United States by and with the advice and consent of the U.S. Senate. After an initial phase-in period, TVA Board members serve 5-year terms, and at least one member's term ends each year. TVA has a fuel cost tracker, which provides for monthly adjustments to TVA's wholesale power rates for changes in the cost of fuel used to generate electric power.

ELECTRIC RATES

The System has agreed to adhere to resale rates in accordance with the Power Contract with TVA and specifically as provided by the current rate schedule effective October 2015 (SEE "RESIDENTIAL AND GENERAL POWER RESALE RATES OF THE SYSTEM"). The Power Contract provides further that if the resale rates set forth therein do not provide sufficient revenues for the operation and maintenance of the System on a self-supporting, financially sound basis, including debt service, the Board and TVA will agree to changes in rates to provide increased revenues. Similarly, if the rates and charges produce excess revenues, the parties will agree to rate reductions. Since the date of the Power Contract, TVA, by use of Adjustment Addenda, has adjusted the wholesale and resale rates from time to time through publication. The System is not otherwise subject to rate regulation under existing law, and the LaFollette Utilities Board of Directors is not aware of any pending legislation to make its electric rates subject to regulation.

RESIDENTIAL AND GENERAL POWER RATES

The following schedule outlines the retail electric rates charged by the System as of June 30, 2016:

I. Residential Rates – Schedule RS:

Customer Charge:	$16.35 per month
Energy Charge:	$0.10045 per kWh

II. General Power Rates – Schedule GSA

Part 1

Customer Charge:	$26.88 per month
Energy Charge:	$0.11819 per kWh

Part 2

Customer Charge:	$101.46 per delivery point per month
Demand Charge:	First 50 kW - No Charge Over 50 kW - $15.72 per kW
Energy Charge:	First 15,000 kWh – $0.11858 per kWh Additional kWh – $0.06589 per kWh

Part 3

Customer Charge:	$355.12 per delivery point per month
Demand Charge:	First 1,000 kW - $15.82 per kW Next 1,500 kW - $20.40 per kW Excess over 2,500 kW - $40.80 per kW
Energy Charge:	$0.06589 per kWh

Schedule GSB

Customer Charge:	$1,500.00 per delivery point per month
Demand Charge:	On-Peak - $10.12 per kW Maximum - $4.92 per kW

In Excess of Contract Demand - $10.12 per kW
Energy Charge: On-Peak – $0.08946 per kWh
Off-Peak First 200 hours – $0.06622 per kWh
Off-Peak Next 200 hours - $0.02306 per kWh
Off-Peak Additional kWh – $0.01989 per kWh

Schedule GSC

Customer Charge: $1,500.00 per delivery point per month
Demand Charge: On-Peak - $10.12 per kW
Maximum - $4.31 per kW
In Excess of Contract Demand - $10.12 per kW
Energy Charge: On-Peak – $0.08946 per kWh
Off-Peak First 200 hours – $0.06622 per kWh
Off-Peak Next 200 hours - $0.02306 per kWh
Off-Peak Additional kWh – $0.01989 per kWh

Schedule GSD

Customer Charge: $1,500.00 per delivery point per month
Demand Charge: On-Peak - $10.12 per kW
Maximum - $4.30 per kW
In Excess of Contract Demand - $10.12 per kW
Energy Charge: On-Peak – $0.08946 per kWh
Off-Peak First 200 hours – $0.06622 per kWh
Off-Peak Next 200 hours - $0.02200 per kWh
Off-Peak Additional kWh – $0.01989 per kWh

III. OUTDOOR LIGHTING RATES – SCHEDULE LS:

Customer Charge: $26.88 per delivery point per month
Energy Charge: 0.07219 per kWh per month

Source: Audited Financial Statements, LaFollette Utilities Board

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OPERATING AND FINANCIAL HISTORY

OPERATING HISTORY

The following tables present information relating to the number of meters in service, operating revenues of the System, and data on the largest industrial customers. Unless otherwise stated, such information is presented for the fiscal years ended June 30 in the years shown.

NUMBER OF METERS IN SERVICE

	2012	2013	2014	2015	2016
Residential	18,995	18,986	18,909	18,975	19,022
General Power – 50kW	2,573	2,597	2,602	2,622	2,643
General Power – Over 50kW	204	199	197	191	195
Street and Athletic	132	133	134	134	130
Total	**21,904**	**21,915**	**21,842**	**21,922**	**21,990**

Source: System Officials

HISTORICAL ELECTRIC SYSTEM USE

The following table shows historical figures for the population of Campbell County, the System's average number of customers, electric load and electric sales.

Year	Population	Number of Meters	Peak System Demand (kW)	Sales kWh
2012	40,420	21,904	93,071	383,027,606
2013	40,238	21,915	92,114	401,645,191
2014	39,918	21,842	129,253	408,908,058
2015	39,752	21,922	123,986	403,878,251
2016	39,752	21,990	109,789	381,659,152

Source: System Officials

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OPERATING STATISTICS

	For the Fiscal Year Ended June 30,				
	2012	**2013**	**2014**	**2015**	**2016**
Power Usage – kWh					
Residential	241,174,583	254,564,691	261,954,840	258,817,215	239,130,380
Small Commercial / Industrial (<50 kW)	30,660,157	31,873,047	33,227,668	33,379,828	32,185,635
Large Commercial / Industrial (>50kW)	104,656,683	108,756,526	107,304,667	105,299,619	103,989,581
Street & Athletic	6,536,183	6,450,927	6,420,883	6,381,589	6,353,556
Total Power Usage	**383,027,606**	**401,645,191**	**408,908,058**	**403,878,251**	**381,659,152**
Purchased Power					
kWh	412,167,212	420,320,474	435,347,627	432,980,912	409,213,408
Total Cost	$30,988,186	$31,882,223	$32,948,984	$33,274,291	$30,938,833
Maximum kW Demand	93,071	92,114	129,253	123,986	109,789
Wholesale Power Cost as % of Sales	70%	70%	71%	73%	70%

Source: System Officials

TEN LARGEST ELECTRIC CUSTOMERS IN 2016

The ten largest customers in the System in order of total kWh sales generated are listed below. These ten top electric customers represent 10.9% of the total electric sales dollars and 11.7% of the total kWh demand.

Name	Annual Sales (Dollars)	Annual (kWh) Usage	Annual kW Demand
Campos Foods	$1,460,826	14,371,200	2,306
Matix Corporation	$716,977	7,164,000	1,180
Wal-Mart Supercenter	$482,887	4,932,000	809
Kopper Glo Fuels	$358,958	2,880,000	869
Matix Corporation	$332,228	3,600,000	497
LaFollette Medical Center	$313,256	3,250,800	518
Evergreen Packaging	$311,505	1,440,000	1,092
Kopper Glo Fuels	$284,576	2,145,600	752
LaFollette Water Plant	$274,942	2,276,640	656
BSH Home Appliance	$273,559	2,709,600	497
TOTALS	**$4,809,714**	**44,769,840**	

Source: System Officials

PERSONNEL

The average number of employees in the System for the following years is as follows:

2012	77
2013	75
2014	73
2015	72
2016	70

CAPITAL IMPROVEMENTS PROGRAM

In an effort to meet System demands and customer requirements as well as maintaining the existing system, the following capital improvements and additions are planned for the next 3 years:

2016-2017	$4,246,000
2017-2018	$5,500,000
2018-2019	$7,500,000

PENSION

The Electric Department contributes to the National Rural Electric Cooperative Association Retirement Security Plan, which is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is a multiemployer plan under the accounting standards. The plan sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333. Participants have been credited for employment with the Electric Department since 1970, and substantially all employees are participants. A unique characteristic of a multiemployer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

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

OTHER POST EMPLOYMENT BENEFITS (THE "OPEB")

The City of LaFollette – Board of Public Utilities' board of commissioners approved a single-employer defined benefit healthcare plan that is self-administered. The Plan provides partial payment of health insurance premiums for eligible retirees and their dependents. The Plan provides for the Electric Department to pay 2% per year of service up to a maximum of 50% of the employee premium for a total of 5 years. It also provides for the Electric Department to pay 1% per year of service up to a maximum of 25% of the dependent and surviving spouse's premium for a total of 5 years. This is a joint plan with the Water Department.

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

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CITY OF LAFOLLETTE, TENNESSEE
SUMMARY OF BONDED INDEBTEDNESS

Amount Issued (1)		Purpose	Due Date	Interest Rate(s)		Outstanding Debt As of June 30, 2016 (1)
$ 1,500,000	(6)	G.O. Loan Agreement, Series 2010	Oct. 01, 2020	Fixed		$ 807,000
648,000	(6)	G.O. Capital Outlay Notes, Series 2011	Dec. 01, 2016	Fixed		119,000
1,060,000	(4)	TLDA Loan Agreement, Series 2003	2026	Fixed		526,703
1,000,000	(4)	G.O. Loan Agreement, Series 2003 (Water and Sewer System Supported)	May 25, 2023	Variable	(3)	437,000
1,434,000	(4)	G.O. Loan Agreement, Series 2004 (Water and Sewer System Supported)	May 25, 2025	Variable	(3)	745,030
6,500,000	(4)	TLDA Loan Agreement, Series 2006	2031	Fixed		5,763,436
1,670,500	(4)	G.O. Loan Agreement, Series 2008 (Water and Sewer System Supported)	May 25, 2031	Variable	(3)	1,354,059
1,825,000	(4)	TLDA Loan Agreement, Series 2012	2052	Fixed		1,745,571
8,566,000	(5)	G.O. Loan Agreement, Series 2004 (Electric System Supported)	May 25, 2025	Variable	(3)	4,352,970
10,000,000	(5)	G.O. Loan Agreement, Series 2006 (Electric System Supported)	May 25, 2030	Variable	(3)	7,943,000
1,829,000	(5)	G.O. Loan Agreement, Series 2008 (Electric System Supported)	May 25, 2031	Variable	(3)	1,482,941
9,700,000	(4) & (5)	General Obligation Bonds, Series 2014A (100% Revenue Supported) (Dated 12-05-2014)	March 1, 2035	Fixed	(6)	8,330,000
5,990,000	(5)	General Obligation Refunding Bonds, Series 2015A (100% Revenue Supported)	March 1, 2022	Fixed		5,610,000
4,225,000	(5)	General Obligation Refunding Bonds, Series 2015B (100% Revenue Supported)	March 1, 2030	Fixed		3,975,000
$ 55,947,500		**BONDED INDEBTEDNESS**				**$ 43,191,710**
$ 1,500,000		General Obligation Capital Outlay Notes, Series 2017	2029	Fixed		$ 1,500,000
8,360,000	(5)	General Obligation Bonds, Series 2017 (100% Revenue Supported)	March 1, 2037	Fixed		8,360,000
(13,989,500)		Less: Water Revenue Supported Debt				(11,031,799)
(39,810,000)		Less: Electric Revenue Supported Debt				(39,593,911)
$ 12,008,000		**NET DIRECT BONDED INDEBTEDNESS**				**$ 2,426,000**

Notes:

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

(2) Revenue Only Indebtedness.

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

(4) Water and Sewer System Supported Debt

(5) Electric System Supported Debt

(6) $7,870,000 of the Series 2014A Bonds are supported by the City's Electric System and $460,000 of the Series 2014A Bonds are supported by the City's Water and Sewer System.

CITY OF LAFOLLETTE, 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.

INDEBTEDNESS	**For the Fiscal Year Ended June 30,**					**After Issuance**
	2012	**2013**	**2014**	**2015**	**2016**	**2017**
TAX SUPPORTED						
General Obligation Bonds, Notes & Leases	$ 2,265,751	$ 1,878,421	$ 1,475,532	$ 1,189,000	$ 926,000	$ 2,426,000
TOTAL TAX SUPPORTED	$ 2,265,751	$ 1,878,421	$ 1,475,532	$ 1,189,000	$ 926,000	$ 2,426,000
REVENUE SUPPORTED						
Water and Sewer System	$ 11,519,128	$ 12,551,446	$ 11,896,554	$ 11,736,347	$ 11,031,799	$ 11,031,799
Electric System	35,465,576	33,349,917	31,158,790	33,942,773	31,233,911	39,593,911
TOTAL REVENUE SUPPORTED	$ 46,984,704	$ 45,901,363	$ 43,055,344	$ 45,679,120	$ 42,265,710	$ 50,625,710
TOTAL DEBT	$ 49,250,455	$ 47,779,784	$ 44,530,876	$ 46,868,120	$ 43,191,710	$ 53,051,710
Less: Revenue Supported Debt	$ (46,984,704)	$ (45,901,363)	$ (43,055,344)	$ (45,679,120)	$ (42,265,710)	$ (50,625,710)
Less: Debt Service Funds	$ (6,148)	$ (10,403)	$ (14,734)	$ (14,773)	$ -	$ -
NET DIRECT DEBT	$ 2,259,603	$ 1,868,018	$ 1,460,798	$ 1,174,227	$ 926,000	$ 2,426,000

PROPERTY TAX BASE						
Estimated Actual Value	$380,800,042	$397,316,766	$392,710,077	$367,431,834	$377,738,042	$377,738,042
Appraised Value	369,147,561	397,316,766	392,710,077	367,431,834	377,738,042	377,738,042
Assessed Value	123,498,676	129,630,885	128,001,985	119,977,215	123,234,008	123,234,008

	For the Fiscal Year Ended June 30,					After Issuance
DEBT RATIOS	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
TOTAL DEBT to Estimated Actual Value	12.93%	12.03%	11.34%	12.76%	11.43%	14.04%
TOTAL DEBT to Appraised Value	13.34%	12.03%	11.34%	12.76%	11.43%	14.04%
TOTAL DEBT to Assessed Value	39.88%	36.86%	34.79%	39.06%	35.05%	43.05%
NET DIRECT DEBT to Estimated Actual Value	0.59%	0.47%	0.37%	0.32%	0.25%	0.64%
NET DIRECT DEBT to Appraised Value	0.61%	0.47%	0.37%	0.32%	0.25%	0.64%
NET DIRECT DEBT to Assessed Value	1.83%	1.44%	1.14%	0.98%	0.75%	1.97%
PER CAPITA RATIOS						
POPULATION (1)	7,301	7,251	7,460	7,053	7,053	7,053
PER CAPITA PERSONAL INCOME (2)	$29,090	$29,634	$30,473	$30,473	$30,473	$30,473
Estimated Actual Value to POPULATION	$52,157	$54,795	$52,642	$52,096	$53,557	$53,557
Assessed Value to POPULATION	$16,915	$17,878	$17,158	$17,011	$17,473	$17,473
Total Debt to POPULATION	$6,746	$6,589	$5,969	$6,645	$6,124	$7,522
Net Direct Debt to POPULATION	$309	$258	$196	$166	$131	$344
Total Debt Per Capita as a percent of PER CAPITA PERSONAL INCOME	1.07%	0.87%	0.65%	0.55%	0.43%	1.13%
Net Direct Debt Per Capita as a percent of PER CAPITA PERSONAL INCOME	1.06%	0.87%	0.64%	0.55%	0.43%	1.13%

(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.

CITY OF LAFOLLETTE, TENNESSEE

BONDED DEBT SERVICE REQUIREMENTS - General Obligation

F.Y. Ended 6/30	Existing Debt - General Obligation As of June 30, 2016 (1)			Estimated General Obligation Capital Outlay Notes, Series 2017			% 2017 Principal Repaid	Total Bonded Debt Service Requirements (1)			% All Principal Repaid
	Principal	Interest	TOTAL	Principal	Interest (2)	TOTAL		Principal	Interest	TOTAL	
2017	$ 271,000	$ 23,360	$ 294,360	$ -	$ -	$ -		$ 271,000	$ 23,360	$ 294,360	11.17%
2018	157,000	16,949	173,949	132,000	37,350	169,350		289,000	54,299	343,299	23.08%
2019	161,000	12,275	173,275	136,000	38,441	174,441	17.87%	297,000	50,715	347,715	35.33%
2020	166,000	7,468	173,468	140,000	34,619	174,619		306,000	42,087	348,087	47.94%
2021	171,000	2,514	173,514	143,000	30,685	173,685		314,000	33,199	347,199	60.88%
2022	-	-	-	147,000	26,667	173,667		147,000	26,667	173,667	66.94%
2023	-	-	-	152,000	22,536	174,536		152,000	22,536	174,536	73.21%
2024	-	-	-	156,000	18,265	174,265	67.07%	156,000	18,265	174,265	79.64%
2025	-	-	-	160,000	13,881	173,881		160,000	13,881	173,881	86.23%
2026	-	-	-	165,000	9,385	174,385		165,000	9,385	174,385	93.03%
2027	-	-	-	169,000	4,749	173,749	100.00%	169,000	4,749	173,749	100.00%
	$ 926,000	$ 62,565	$ 988,565	$ 1,500,000	$ 236,579	$ 1,736,579		$ 2,426,000	$ 299,143	$ 2,725,143	

NOTES:

(1) The above figures do not include short-term notes outstanding, if any. For more information, see the notes to the Financial Statements in the CAFR. Additionally, the City is in the process of issuing $1,500,000 General Obligation Capital Outlay Notes, Series 2017 to be repaid over 12-years.

(2) Average Coupon of 2.81%.

LAFOLLETTE WATER SYSTEM
CITY OF LAFOLLETTE, TENNESSEE
BONDED DEBT SERVICE REQUIREMENTS - Water and Sewer
As of June 30, 2016

F.Y. Ended 6/30	**Total Bonded Debt Service Requirements** Principal	Interest	TOTAL	% All Principal Repaid
2017	$ 714,944	$ 228,128	$ 943,072	6.48%
2018	725,372	212,911	938,283	
2019	735,982	197,352	933,334	
2020	746,127	181,421	927,548	
2021	757,319	165,151	922,470	33.36%
2022	768,719	148,482	917,201	
2023	780,156	131,431	911,587	
2024	726,799	114,265	841,064	
2025	736,811	99,710	836,521	
2026	629,737	85,101	714,838	66.37%
2027	604,323	74,631	678,954	
2028	567,537	64,053	631,590	
2029	575,312	54,486	629,798	
2030	583,626	44,689	628,315	
2031	193,692	35,946	229,638	89.26%
2032	45,344	29,634	74,978	
2033	46,490	28,500	74,990	
2034	47,666	27,338	75,004	
2035	48,871	26,146	75,017	
2036	50,107	24,924	75,031	91.42%
2037	51,374	23,672	75,046	
2038	52,674	22,387	75,061	
2039	54,006	21,070	75,076	
2040	55,371	19,720	75,091	
2041	56,772	18,336	75,108	93.87%
2042	58,207	16,917	75,124	
2043	59,679	15,462	75,141	
2044	61,188	13,970	75,158	
2045	62,736	12,440	75,176	
2046	64,322	10,871	75,193	96.64%
2047	65,949	9,263	75,212	
2048	67,617	7,615	75,232	
2049	69,327	5,924	75,251	
2050	71,080	4,191	75,271	99.12%
2051	72,877	2,414	75,291	
2052	23,686	592	24,278	100.00%
	$ 11,031,799	$ 2,179,144	$ 13,210,943	

NOTES:

(1) The above figures may not include all short-term notes outstanding, if any. For more information, see the notes to the Financial Statements in the AUDIT REPORT included herein. Variable Rate Debt budgeted at 5.00%.

LAFOLLETTE ELECTRIC SYSTEM
CITY OF LAFOLLETTE, TENNESSEE
BONDED DEBT SERVICE REQUIREMENTS - Electric System

F.Y. Ended 6/30	Existing Debt - Electric System (1) As of June 30, 2016 Principal	Interest	TOTAL	General Obligation Bonds, Series 2017 Principal	Interest (2)	TOTAL	% 2017 Principal Repaid	Total Bonded Debt Service Requirements Principal	Interest	TOTAL	% All Principal Repaid
2017	$ 2,780,722	$ 1,079,435	$ 3,860,157	$ -	$ -	$ -	0.00%	$ 2,780,722	$ 1,079,435	$ 3,860,157	7.02%
2018	2,819,582	996,058	3,815,640	-	180,905	180,905		2,819,582	1,176,963	3,996,545	
2019	2,884,295	910,885	3,795,180	-	235,963	235,963		2,884,295	1,146,847	4,031,142	
2020	2,995,532	823,369	3,818,901	-	235,963	235,963		2,995,532	1,059,331	4,054,863	
2021	3,043,769	732,533	3,776,302	390,000	235,963	625,963	4.67%	3,433,769	968,495	4,402,264	37.67%
2022	3,092,859	639,582	3,732,441	410,000	224,263	634,263		3,502,859	863,844	4,366,703	
2023	1,648,949	544,467	2,193,416	420,000	211,963	631,963		2,068,949	756,430	2,825,379	
2024	1,706,894	476,991	2,183,885	430,000	199,363	629,363		2,136,894	676,354	2,813,248	
2025	1,761,508	406,473	2,167,981	440,000	190,763	630,763		2,201,508	597,235	2,798,743	
2026	1,273,543	335,172	1,608,715	450,000	180,863	630,863	30.38%	1,723,543	516,035	2,239,578	67.05%
2027	1,318,202	286,031	1,604,233	460,000	170,738	630,738		1,778,202	456,768	2,234,970	
2028	1,375,384	233,466	1,608,850	470,000	159,238	629,238		1,845,384	392,703	2,238,087	
2029	1,424,043	178,136	1,602,179	485,000	147,488	632,488		1,909,043	325,623	2,234,666	
2030	1,484,224	119,547	1,603,771	495,000	135,363	630,363		1,979,224	254,910	2,234,134	
2031	404,405	60,627	465,032	510,000	121,750	631,750	59.33%	914,405	182,377	1,096,782	88.33%
2032	290,000	45,825	335,825	525,000	106,450	631,450		815,000	152,275	967,275	
2033	300,000	35,675	335,675	540,000	90,700	630,700		840,000	126,375	966,375	
2034	310,000	24,425	334,425	555,000	74,500	629,500		865,000	98,925	963,925	
2035	320,000	12,800	332,800	575,000	57,850	632,850		895,000	70,650	965,650	
2036	-	-	-	595,000	39,163	634,163	92.70%	595,000	39,163	634,163	98.46%
2037	-	-	-	610,000	19,825	629,825	100.00%	610,000	19,825	629,825	100.00%
	$ 31,233,911	$ 7,941,496	$ 39,175,407	$ 8,360,000	$ 3,019,067	$ 11,379,067		$ 39,593,911	$ 10,960,563	$ 50,554,474	

NOTES:

(1) The above figures may not include all short-term notes outstanding, if any. For more information, see the notes to the Financial Statements in the AUDIT REPORT included herein. Includes Electric Revenue Only Debt and Elecric Revenue Supported Debt. Variable Rate Debt budgeted at 5.00%.

(2) Average Coupon of 2.9105%.

FINANCIAL INFORMATION

BASIS OF ACCOUNTING AND PRESENTATION

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The modified accrual basis of accounting is used to account for all governmental funds of the City. 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, NET ASSETS AND RETAINED EARNINGS

The following table depicts fund balances, net assets 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**
Government Funds:					
General	$5,171,150	$4,734,537	$3,714,571	$3,943,436	$3,925,127
Other Governmental	389,433	441,185	455,190	456,140	334,583
Total	**$5,560,583**	**$5,175,722**	**$4,169,761**	**$4,399,576**	**$4,259,710**
Enterprise Net Assets:					
Electric Department	$29,328,266	$31,152,092	$33,129,731	$33,250,516	$34,904,944
Water Department	22,144,244	22,013,474	22,873,446	23,408,788	24,358,591
Total	**$51,472,510**	**$53,165,566**	**$56,003,177**	**$56,659,304**	**$59,263,535**

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

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CITY OF LAFOLLETTE, 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:					
Taxes	$ 3,416,835	$ 3,564,692	$ 3,500,674	$ 3,717,811	$ 4,095,251
Intergovernmental	719,068	756,754	821,315	904,547	895,217
Charges for Services	485,057	455,312	437,010	561,716	576,075
Grant Revenue and Contributions	386,859	110,315	448,910	823,516	462,181
Rent Income	1,620	1,800	3,720	7,900	6,500
Miscellaneous	355,446	374,531	424,880	308,741	286,184
Total Revenues	$ 5,364,885	$ 5,263,404	$ 5,636,509	$ 6,324,231	$ 6,321,408
Expenditures:					
Administration and Finance	$ 1,211,010	$ 1,363,251	$ 1,962,814	$ 1,116,686	$ 1,169,217
Codes Administration	7,591	6,660	4,014	1,901	3,326
Police Protection	1,758,789	1,696,946	1,892,387	1,899,429	1,919,931
Fire Protection	1,188,330	1,231,715	1,130,477	1,713,819	1,328,563
Animal and Infectious Desease Contrc	91,821	63,369	63,045	67,089	71,335
Streets and Highways	1,392,197	647,517	1,335,440	1,015,860	1,855,904
Fleet Maintenance	74,132	73,343	66,995	76,470	79,934
Sanitation	109,524	162,760	166,966	140,251	144,939
Engineering	-	-	-	25,000	6,500
Solid Waste Management	5,610	7,360	6,789	7,088	8,742
Recreation Center and Library	1,505,812	964,637	589,702	823,949	601,276
Debt Service	-	-	-	-	294,444
Total Expenditures	$ 7,344,816	$ 6,217,558	$ 7,218,629	$ 6,887,542	$ 7,484,111
Excess of Revenues Over (Under) Expenditures	$ (1,979,931)	$ (954,154)	$ (1,582,120)	$ (563,311)	$ (1,162,703)
Other Financing Sources (Uses):					
Transfers In	$ 66,000	$ -	$ -	$ 11,000	$ -
Note / Lease / Bond Proceeds	1,863,321	-	-	-	-
Transfers In Lieu of Tax-Electric Dep	962,473	996,259	1,056,325	1,105,150	1,182,650
Transfers Out	(460,562)	(478,718)	(494,171)	(338,747)	(38,256)
Total	$ 2,431,232	$ 517,541	$ 562,154	$ 777,403	$ 1,144,394
Excess of Revenues Over (Under) Expenditures & Other Uses	$ 451,301	$ (436,613)	$ (1,019,966)	$ 214,092	$ (18,309)
Fund Balance July 1	$ 4,719,849	$ 5,171,150	$ 4,734,537	$ 3,714,571	$ 3,928,663
Prior Period Adjustment	-	-	-	-	14,773
Fund Balance June 30	**$ 5,171,150**	**$ 4,734,537**	**$ 3,714,571**	**$ 3,928,663**	**$ 3,925,127**

Source: Comprehensive Annual Financial Reports of the City of LaFollette, Tennessee.

CITY OF LAFOLLETTE, TENNESSEE
LAFOLLETTE ELECTRIC SYSTEM
Five Year Summary of Revenues, Expenditures and Changes In Fund Balances - Electric System

	For the Fiscal Year Ended June 30				
	2012	**2013**	**2014**	**2015**	**2016**
OPERATING REVENUES:					
Charges for services	$ 44,384,366	$ 45,448,657	$ 46,659,910	$ 46,204,932	$ 44,628,168
Other revenues	1,312,169	1,293,755	1,353,447	1,329,054	1,117,857
TOTAL OPERATING REVENUES	$ 45,696,535	$ 46,742,412	$ 48,013,357	$ 47,533,986	$ 45,746,025
OPERATING EXPENSES:					
Purchased Power/Programming	$ 33,686,867	$ 34,823,702	$ 35,944,994	$ 33,274,291	$ 30,648,064
General and Administrative	2,394,470	2,569,474	2,520,950	5,727,929	6,093,082
Maintenance Expenses	2,197,348	2,185,906	1,954,231	2,205,698	1,633,998
Provision for Depreciation	2,900,177	2,898,235	3,150,227	3,379,839	3,343,095
Taxes & Tax Equivalents	531,568	552,347	572,460	608,497	642,494
TOTAL OPERATING EXPENSES	$ 41,710,430	$ 43,029,664	$ 44,142,862	$ 45,196,254	$ 42,360,733
INCOME FROM OPERATIONS	$ 3,986,105	$ 3,712,748	$ 3,870,495	$ 2,337,732	$ 3,385,292
OTHER INCOME AND (EXPENSE):					
Interest Income	$ 44,125	$ 19,233	$ 10,863	$ 15,388	$ 28,091
Interest Expense	(970,073)	(929,079)	(853,579)	(747,315)	(612,580)
Amortization	(18,998)	6,185	6,185	-	-
Miscellaneous	32,994	10,998	-	(379,870)	36,275
OTHER INCOME (EXPENSE) – NET	$ (911,952)	$ (892,663)	$ (836,531)	$ (1,111,797)	$ (548,214)
NET INCOME	$ 3,074,153	$ 2,820,085	$ 3,033,964	$ 1,225,935	$ 2,837,078
Capital contributions in aid of construction	$ -	$ -	$ -	$ -	$ -
Transfers out - taxes and tax equivalents	(962,473)	(996,259)	(1,056,325)	(1,105,150)	(1,182,650)
Net Assets at beginning of year	$ 27,477,405	$ 29,589,085	$ 31,152,092	$ 33,129,731	$ 33,250,516
Adjustments	-	(260,819)	-	-	-
RETAINED EARNINGS, AT END OF YEAR	**$ 29,589,085**	**$ 31,152,092**	**$ 33,129,731**	**$ 33,250,516**	**$ 34,904,944**

Source: Comprehensive Annual Financial Report for LaFollette Electric System, LaFollette, Tennessee

CITY OF LAFOLLETTE, TENNESSEE
LAFOLLETTE ELECTRIC SYSTEM
Historical Coverage Of Proforma Maximum Annual Debt Service Requirements - Electric System
For Fiscal Year Ended June 30

	2012	2013	2014	2015	2016
Net Income	$ 3,074,153	$ 2,820,085	$ 3,033,964	$ 1,225,935	$ 2,837,078
Plus:					
Amortization	18,998	(6,185)	(6,185)	-	-
Interest Expense	970,073	929,079	853,579	747,315	612,580
Depreciation and Amortization	2,900,177	2,898,235	3,150,227	3,379,839	3,343,095
Net Revenue Available for Debt Service	$ 6,963,401	$ 6,641,214	$ 7,031,585	$ 5,353,089	$ 6,792,753
Annual Debt Service Requirement - Includes Tax Backed Debt	$ 2,973,957	$ 2,973,130	$ 2,972,807	$ 2,812,685	$ 3,268,788
Coverage Ratio	2.34 x	2.23 x	2.37 x	1.90 x	2.08 x
Proposed Maximum Annual Debt Service Requirement Including Tax Backed Debt (2021)**	$ 4,402,264	$ 4,402,264	$ 4,402,264	$ 4,402,264	$ 4,402,264
Coverage Ratio	1.58 x	1.51 x	1.60 x	1.22 x	1.54 x

** - Variable Rate Debt - 5.00% Budget Rate.

INVESTMENT AND CASH MANAGEMENT PRACTICES

Investment of idle City operating funds is controlled by state statute and local policies and administered by the City Clerk. 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 which approximates market value.

REAL PROPERTY ASSESSMENT, TAX LEVY AND COLLECTION PROCEDURES

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

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

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

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

Tangible Personal Property includes personal property such as goods, chattels and other articles of value, which are capable of manual or physical possession and certain machinery and equipment. Tangible Personal Property is required constitutionally to be classified into three sub classifications and assessed at the rates as follows:

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

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

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

County Taxation of Property

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

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

Assessment of Property

County Assessments; County Board of Equalization. The function of assessment is to assess all property (with certain exceptions) to the person or persons owning or claiming to own such property on January 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 City reflected a ratio of appraised value to true market value of 1.00. The following table shows pertinent data for tax year 2015[1].

Class	Assessed Valuation	Rate	Appraised Value
Public Utilities	$ 4,175,905	55%	$ 9,521,263
Commercial and Industrial	65,954,600	40%	164,886,500
Personal Tangible Property	13,625,478	30%	45,418,179
Residential and Farm	39478025	25%	157,912,100
TOTAL	**$123,234,008**		**$377,738,042**

[1] The tax year coincides with the calendar year, therefore, tax year 2015 is actually fiscal year 2015-2016.
Source: 2015 Tax Aggregate Report of Tennessee and the City.

The estimated assessed value of property in the City for the fiscal year ending June 30, 2016 (tax year 2015) is $123,234,008 compared to $119,977,215 for the fiscal year ending June 30, 2015 (tax year 2014). The estimated actual value of all taxable property for tax year 2015 is $377,738,042 compared to $367,431,834 for tax year 2014.

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

PROPERTY TAX RATES AND COLLECTIONS				**Fiscal Yr Collections**		**Aggregate Uncollected Balance**	
Tax Year[2]	**Assessed Valuation**	**Tax Rates**	**Taxes Levied**	**Amount**	**Pct**	**as of June 30, 2016 Amount**	**Pct**
2012	$129,630,885	$ 1.19	$1,494,585	$1,403,796	93.3%	$ 0	0.0%
2013	128,001,985	1.19	1,485,372	1,334,033	89.8%	0	0.0%
2014	119,977,215	1.295	1,502,721	1,315,528	87.5%	41,476	2.8%
2015	123,234,008	1.295	1,543,341	1,433,242	92.9%	110,099	7.1%
2016	121,787,876*	1.295	1,577,153	**IN PROCESS**			

** Estimated*
Source: Tax Aggregate Reports of Tennessee and the Comprehensive Financial Audits of the City.

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[2] The tax year coincides with the calendar year, therefore, tax year 2016 is actually fiscal year 2016-2017.

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

	Taxpayer	Business Type	Assessment	Taxes Paid
1.	BSH Home Appliance Corp.	Refrigeration Mfg.	$ 4,233,266	$ 54,691
2.	Woodson's Cash Stores, Inc.	Shopping Centers	3,485,770	45,141
3.	DeRoyal Industries	Production/Mfg.	2,898,814	37,540
4.	Lowe's Home Centers, Inc.	Retail	2,339,040	30,291
5.	LaFollette Medical Ctr.	Hospital	1,836,707	23,785
6.	First National Bank	Financial Institution	1,687,00	21,858
7.	OHI Asset, LLC	Nursing Home	1,659,560	21,491
8.	Ayers Real Estate	Real Estate	1,575,035	20,397
9.	Bellsouth	Telecommunications	1,419,681	18,385
10.	Aquila Enterprises II GP	Various	1,148,480	14,872
	TOTAL		**$22,284,153**	**$288,451**

Source: Office of City Clerk.

PENSION PLAN

Employees of the City 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, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as the City of LaFollette 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 City's retirement programs, please refer to the General Purpose Financial Statements of the City located in herein.

APPENDIX C-1

GENERAL PURPOSE FINANCIAL STATEMENTS

THE CITY OF LAFOLLETTE, TENNESSEE

CITY OF LAFOLLETTE, TENNESSEE

FINANCIAL STATEMENTS
SUPPLEMENTAL INFORMATION
AND OTHER REPORTS

For the Year Ended June 30, 2016

PUGH
CPAs

CITY OF LAFOLLETTE, TENNESSEE

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CITY OF LAFOLLETTE, TENNESSEE

ROSTER OF PUBLICLY ELECTED OFFICIALS AND MANAGEMENT OFFICIALS

June 30, 2016

LaFollette City Council

Michael Stanfield, Mayor
Joe Bolinger, Vice Mayor
Bob Fannon, Councilman
Hansford Hatmaker, Councilman
Ann Thompson, Councilwoman

LaFollette City Management

James Jeffries, City Administrator
Johnny Byrge, Recreation Director
Charles Eldridge, Fire Chief
Stan Foust, City Clerk
Nancy Green, Library Director
Jim Mullens, Public Works Director
Bill Roehl, Police Chief
Daniel Smith, Animal Control Director
Terry Sweat, Finance Director (CMFO Designee)

Emergency Communications District

Ann Thompson, Chairperson
Dan Marsee, Vice Chairperson
Mark Wells, Secretary/Treasurer
Mary Stittums, Board Member
Vinnie Stanfield, Board Member
Todd Overbay, Director

Board of Public Utilities

Kent Younce, Chairman
James Walker, Vice Chairman
David Longmire, Secretary/Treasurer
Boyd Henegar, Board Member
James Campbell, Board Member
Walter (Kenny) Baird, Jr., General Manager

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Mayor and City Council
City of LaFollette, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the Emergency Communications District, which is presented as a discretely presented component unit, each major fund, the aggregate remaining fund information, and the budgetary schedules for the general fund of the City of LaFollette, Tennessee as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of LaFollette, Tennessee, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 14 and the schedules related to the pension plans and post-retirement plans on pages 63 through 67 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 Sections

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of LaFollette's basic financial statements. The supplementary information section, including the schedule of expenditures of federal awards and state financial assistance, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, and the introductory and other information sections, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The information included in the introductory and other information sections as listed in the table of contents 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 January 30, 2017 on our consideration of the City of LaFollette'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 City of LaFollette's internal control over financial reporting and compliance.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
January 30, 2017

CITY OF LAFOLLETTE, TENNESSEE

Management's Discussion and Analysis

The management of the City of LaFollette, Tennessee (“the City”), has provided this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2016.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by $72,708,005.
- The City’s total net position increased by $3,633,844 from the results of its operations.
- As of the close of the current fiscal year, the City’s governmental funds reported combined ending fund balances of $4,259,710 a decrease of $(139,866) in comparison with the prior year. Approximately 90% of this total amount or $3,838,331 is reported as unrestricted fund balances.
- At the end of the current fiscal year, unrestricted fund balance for the general fund was $3,838,292, or approximately 51% of total general fund expenditures.
- The City’s total debt decreased by $(3,710,762) during the current fiscal year as repayments exceeded new borrowings.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City’s basic financial statements. The City’s basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This discussion and analysis will focus on the reporting entity because of the component unit’s significant relationship with the primary government. The report also contains other supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the City’s financial information, in a manner similar to a private-sector business. Activities are considered either as those of the Primary Government (the government as legally defined) or those of the Component Unit (a legally separate entity for which the primary government is financially accountable).

The *statement of net position* presents information on all of the City’s assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator as to whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flow effects in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include administration and finance, codes administration, police and fire protection, animal and infectious disease control, streets and highways and general public works, fleet maintenance, sanitation, and recreation center and library operations. The business-type activities of the City include the electric department, water department, and emergency communications district. The government-wide financial statements can be found on pages 15 through 17.

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

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

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

The City maintains eight individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered to be a major fund. Data for the other seven governmental funds is combined into a single, aggregated column. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining and individual fund schedules* on pages 68 through 73. The basic governmental fund financial statements can be found on pages 18 and 20.

Proprietary Funds. Enterprise funds are a type of proprietary fund used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its electric, water and wastewater operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the electric, water and wastewater operations, all of which are considered to be major enterprise funds of the City. The basic proprietary fund financial statements can be found on pages 30 through 34.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 35 through 62.

Other Required Information. In addition to the basic financial statements and accompanying notes, this report also presents several schedules related to the pension plans and post-retirement healthcare plans on pages 63 through 67 which is required supplementary information.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows exceeded liabilities and deferred inflows by $72,708,005 at the close of the most recent fiscal year.

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

City of LaFollette's Net Position
As of June 30, 2016 and 2015

	Governmental Activities		Business-Type Activities		Component Unit Emergency Communications District		Total Reporting Unit	
	2016	2015	2016	2015	2016	2015	2016	2015
Current Assets	$ 5,953,565	$ 5,964,991	$ 11,370,597	$ 10,747,597	$ 632,470	$ 585,999	$ 17,956,632	$ 17,298,587
Capital Assets, Net of Accumulated Depreciation	10,786,105	10,059,539	101,340,341	98,818,281	106,354	200,592	112,232,800	109,078,412
Restricted Cash and Investments	1,589,070	1,360,531	137,925	1,156,744	0	0	1,726,995	2,517,275
Investments	0	0	1,000,201	3,502,126	0	0	1,000,201	3,502,126
Deferred Outflows	674,262	258,465	338,494	430,191	0	0	1,012,756	688,656
Total Assets and Deferred Outflows	19,003,002	17,643,526	114,187,558	114,654,939	738,824	786,591	133,929,384	133,085,056
Current Liabilities	731,285	757,203	11,612,776	10,921,034	816	901	12,344,877	11,679,138
Long-Term Liabilities	2,001,255	2,039,135	43,311,247	47,074,601	0	0	45,312,502	49,113,736
Total Liabilities	2,732,540	2,796,338	54,924,023	57,995,635	816	901	57,657,379	60,792,874
Deferred Inflows of Resources								
Deferred Property Taxes	1,646,986	1,559,911	0	0	0	0	1,646,986	1,559,911
Escrow for Hospital Facilities Lease	1,209,545	905,479	0	0	0	0	1,209,545	905,479
Deferred Pension Inflows	707,469	752,631	0	0	0	0	707,469	752,631
Total Deferred Inflows of Resources	3,564,000	3,218,021	0	0	0	0	3,564,000	3,218,021
Net Position:								
Net Investment in Capital Assets	9,860,105	8,870,539	59,755,352	57,393,092	106,354	200,592	69,721,811	66,464,223
Restricted	379,525	489,139	0	0	0	0	379,525	489,139
Unrestricted (Deficit)	2,466,832	2,269,489	(491,817)	(733,788)	631,654	585,098	2,606,669	2,120,799
Total Net Position	$ 12,706,462	$ 11,629,167	$ 59,263,535	$ 56,659,304	$ 738,008	$ 785,690	$ 72,708,005	$ 69,074,161

Net investment in capital assets increased $3,257,588 or approximately 4.9% in 2016 as depreciation expense and increases in related debt exceeded principal repayments and purchases of new assets. A small portion of the City's net position (0.5%) represents resources that are subject to external restrictions on how they may be used. Restricted net position decreased $(109,614) in the current fiscal year. Unrestricted net position in the governmental activities increased $197,343 as revenues exceeded expenses in most of the governmental funds. The deficit in unrestricted net position in the business-type activities decreased from $(733,788) to $(491,817). The Electric Department and Water Department funds continue to use portions of their operating capital to fund capital assets in order to keep related debt to a minimum.

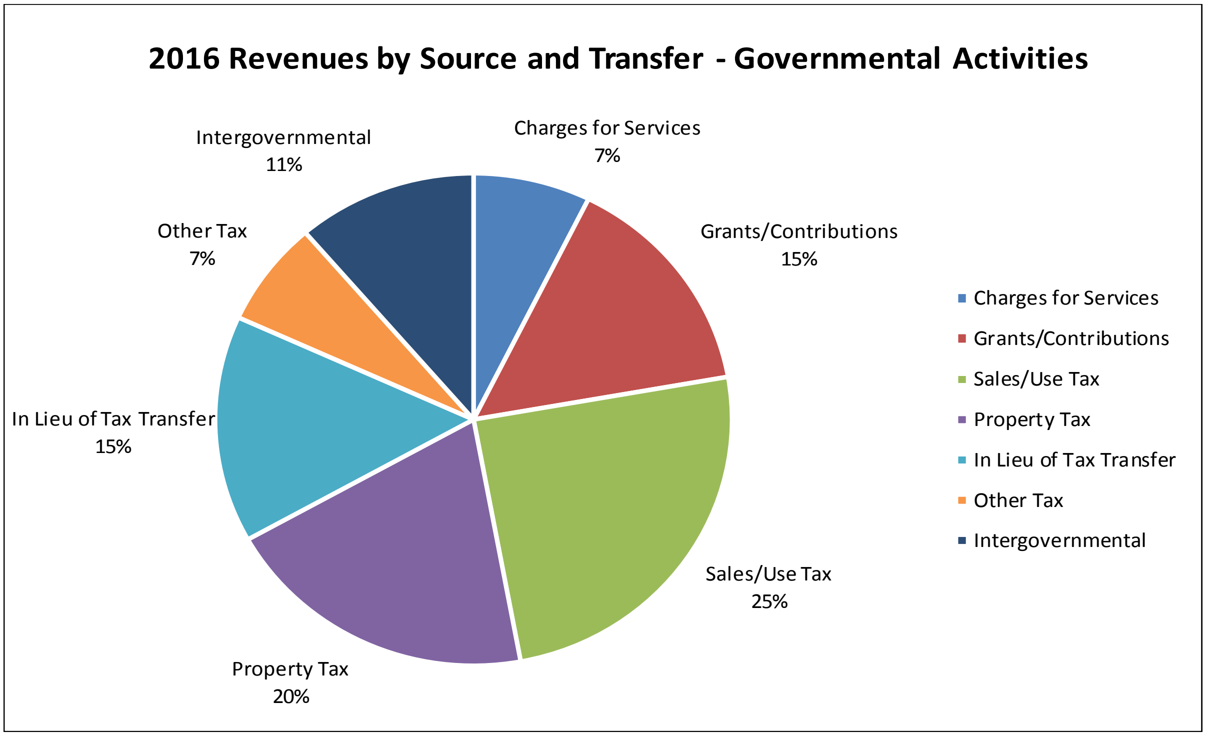
City of LaFollette's Changes in Net Position
For the Years Ended June 30, 2016 and 2015

					Component Unit			
	Governmental Activities		Business-Type Activities		Emergency Communications District		Total Reporting Unit	
	2016	2015	2016	2015	2016	2015	2016	2015
Revenues:								
Program Revenues:								
Charges for Services	$ 582,646	$ 573,396	$ 52,279,628	$ 53,863,664	$ 279,075	$ 273,551	$ 53,141,349	$ 54,710,611
Operating Grants and Contributions	185,582	216,683	0	0	0	9,000	185,582	225,683
Capital Grants and Contributions	996,028	864,637	36,275	14,504	0	0	1,032,303	879,141
General Revenues:								
Property Taxes	1,573,634	1,568,489	0	0	0	0	1,573,634	1,568,489
Other Taxes	2,521,618	2,149,322	0	0	0	0	2,521,618	2,149,322
Intergovernmental Revenues	895,217	904,546	0	0	0	0	895,217	904,546
Interest	10,426	13,937	28,737	16,099	1,741	1,035	40,904	31,071
Miscellaneous Other Revenues	278,541	295,790	0	0	0	0	278,541	295,790
Total Revenues	7,043,692	6,586,800	52,344,640	53,894,267	280,816	283,586	59,669,148	60,764,653
Program Expenses:								
Administration and Finance	1,245,065	1,202,739	0	0	0	0	1,245,065	1,202,739
Codes Administration	3,326	1,901	0	0	0	0	3,326	1,901
Police Protection	1,829,879	1,807,701	0	0	0	0	1,829,879	1,807,701
Fire Protection	1,313,998	1,204,158	0	0	0	0	1,313,998	1,204,158
Animal and Infectious Disease Control	73,452	69,953	0	0	0	0	73,452	69,953
Streets and Highways and General Public Works	1,240,778	1,113,967	0	0	0	0	1,240,778	1,113,967
Fleet Maintenance	79,149	78,216	0	0	0	0	79,149	78,216
Sanitation	691,897	195,050	0	0	0	0	691,897	195,050
Recreation Center and Library	641,146	608,820	0	0	0	0	641,146	608,820
Interest on Long-Term Debt	30,356	38,210	0	0	0	0	30,356	38,210
Electric Department	0	0	42,973,313	46,337,943	0	0	42,973,313	46,337,943
Water Department	0	0	6,108,945	6,347,329	0	0	6,108,945	6,347,329
Emergency Communications District	0	0	0	0	328,498	275,995	328,498	275,995
Total Program Expenses	7,149,046	6,320,715	49,082,258	52,685,272	328,498	275,995	56,559,802	59,281,982
Transfers:								
In Lieu of Taxes	1,182,649	1,105,149	(1,182,649)	(1,105,149)	0	0	0	0
Capital Contributions	0	0	524,498	552,281	0	31,592	524,498	583,873
Increase (Decrease) in Net Position	1,077,295	1,371,234	2,604,231	656,127	(47,682)	39,183	3,633,844	2,066,544
Net Position - Beginning of Year	11,629,167	10,257,933	56,659,304	56,003,177	785,690	746,507	69,074,161	67,007,617
Net Position - End of Year	$ 12,706,462	$ 11,629,167	$ 59,263,535	$ 56,659,304	$ 738,008	$ 785,690	$ 72,708,005	$ 69,074,161

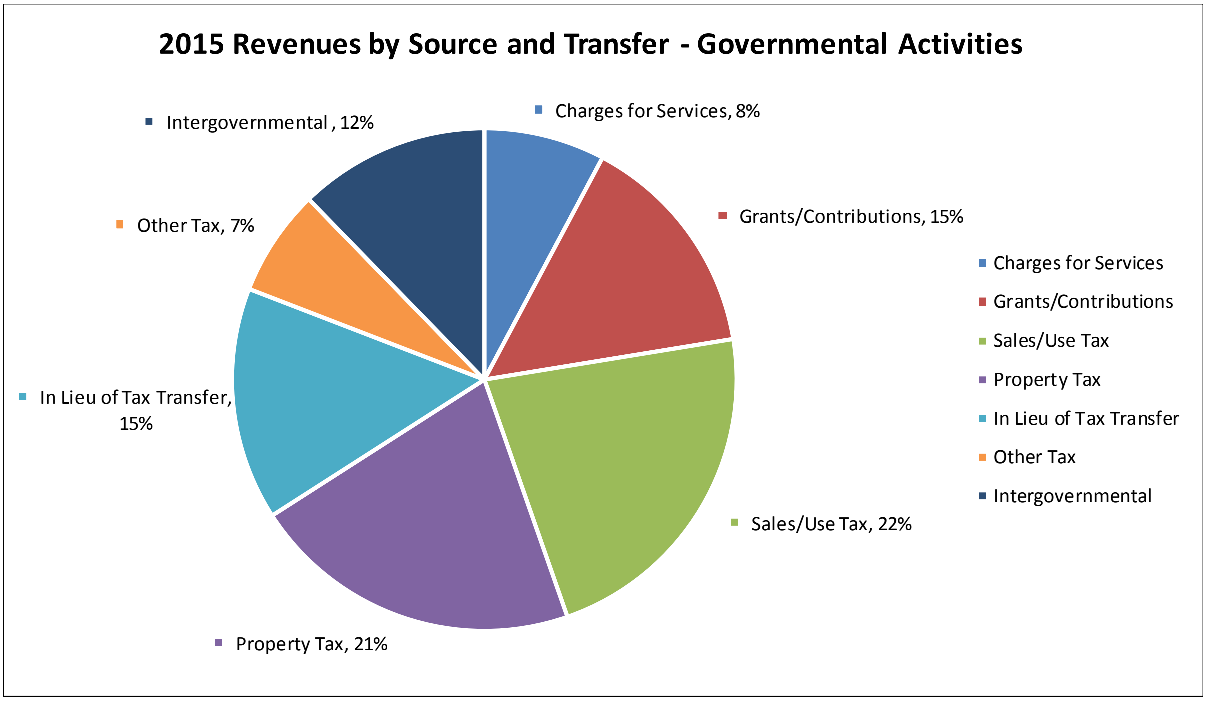
City of LaFollette's Changes in Net Position

Governmental Activities. Governmental activities increased the City's net position by $1,077,295 in 2016. The increase in net position from governmental activities in 2015 was $1,371,234.

The following graphs show the revenues by source and transfers for the governmental activities (excluding interest income and other miscellaneous revenues):

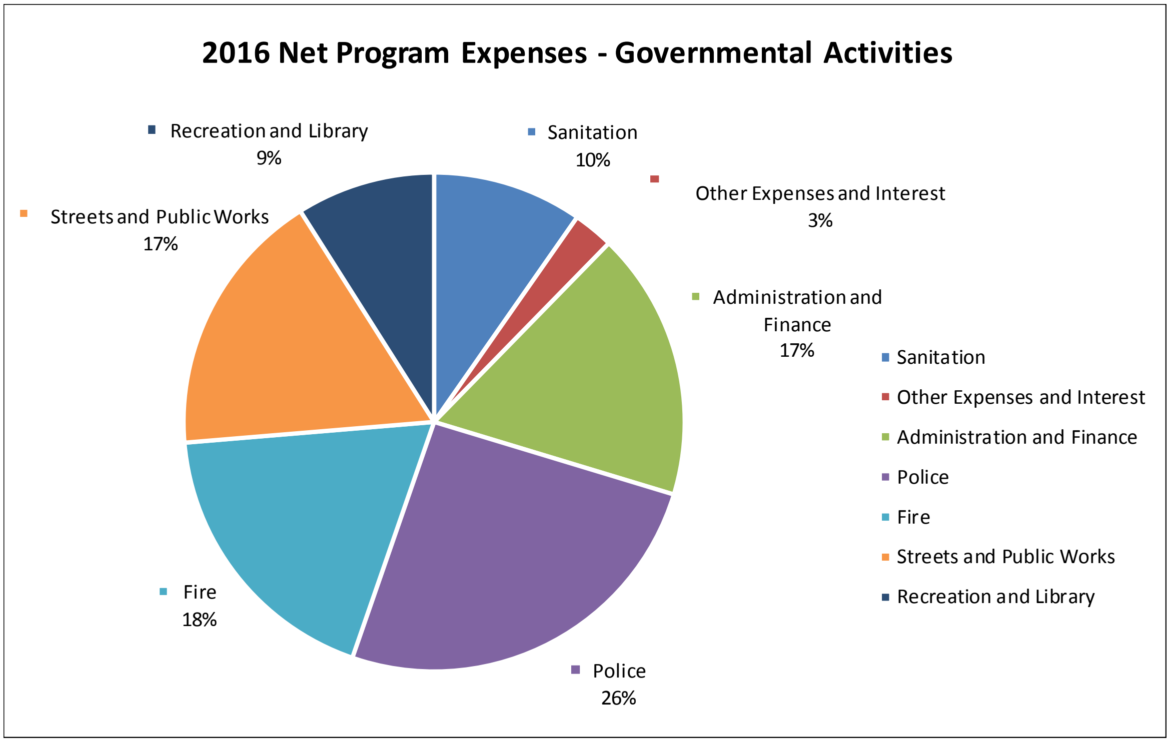


As seen in the chart above, during 2016, local sales and use taxes and property taxes (25% and 20%) represented the largest sources of revenue for the governmental activities, followed by grants and contributions (15%), the in lieu of tax transfer from the Electric Department (15%), intergovernmental (11%) and charges for services (7%).

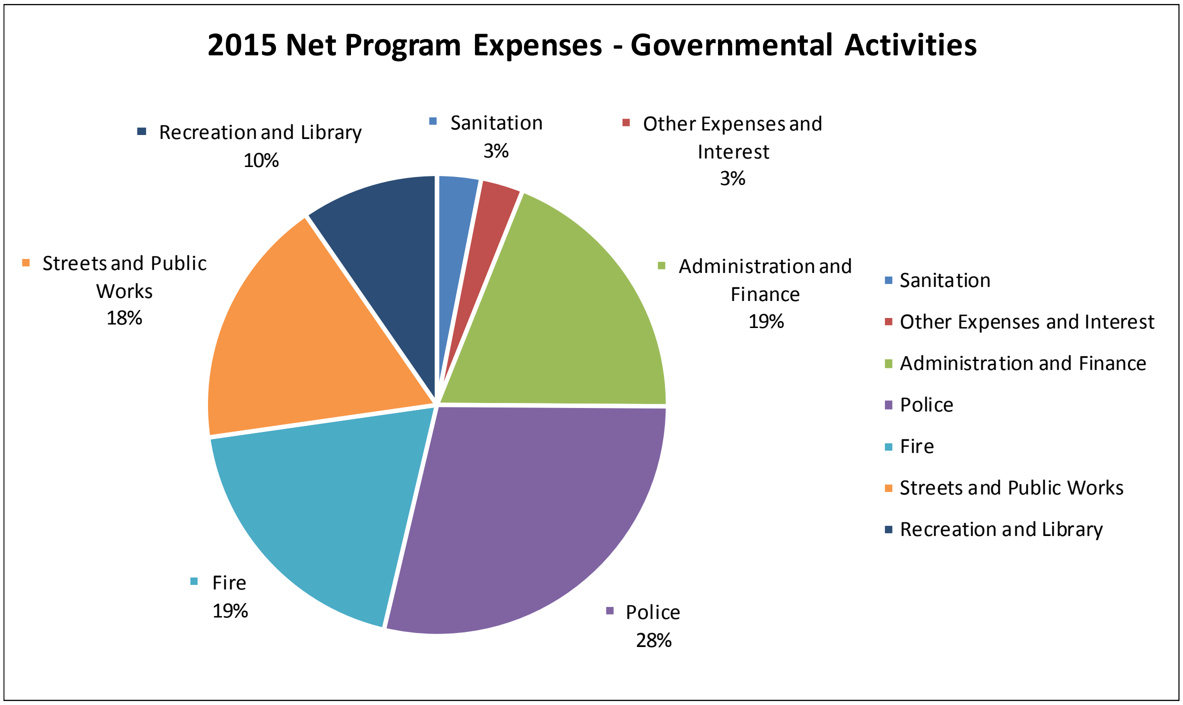


As seen in the chart above, during 2015, local sales and use taxes and property taxes (22% and 21%) represented the largest sources of revenue for the governmental activities, followed by grants and contributions (15%), the in lieu of tax transfer from the Electric Department (15%), intergovernmental (12%), and charges for services (8%), and miscellaneous other revenues (4%), and other tax (7%). The chart above excludes interest income and other miscellaneous revenues.

The following graphs show the net program expenses for the governmental activities:



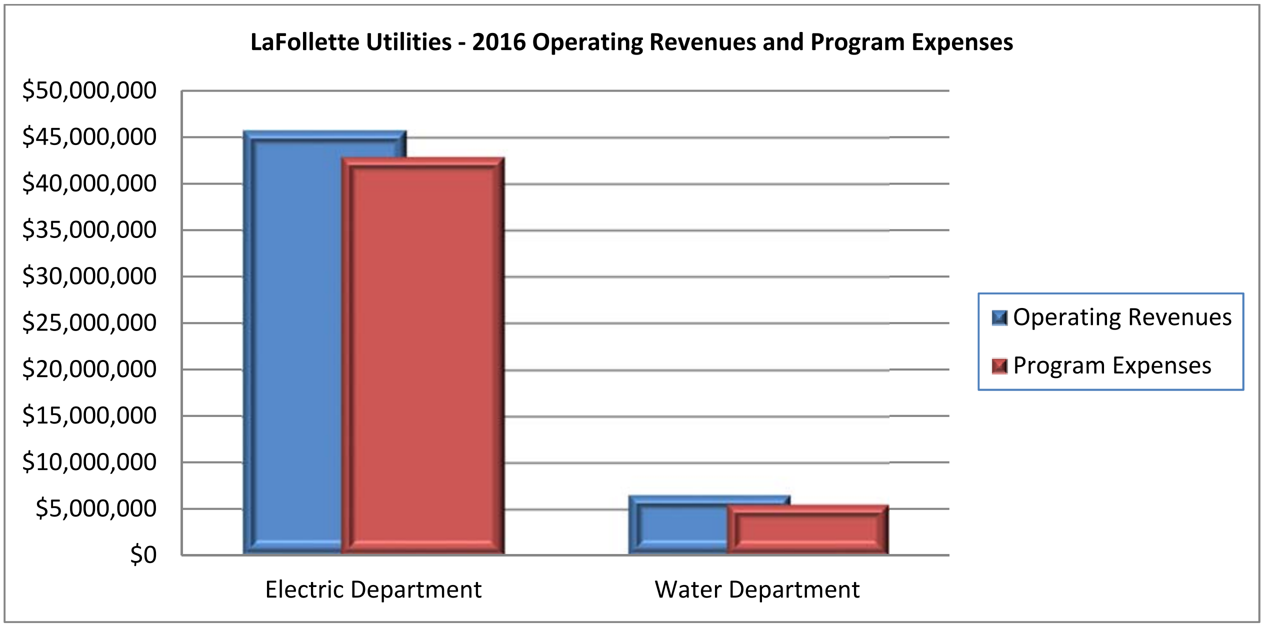
As seen in the chart above, in 2016 police protection net program expenses comprise 26%, followed by administration and finance (17%), (fire protection (18%) streets and general public works (1%), recreation and library (9%), sanitation at 10% and other at 3%.



As seen in the chart above, in 2015 police protection net program expenses comprise 28%, followed by administration and finance (19%), fire protection (19%), streets and general public works (18%), recreation and library (10%), sanitation at 3% and other at 3%.

Business-Type Activities. Business-type activities increased the City's net position by $2,604,231 in the current year.

LaFollette Utilities, consisting of the Electric Department and the Water Department, provides electric, water, and wastewater services to customers in Campbell, Claiborne, and Union Counties. Operating revenues, consisting primarily of user charges for services rendered, exceeded program expenses for both departments, as shown in the following graph:



Program revenues for the City's component unit which provides E-911 services fell short of program expenses by $(47,682) in 2016 and exceeded them by $39,183 during the years ended June 30, 2016 and 2015, respectively.

Financial Analysis of the Government's Funds

The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

At June 30, 2016, the City’s governmental funds reported combined ending fund balances of $4,259,710, a decrease of $(139,866) in comparison with the prior year. Approximately 90% of this total amount or $3,838,331 constitutes unrestricted fund balances, which are available for use at the government's discretion and in accordance with appropriated budgeted amounts. The remainder of fund balance is either non-spendable totaling $20,033 consisting of gasoline inventory, or restricted totaling $401,346 to indicate that it is not available for use because it has already been restricted to the funding of activities in certain special revenue funds.

The general fund is the chief operating fund of the City. At June 30, 2016, unrestricted fund balance of the general fund was $3,838,292. As a measure of the general fund's liquidity, it may be useful to compare unrestricted fund balance to total fund revenues. The Government Finance Officers Association recommends that general-purpose governments maintain unrestricted fund balances in the general fund of no less than 5% to 15% of regular general fund operating revenues. Unrestricted fund balance represents approximately 61% of total general fund revenues.

The fund balance of the City’s general fund decreased by $(18,309) during the current fiscal year.

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

Unrestricted net position of the Electric Department and Water Department Funds at the end of the year amounted to a deficit of $(491,817). The Electric Department and Water Department continue to minimize their borrowings and use net position to fund capital assets. The total increase in net position for the Electric fund was $1,654,428 and the total increase for the Water fund was $949,803. Other factors concerning these funds have already been addressed in the discussion of the business-type activities.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget totaled a net increase in appropriations of $385,044 and can be briefly summarized as follows:

- Appropriated an additional $140,558 for administration and finance to fund additional Insurance costs, professional fees, and additional personnel costs.
- Appropriated an additional $60,001 for police protection for capital outlay not anticipated in original budgeting.
- Appropriated an additional $70,764 for fire protection capital outlay and repairs and maintenance not anticipated in original budgeting.
- Appropriated an additional $89,857 for streets and highways and general public works to fund additional capital outlay not anticipated at the beginning of the year.
- Appropriated an additional $21,778 for recreation center and library to fund additional operating supplies and utilities costs.
- Appropriated an additional $2,086 for miscellaneous other expenses.

Differences between the final amended budget and actual revenues totaled a net favorable variance of $44,908 and can be briefly summarized as follows:

- Property taxes received were more than budget by $69,033 due to more property tax collected.
- Sales taxes received were more than budget by $407,203 due to increased consumer spending.
- Wholesale beer taxes received were more than budget by $12,971 due to increased wholesale beer sales by distributors.
- Grant revenue and contributions were less than budget by $508,049 due to the sidewalk project and East Beech Bridge project reimbursements by State of Tennessee were delayed and not paid until next fiscal year.
- Intergovernmental revenues were more than budget by $109,007 due to additional state sales tax collected, state income tax collected, state beer tax collected, and corporate excise tax collected.
- Charges for services received were less than budget by $6,750 due primarily to refuse collection revenue being less than budgeted.
- Other revenues were less than budget by a net of $47,156 due primarily to less miscellaneous collections by the state and remitted to the City.

Differences between the final amended budget and actual expenditures totaled a net favorable variance of $1,396,568 and can be briefly summarized as follows:

- Administration and finance expenditures were less than budget by $608,065 due to appropriated expenditures budgeted but not spent.
- Police protection expenditures were less than budget by $320,710 due to salaries and benefits and additional expenses budgeted but not spent.
- Fire protection expenditures were less than budget by $126,940 due to salaries and benefits and additional expenses budgeted but not spent.
- Streets and highways and general public works expenditures were less than budget by $279,478 due to the East Beech Street bridge project expenditures less than budget and other appropriated expenditures budgeted but not spent.
- Recreation center and library expenditures were less than budgeted by $23,174 due to appropriated expenditures budgeted but not spent.
- Other expenditures were less than budget by $38,201 due primarily to appropriated expenditures for engineering, animal control, fleet maintenance, sanitation, and infectious disease control not being spent in the current budget period.

Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental, business-type activities and component unit as of current year end amounts to $112,232,800 (net of accumulated depreciation). This investment in capital assets includes infrastructure, land and land rights, structures and improvements, poles, towers, transmission and distribution mains, street lighting systems, distribution reservoirs and standpipes, service installations, buildings, improvements, equipment, furniture, fixtures, and vehicles. The total increase in the City's net capital assets for the current fiscal year was approximately 2.9% (a 7% increase for governmental activities, a -2.3% decrease for business-type activities, and a -.1% decrease for the component unit).

Major capital asset events for governmental activities during the current fiscal year include the following:

- Construction-in-progress related to the East Beech Street Bridge, a sidewalk project, and a recreation project all totaling $1,069,145.
- Various equipment purchases totaling $38,510 and vehicle purchases totaling $300,712.

Capital assets, net of depreciation, as of June 30, 2016 and 2015 is as follows:

	Governmental Activities		Business-Type Activities		Component Unit		Total Reporting Unit	
	2016	2015	2016	2015	2016	2015	2016	2015
Land and Land Rights	$ 577,099	$ 569,005	$ 1,091,307	$ 1,040,459	$ 4,000	$ 4,000	$ 1,672,406	$ 1,613,464
Land Improvements	951,566	697,527	0	0	0	0	951,566	697,527
Governmental Buildings and Improvements	3,501,945	3,469,405	0	0	0	0	3,501,945	3,469,405
Equipment, Furniture, and Fixtures	4,716,740	4,461,013	34,863,937	34,067,275	649,903	1,076,875	40,230,580	39,605,163
Infrastructure	14,687,282	13,263,989	0	0	0	0	14,687,282	13,263,989
Structures and Improvements	0	0	19,911,833	19,868,243	0	0	19,911,833	19,868,243
Poles, Towers and Transmission Assets	0	0	79,368,872	76,250,835	0	0	79,368,872	76,250,835
Street Lighting Systems	0	0	3,913,677	3,778,152	0	0	3,913,677	3,778,152
Distribution Reservoirs and Standpipes	0	0	2,317,140	2,317,140	0	0	2,317,140	2,317,140
Transmission and Distribution Mains	0	0	29,051,599	28,451,525	0	0	29,051,599	28,451,525
Service Installations	0	0	6,694,947	6,550,268	0	0	6,694,947	6,550,268
Construction in Progress	0	608,187	3,364,719	1,270,106	0	0	3,364,719	1,878,293
Accumulated Depreciation	(13,648,527)	(13,009,587)	(79,237,690)	(74,775,722)	(547,549)	(880,283)	(93,433,766)	(88,665,592)
	$ 10,786,105	$ 10,059,539	$ 101,340,341	$ 98,818,281	$ 106,354	$ 200,592	$ 112,232,800	$ 109,078,412

Additional information on the City’s capital assets can be found in Note 6 on pages 45 through 47.

Long-Term Debt. At the end of the current fiscal year, the City had total debt outstanding of $43,562,297. Of this amount, $41,816,726 is owed on general obligation bonds and notes. The remainder of the City’s debt ($1,745,571) represents revenue and tax bonds and notes. The City’s long-term debt as of June 30, 2016 and 2015 is as follows:

	Governmental Activities		Business-Type Activities		Total Reporting Unit	
	2016	2015	2016	2015	2016	2015
General Obligation Bonds and Notes	$ 926,000	$ 1,189,000	$ 40,890,726	$ 44,308,080	$ 41,816,726	$ 45,497,080
Revenue and Tax Bonds and Notes	0	0	1,745,571	1,775,979	1,745,571	1,775,979
Total	$ 926,000	$ 1,189,000	$ 42,636,297	$ 46,084,059	$ 43,562,297	$ 47,273,059

The City’s total debt decreased by $(3,710,762) during the current fiscal year as repayments exceeded new borrowings.

Additional information on the City’s long-term debt can be found in Note 8 on pages 47 through 51.

Next Year's Budgets

The general fund revenue estimates for next year are projected basically at a growth rate of 2%. Using this revenue estimate as a guide, the general fund budget was prepared by funding the necessary operating needs of the various departments. The following items will affect the City's financial statements next year:

- The City anticipates purchasing 4 new Police SUV's and related equipment for approximately $160,000.
- The City anticipates purchasing 2 Fire vehicles (a first responder vehicle and a Fire SUV) for approximately $55,000.
- The City anticipates purchasing a new brush truck for the Public Works department for approximately $150,000.
- The City anticipates purchasing a new server and workstations for the Administration and Finance departments for approximately $41,000.

The Electric Department

The Electric Department isn't expected to add a significant number of new electric customers over the course of the next fiscal year. Capital improvement plans are being developed for projects to be completed over the next 5 fiscal years.

The Water Department

The Water Department is not expected to add a significant number of new water and wastewater customers over the course of the next fiscal year.

The Water Department implemented a new leak adjustment policy that will transfer the cost of residential water leaks to an insurance company. This program began on December 1, 2015. This is called the LUB ServLine program. All residential water customers were enrolled in the program, but have an opportunity to opt out, which some chose to do. Customers that decide to opt out of the program are responsible for the full cost of all their water leaks.

The Electric Department and Water Department also issue separate audited financial statements. Additional information regarding these proprietary funds can be obtained by contacting the General Manager at 302 North Tennessee Avenue, LaFollette, Tennessee 37766. The Emergency Communication District also issues separate audited financial statements and additional information can be obtained by sending a request to the City of LaFollette, Office of the City Administrator, 207 South Tennessee Avenue, LaFollette, Tennessee 37766.

No other facts, decisions, or conditions are currently known which would have a significant impact on the City's financial position or results of operations during fiscal year 2017.

Requests for Additional Information

This financial report is designed to provide a general overview of the City's financial information. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of LaFollette, Office of the City Administrator, 207 South Tennessee Avenue, LaFollette, Tennessee, 37766.

CITY OF LAFOLLETTE, TENNESSEE

STATEMENT OF NET POSITION

June 30, 2016

	Governmental Activities	Business-Type Activities	Total Primary Government	Component Unit Emergency Communications District	Total Reporting Unit
ASSETS					
CURRENT ASSETS:					
Cash and Cash Equivalents	$ 3,593,480	$ 3,626,423	$ 7,219,903	$ 632,470	$ 7,852,373
Receivables:					
Property Taxes, Net of Allowance of $127,942	1,606,221	0	1,606,221	0	1,606,221
Utility Accounts	0	6,153,183	6,153,183	0	6,153,183
Other Taxes and Nonexchange Revenue	407,936	0	407,936	0	407,936
Grant Receivable	181,099	0	181,099	0	181,099
Other	144,796	0	144,796	0	144,796
Materials and Supplies Inventories	20,033	1,255,773	1,275,806	0	1,275,806
Prepaid Items and Other Current Assets	0	335,218	335,218	0	335,218
Total Current Assets	5,953,565	11,370,597	17,324,162	632,470	17,956,632
NONCURRENT ASSETS:					
Capital Assets:					
Nondepreciable Assets	577,099	4,456,026	5,033,125	4,000	5,037,125
Depreciable Assets, Net	10,209,006	96,884,315	107,093,321	102,354	107,195,675
Net Capital Assets	10,786,105	101,340,341	112,126,446	106,354	112,232,800
Restricted Cash and Investments:					
Capital Asset Expenditures Fund	0	95,709	95,709	0	95,709
Construction Fund	0	42,216	42,216	0	42,216
Other	1,589,070	0	1,589,070	0	1,589,070
Total Restricted Cash and Investments	1,589,070	137,925	1,726,995	0	1,726,995
Investments	0	1,000,201	1,000,201	0	1,000,201
TOTAL ASSETS	18,328,740	113,849,064	132,177,804	738,824	132,916,628
DEFERRED OUTFLOWS OF RESOURCES:					
Deferred Pension Outflows	674,262	0	674,262	0	674,262
Deferred Amounts on Refundings	0	338,494	338,494	0	338,494
Total Deferred Outflows of Resources	674,262	338,494	1,012,756	0	1,012,756
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 19,003,002	$ 114,187,558	$ 133,190,560	$ 738,824	$ 133,929,384

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

CITY OF LAFOLLETTE, TENNESSEE

STATEMENT OF NET POSITION (Continued)

June 30, 2016

	Governmental Activities	Business-Type Activities	Total Primary Government	Component Unit Emergency Communications District	Total Reporting Unit
LIABILITIES					
CURRENT LIABILITIES:					
Accounts Payable	$ 44,431	$ 6,728,228	$ 6,772,659	$ 816	$ 6,773,475
Current Maturities of Long-Term Debt	271,000	3,495,666	3,766,666	0	3,766,666
Accrued Payroll, Payroll Taxes, and Compensated Absences	381,963	724,181	1,106,144	0	1,106,144
Accrued Interest and Rent Payable	5,931	131,442	137,373	0	137,373
Current Portion of Customer Deposits	0	410,112	410,112	0	410,112
Current Portion of Accrued Retirement Plan Payable	0	116,693	116,693	0	116,693
Current Portion of Accrued Post-Retirement Plan Liability	27,960	6,454	34,414	0	34,414
Total Current Liabilities	731,285	11,612,776	12,344,061	816	12,344,877
NONCURRENT LIABILITIES:					
Long-Term Debt, Net	655,000	39,140,631	39,795,631	0	39,795,631
Accrued Retirement Plan Payable - Long-Term	0	744,010	744,010	0	744,010
Accrued Compensated Absences - Long-Term	0	1,016,595	1,016,595	0	1,016,595
Customer Deposits - Long-Term	0	1,595,779	1,595,779	0	1,595,779
Accrued Post-Retirement Plan Liability - Long-Term	904,054	814,232	1,718,286	0	1,718,286
Net Pension Liability	442,201	0	442,201	0	442,201
Total Noncurrent Liabilities	2,001,255	43,311,247	45,312,502	0	45,312,502
TOTAL LIABILITIES	2,732,540	54,924,023	57,656,563	816	57,657,379
DEFERRED INFLOWS OF RESOURCES:					
Deferred Property Taxes	1,646,986	0	1,646,986	0	1,646,986
Escrow for Hospital Facilities Lease	1,209,545	0	1,209,545	0	1,209,545
Deferred Pension Inflows	707,469	0	707,469	0	707,469
TOTAL DEFERRED INFLOWS OF RESOURCES	3,564,000	0	3,564,000	0	3,564,000
NET POSITION:					
Net Investment in Capital Assets	9,860,105	59,755,352	69,615,457	106,354	69,721,811
Restricted	379,525	0	379,525	0	379,525
Unrestricted (Deficit)	2,466,832	(491,817)	1,975,015	631,654	2,606,669
TOTAL NET POSITION	12,706,462	59,263,535	71,969,997	738,008	72,708,005
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	$ 19,003,002	$ 114,187,558	$ 133,190,560	$ 738,824	$ 133,929,384

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

CITY OF LAFOLLETTE, TENNESSEE

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2016

		Program Revenues			Net (Expense) Revenue and Changes in Net Position				
					Primary Government			Component Unit	
	Expenses	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Business-Type Activities**	**Total**	**Emergency Communications District**	**Total Reporting Unit**
Functions/Programs									
Governmental Activities:									
Administration and Finance	$ 1,245,065	$ 26,982	$ 0	$ 0	$ (1,218,083)	$ 0	$ (1,218,083)	$ 0	$ (1,218,083)
Codes Administration	3,326	17,174	0	0	13,848	0	13,848	0	13,848
Police Protection	1,829,879	123,299	10,901	0	(1,695,679)	0	(1,695,679)	0	(1,695,679)
Fire Protection	1,313,998	46,643	0	0	(1,267,355)	0	(1,267,355)	0	(1,267,355)
Animal and Infectious Disease Control	73,452	0	0	0	(73,452)	0	(73,452)	0	(73,452)
Streets and Highways and General Public Works	1,240,778	0	169,681	992,826	(78,271)	0	(78,271)	0	(78,271)
Fleet Maintenance	79,149	0	0	0	(79,149)	0	(79,149)	0	(79,149)
Sanitation	691,897	286,131	0	0	(405,766)	0	(405,766)	0	(405,766)
Recreation Center and Library	641,146	82,417	5,000	3,202	(550,527)	0	(550,527)	0	(550,527)
Interest and Administrative Fees on Long-Term Debt	30,356	0	0	0	(30,356)	0	(30,356)	0	(30,356)
Total Governmental Activities	7,149,046	582,646	185,582	996,028	(5,384,790)	0	(5,384,790)	0	(5,384,790)
Business-Type Activities:									
Electric Department	42,973,313	45,746,025	0	36,275	0	2,808,987	2,808,987	0	2,808,987
Water Department	6,108,945	6,533,603	0	0	0	424,658	424,658	0	424,658
Total Business-Type Activities	49,082,258	52,279,628	0	36,275	0	3,233,645	3,233,645	0	3,233,645
Total Primary Government	$ 56,231,304	$ 52,862,274	$ 185,582	$ 1,032,303	(5,384,790)	3,233,645	(2,151,145)	0	(2,151,145)
Component Unit									
Emergency Communications District	$ 257,333	$ 279,075	$ 0	$ 0	0	0	0	21,742	21,742
General Revenues:									
Taxes									
Property					1,573,634	0	1,573,634	0	1,573,634
Sales and Use					1,972,203	0	1,972,203	0	1,972,203
Wholesale Beer					280,971	0	280,971	0	280,971
Business					167,275	0	167,275	0	167,275
Other Taxes					101,169	0	101,169	0	101,169
Intergovernmental Revenues					895,217	0	895,217	0	895,217
Interest					10,426	28,737	39,163	1,741	40,904
Miscellaneous Other Revenues					278,541	0	278,541	0	278,541
Transfers:									
In Lieu of Taxes					1,182,649	(1,182,649)	0	0	0
Special Items:									
Loss on Abandonment of Equipment					0	0	0	(71,165)	(71,165)
Capital Contributions:									
Contribution of Water/Wastewater Improvements					0	524,498	524,498	0	524,498
Total General Revenues, Transfers and Capital Contributions					6,462,085	(629,414)	5,832,671	(69,424)	5,763,247
Change in Net Position					1,077,295	2,604,231	3,681,526	(47,682)	3,633,844
Net Position, Beginning of Year					11,629,167	56,659,304	68,288,471	785,690	69,074,161
Net Position, End of Year					$ 12,706,462	$ 59,263,535	$ 71,969,997	$ 738,008	$ 72,708,005

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

CITY OF LAFOLLETTE, TENNESSEE

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2016

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Unrestricted Cash and Cash Equivalents	$ 3,593,480	$ 0	$ 3,593,480
Restricted Cash and Cash Equivalents	1,244,189	344,881	1,589,070
Receivables			
Property Taxes, Net	1,604,890	1,331	1,606,221
Other Taxes and Nonexchange Revenue	405,632	2,304	407,936
Grant Receivable	181,099	0	181,099
Other Receivables	144,796	0	144,796
Materials and Supplies Inventories	20,033	0	20,033
TOTAL ASSETS	$ 7,194,119	$ 348,516	$ 7,542,635
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
LIABILITIES			
Accounts Payable	$ 30,497	$ 13,933	$ 44,430
Accrued Payroll, Payroll Taxes and Compensated Absences	381,964	0	381,964
Total Liabilities	412,461	13,933	426,394
DEFERRED INFLOWS OF RESOURCES			
Deferred Property Taxes	1,646,986	0	1,646,986
Escrow for Hospital Facilities Lease	1,209,545	0	1,209,545
Total Deferred Inflows of Resources	2,856,531	0	2,856,531
FUND BALANCES			
Non-Spendable			
General Fund			
Inventory on Hand	20,033	0	20,033
Restricted			
General Fund	66,802	0	66,802
Special Revenue Funds			
State Street Aid Fund	0	233,940	233,940
Drug Fund	0	31,312	31,312
Special Police Fund	0	69,292	69,292
Unrestricted			
Committed	185,562	39	185,601
Unassigned	3,652,730	0	3,652,730
Total Fund Balances	3,925,127	334,583	4,259,710
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ 7,194,119	$ 348,516	$ 7,542,635

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

CITY OF LAFOLLETTE, TENNESSEE

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION

June 30, 2016

Total Fund Balances - Governmental Funds	$ 4,259,710
Amounts reported for Governmental Activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds balance sheet. In the statement of net position, the cost of capital assets are reflected net of accumulated depreciation. The cost of the capital assets is $24,434,632 and the accumulated depreciation is $13,648,527 as of year end.	10,786,105
The net pension liability of $442,201, the deferred pension outflows of $674,262, and the deferred pension inflows of $707,469 do not represent current period sources or uses and, therefore, are not reported in the fund financial statements.	(475,408)
Accrued post-retirement healthcare associated with governmental activities are not financial obligations of the current period and therefore are not reported as liabilities in the governmental funds balance sheet. In the statement of net position, the liability for accrued post-retirement healthcare is reflected.	(932,014)
Loans payable and accrued interest are not financial obligations of the current period and therefore are not reported as liabilities in the governmental funds balance sheet. In the statement of net position, the liability for loans payable and related accrued interest are reflected. Loans payable total $926,000 and accrued interest totals $5,931 as of year end.	(931,931)
Total Net Position - Governmental Activities	$ 12,706,462

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

CITY OF LAFOLLETTE, TENNESSEE

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

For the Year Ended June 30, 2016

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:			
Taxes:			
Property	$ 1,573,633	$ 0	$ 1,573,633
Local Sales and Use	1,972,203	0	1,972,203
Wholesale Beer	280,971	0	280,971
Business	167,275	0	167,275
Cable Television Franchise	64,536	0	64,536
Interest, Penalty and Court Costs	36,633	0	36,633
Intergovernmental Revenues	895,217	0	895,217
Charges for Services	576,075	7,281	583,356
Grant Revenue and Contributions	462,181	544,787	1,006,968
State Highway and Street Funds	0	169,681	169,681
Rent Income	6,500	0	6,500
Miscellaneous	286,184	534	286,718
Total Revenues	6,321,408	722,283	7,043,691
EXPENDITURES:			
Current:			
Administration and Finance	1,169,217	0	1,169,217
Codes Administration	3,326	0	3,326
Police Protection	1,919,931	83,533	2,003,464
Fire Protection	1,328,563	0	1,328,563
Animal and Infectious Disease Control	71,335	0	71,335
Streets and Highways and General Public Works	1,855,904	253,815	2,109,719
Fleet Maintenance	79,934	0	79,934
Sanitation	144,939	544,748	689,687
Engineering	6,500	0	6,500
Solid Waste Management	8,742	0	8,742
Recreation Center and Library	601,276	0	601,276
Debt Service:			
Principal	263,000	0	263,000
Interest and Finance Charges	31,444	0	31,444
Total Expenditures	7,484,111	882,096	8,366,207
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,162,703)	(159,813)	(1,322,516)
OTHER FINANCING SOURCES (USES):			
Transfers In	0	38,256	38,256
Transfers Out	(38,256)	0	(38,256)
Transfers In Lieu of Tax - Electric Department	1,182,650	0	1,182,650
Net Other Financing Sources (Uses)	1,144,394	38,256	1,182,650
CHANGES IN FUND BALANCES	(18,309)	(121,557)	(139,866)
FUND BALANCES - BEGINNING OF YEAR	3,943,436	456,140	4,399,576
FUND BALANCES - END OF YEAR	$ 3,925,127	$ 334,583	$ 4,259,710

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

CITY OF LAFOLLETTE, TENNESSEE

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2016

Changes in Fund Balances - Governmental Funds	$ (139,866)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets in excess of the City's capitalization policy is capitalized and reported over their useful lives as depreciation expense.	
Current Year Capital Outlay Capitalized	1,449,001
Current Year Depreciation Expense on Capitalized Assets	(714,433)
Current Year Net Book Value of Assets Sold/Abandoned - Reduction in Recorded Gain	(8,000)
Governmental funds report long-term debt borrowings as revenue and principal payments on long-term debt as expenditures. However, in the statement of activities the payments are reflected as a reduction in the liability for long-term debt. Governmental funds also report interest expense in the period it is paid. However, in the statement of activities interest expense is recorded on the accrual basis of accounting in the period to which the interest relates.	
Current Year Principal Payments Shown as Expenditures	263,000
Current Year Difference in Interest Expense Between Amounts Paid vs. Accrued	1,088
Governmental funds report contributions to the pension plan as expenditures. However, in the statement of activities pension expense is reflected based on the actuarially computed expense amount.	270,952
Governmental funds do not report the change in accrued post-retirement healthcare as an expenditure because the liability has not been paid as of year-end. In the statement of activities, the change in the accrued post-retirement healthcare liability is recorded as income or expense in the current year.	(44,447)
Change in Net Position - Governmental Activities	$ 1,077,295

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

CITY OF LAFOLLETTE, TENNESSEE

BUDGETARY COMPARISON STATEMENT - GENERAL FUND

For the Year Ended June 30, 2016

	Budgeted Amounts			Variance with Final Budget Favorable
	Original	Final	Actual	(Unfavorable)
REVENUES:				
Taxes:				
Property	$ 1,504,600	$ 1,504,600	$ 1,573,633	$ 69,033
Local Sales and Use	1,565,000	1,565,000	1,972,203	407,203
Wholesale Beer	268,000	268,000	280,971	12,971
Business	240,000	240,000	167,275	(72,725)
Cable Television Franchise	63,600	63,600	64,536	936
Interest, Penalty and Court Costs	12,000	12,000	36,633	24,633
Intergovernmental Revenues	799,910	786,210	895,217	109,007
Charges for Services	558,950	582,825	576,075	(6,750)
Grant Revenue and Contributions	970,230	970,230	462,181	(508,049)
Miscellaneous and Rent	276,500	284,035	292,684	8,649
Total Revenues	6,258,790	6,276,500	6,321,408	44,908
EXPENDITURES				
Administration and Finance	1,636,724	1,777,282	1,169,217	608,065
Codes Administration	4,000	4,286	3,326	960
Police Protection	2,180,640	2,240,641	1,919,931	320,710
Fire Protection	1,384,739	1,455,503	1,328,563	126,940
Animal and Infectious Disease Control	74,244	74,244	71,335	2,909
Streets and Highways and General Public Works	2,045,525	2,135,382	1,855,904	279,478
Fleet Maintenance	81,317	81,317	79,934	1,383
Sanitation	157,830	157,830	144,939	12,891
Engineering	25,000	25,000	6,500	18,500
Solid Waste Management	8,500	10,300	8,742	1,558
Recreation Center and Library	602,672	624,450	601,276	23,174
Debt Service	294,444	294,444	294,444	0
Total Expenditures	8,495,635	8,880,679	7,484,111	1,396,568
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(2,236,845)	(2,604,179)	(1,162,703)	1,441,476
OTHER FINANCING SOURCES (USES)				
Transfers In	101,000	101,000	0	(101,000)
Transfers Out	(346,244)	(346,244)	(38,256)	307,988
Transfers In Lieu of Tax-Electric Department	1,526,000	1,526,000	1,182,650	(343,350)
Total Other Financing Sources (Uses)	1,280,756	1,280,756	1,144,394	(136,362)
NET CHANGES IN FUND BALANCES	$ (956,089)	$ (1,323,423)	(18,309)	$ 1,305,114
FUND BALANCES - BEGINNING OF YEAR			3,943,436	
FUND BALANCES - END OF YEAR			$ 3,925,127	

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

CITY OF LAFOLLETTE, TENNESSEE

GENERAL FUND
DETAILED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance-Favorable (Unfavorable)
REVENUES:				
Local Taxes:				
Current Year Property Taxes	$ 1,400,000	$ 1,400,000	$ 1,342,523	$ (57,477)
Property Tax Discounts	(14,400)	(14,400)	(13,865)	535
Prior Years Property Taxes	119,000	119,000	244,975	125,975
Property Tax Penalties	12,000	12,000	36,633	24,633
Local Option Sales Taxes	1,565,000	1,565,000	1,972,203	407,203
Wholesale Beer Taxes	268,000	268,000	280,971	12,971
Business Taxes	240,000	240,000	167,275	(72,725)
Cable TV Franchise Taxes	63,600	63,600	64,536	936
Total Local Taxes	3,653,200	3,653,200	4,095,251	442,051
Intergovernmental:				
Housing Authority	30,200	30,200	32,015	1,815
TVA - In Lieu of Taxes	85,000	85,000	87,660	2,660
State Sales Tax	540,000	540,000	548,200	8,200
State Income Tax	50,000	50,000	104,563	54,563
State Beer Tax	3,500	3,500	6,639	3,139
State Gas Inspection	15,210	1,510	15,173	13,663
State - Other Revenue	47,000	47,000	46,868	(132)
State Corporate Excise Tax	29,000	29,000	54,099	25,099
Total Intergovernmental	799,910	786,210	895,217	109,007
Charges for Services:				
Commissions-State	950	950	682	(268)
Fees and Commissions	24,600	24,600	21,600	(3,000)
Special Police Services Fees	0	0	800	800
Special Fire Protection Fees	45,500	45,500	46,643	1,143
Accident Report Fee	1,000	1,000	475	(525)
Sex Offenders Registration Fee	600	600	900	300
Other Public Safety Charges	2,000	2,000	671	(1,329)
Refuse Collection Fees	271,000	271,000	286,131	15,131
Park and Recreation Concessions	0	0	29	29
Facility Rentals	57,500	57,500	58,289	789
Other Culture - Recreation	100	23,975	24,099	124
Total Charges for Services	403,250	427,125	440,319	13,194

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

CITY OF LAFOLLETTE, TENNESSEE

GENERAL FUND
DETAILED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Continued)

For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Variance- Favorable (Unfavorable)
Licenses and Permits:				
Beer Licenses	$ 5,000	$ 5,000	$ 4,700	$ (300)
Building Permits	4,500	4,500	16,559	12,059
Taxicab Licenses	0	0	710	710
Other Permits	400	400	615	215
Total Licenses and Permits	9,900	9,900	22,584	12,684
Fines, Forfeitures and Penalties				
City Court Fines	98,000	98,000	77,719	(20,281)
County Court Fines	45,000	45,000	33,975	(11,025)
City Litigation Tax	2,800	2,800	1,478	(1,322)
Total Fines, Forfeitures and Penalties	145,800	145,800	113,172	(32,628)
Grant Revenue and Contributions:				
Grant Revenue - Other General Government	929,187	929,187	451,280	(477,907)
Grant Revenue - Police	41,043	41,043	10,901	(30,142)
Total Revenue and Contributions	970,230	970,230	462,181	(508,049)
Miscellaneous Revenue:				
Interest Income	7,000	7,000	9,893	2,893
Rent Income	8,400	8,400	6,500	(1,900)
Sales of Surplus Items	12,000	12,000	30,250	18,250
Insurance Proceeds	6,000	6,000	27,724	21,724
Sale of Gas	200,000	200,000	150,807	(49,193)
Recreation Donations	9,000	9,000	7,600	(1,400)
Fire Department Donations	800	800	750	(50)
Library Building Donations	0	5,330	5,330	0
Flea Market Revenue	11,000	11,000	7,096	(3,904)
Miscellaneous Revenue	22,300	24,505	46,734	22,229
Total Miscellaneous Revenue	276,500	284,035	292,684	8,649
Total Revenues	6,258,790	6,276,500	6,321,408	44,908

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

CITY OF LAFOLLETTE, TENNESSEE

GENERAL FUND
DETAILED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Continued)

For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance- Favorable (Unfavorable)
EXPENDITURES:				
Administration and Finance:				
Legislative Board				
Personnel Costs	$ 21,909	$ 111,909	$ 23,757	$ 88,152
Utilities	1,600	1,600	1,253	347
Travel	6,000	6,000	7,334	(1,334)
Total Legislative Board	29,509	119,509	32,344	87,165
Legislative Committee (Beer Board):	1,800	1,800	1,550	250
City Court	11,000	14,950	14,950	0
Mayor				
Personnel Costs	10,335	10,335	10,764	(429)
Utilities	1,100	1,100	1,170	(70)
Travel	4,000	4,000	2,419	1,581
Total Mayor	15,435	15,435	14,353	1,082
City Attorney	12,100	15,200	15,092	108
City Administrator				
Personnel Costs	70,952	70,952	61,425	9,527
Memberships and Publicity	300	300	0	300
Utilities	1,000	1,000	410	590
Repair and Maintenance	500	500	0	500
Travel	4,000	4,000	3,156	844
Other Contracted Services	500	500	109	391
Motor Vehicle Supplies	3,500	3,500	624	2,876
Capital Outlay	500	500	650	(150)
Total City Administrator	81,252	81,252	66,374	14,878
Audit and Accounting	59,000	63,050	63,050	0
City Clerk				
Personnel Costs	76,934	79,134	80,897	(1,763)
Memberships	250	250	265	(15)
Travel	2,000	2,000	1,522	478
Total City Clerk	79,184	81,384	82,684	(1,300)
Financial Administration				
Personnel Costs	136,762	138,594	138,540	54
Travel	1,500	1,500	2,377	(877)
Total Financial Administration	138,262	140,094	140,917	(823)
Data Processing	29,600	29,600	27,185	2,415

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

CITY OF LAFOLLETTE, TENNESSEE

GENERAL FUND
DETAILED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Continued)

For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance- Favorable (Unfavorable)
Planning and Zoning	$ 1,800	$ 1,800	$ 1,720	$ 80
City Hall Buildings				
Personnel Costs	16,397	16,397	16,812	(415)
Utilities	43,000	41,000	39,523	1,477
Repair and Maintenance	10,000	10,000	9,179	821
Other Contracted Services	2,000	2,000	1,820	180
Supplies	3,400	5,400	5,161	239
Total City Hall Buildings	74,797	74,797	72,495	2,302
Other General Government				
Workman's Compensation	127,000	127,000	106,880	20,120
Personnel Costs	133,335	147,435	116,968	30,467
Postage	4,000	4,000	4,721	(721)
Printing	1,000	1,000	3,534	(2,534)
Publications and Memberships	18,000	25,277	23,406	1,871
Professional Services	1,000	1,000	0	1,000
Utilities	10,000	10,000	10,726	(726)
Meals and Entertainment	5,000	5,000	4,774	226
Other Contracted Services	24,000	24,000	41,298	(17,298)
Motor Vehicle Supplies	240,600	240,600	124,214	116,386
Operating Supplies	5,000	3,168	3,128	40
Insurance	167,000	179,471	179,821	(350)
Awards	6,900	6,900	0	6,900
Contributions	352,350	355,760	12,710	343,050
Capital Outlay	7,800	7,800	4,323	3,477
Total Other General Government	1,102,985	1,138,411	636,503	501,908
Total Administration and Finance	1,636,724	1,777,282	1,169,217	608,065
Codes Administration				
Subscriptions and Memberships	250	250	135	115
Travel	250	250	0	250
Other Contractual Services	1,500	1,786	1,603	183
Operating Supplies	2,000	2,000	1,588	412
Total Codes Administration	4,000	4,286	3,326	960

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

CITY OF LAFOLLETTE, TENNESSEE

GENERAL FUND
DETAILED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Continued)

For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance-Favorable (Unfavorable)
Police Protection				
Personnel Costs	$ 1,823,632	$ 1,823,632	$ 1,625,049	$ 198,583
Vehicle Tow-In Service	750	750	0	750
Printing	4,000	3,700	3,274	426
Utilities	25,400	25,400	29,848	(4,448)
Professional Services	1,800	800	1,062	(262)
Repair and Maintenance	18,500	17,600	12,953	4,647
Travel	12,000	12,000	10,166	1,834
Other Contractual Services	31,550	31,550	24,015	7,535
Operating Supplies	32,800	36,000	31,407	4,593
Motor Vehicle Supplies	124,000	123,000	64,592	58,408
Capital Outlay	106,208	166,209	117,565	48,644
Total Police Protection	2,180,640	2,240,641	1,919,931	320,710
Fire Protection				
Personnel Costs	1,240,389	1,243,139	1,194,334	48,805
Vehicle Tow-In Service	500	500	0	500
Memberships	150	150	50	100
Utilities	16,300	16,300	13,653	2,647
Repair and Maintenance	16,500	32,689	31,026	1,663
Travel	3,500	1,500	856	644
Other Contractual Services	7,000	5,550	5,734	(184)
Operating Supplies	19,700	22,400	17,215	5,185
Motor Vehicle Supplies	21,300	18,200	10,683	7,517
Capital Outlay	59,400	115,075	55,012	60,063
Total Fire Protection	1,384,739	1,455,503	1,328,563	126,940
Animal and Infectious Disease Control				
Personnel Costs	63,894	63,894	64,676	(782)
Utilities	2,200	2,200	2,583	(383)
Repair and Maintenance	450	450	0	450
Travel	250	250	70	180
Other Contractual Services	1,000	1,000	1,031	(31)
Operating Supplies	4,100	4,100	1,873	2,227
Motor Vehicle Supplies	1,850	1,850	852	998
Capital Outlay	500	500	250	250
Total Animal and Infectious Disease Control	74,244	74,244	71,335	2,909
Streets and Highways and General Public Works				
Public Works				
Personnel Costs	124,518	124,518	0	124,518

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

CITY OF LAFOLLETTE, TENNESSEE

GENERAL FUND
DETAILED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Continued)

For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance- Favorable (Unfavorable)
Highways and Streets				
Personnel Costs	$ 476,123	$ 476,123	$ 492,550	$ (16,427)
Postage	100	100	115	(15)
Operating Supplies	30,550	30,550	30,645	(95)
Motor Vehicle Supplies	36,000	36,000	19,173	16,827
Utilities	24,200	24,200	18,767	5,433
Repair and Maintenance	13,700	13,300	10,099	3,201
Capital Outlay	1,336,584	1,426,841	1,281,486	145,355
Miscellaneous	3,750	3,750	3,069	681
Total Highways and Streets	1,921,007	2,010,864	1,855,904	154,960
Total Streets and Highways and General Public Works	2,045,525	2,135,382	1,855,904	279,478
Fleet Maintenance				
Personnel Costs	50,567	50,567	51,435	(868)
Vehicle Tow-In Services	250	250	350	(100)
Repair and Maintenance	10,000	11,500	11,014	486
Operating Supplies	2,000	2,000	1,790	210
Motor Vehicle Supplies	18,500	17,000	15,345	1,655
Total Fleet Maintenance	81,317	81,317	79,934	1,383
Sanitation				
Personnel Costs	145,830	145,830	137,388	8,442
Motor Vehicle Supplies	12,000	12,000	7,551	4,449
Total Sanitation	157,830	157,830	144,939	12,891
Engineering				
Engineering Department				
Total Engineering	25,000	25,000	6,500	18,500
Solid Waste Management				
Total Solid Waste Management	8,500	10,300	8,742	1,558

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

CITY OF LAFOLLETTE, TENNESSEE

GENERAL FUND
DETAILED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Continued)

For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance- Favorable (Unfavorable)
Recreation Center and Library				
Recreation Center				
Personnel Costs	$ 347,328	$ 347,328	$ 344,066	$ 3,262
Memberships	200	200	0	200
Utilities	87,000	87,000	77,416	9,584
Repair and Maintenance	26,600	26,600	23,073	3,527
Travel	300	3,000	0	3,000
Other Contractual Services	10,000	13,605	11,847	1,758
Operating Supplies	17,200	28,978	26,310	2,668
Motor Vehicle Supplies	12,500	12,500	5,993	6,507
Capital Outlay	13,500	14,735	26,518	(11,783)
Total Recreation Center	514,628	533,946	515,223	18,723
Library				
Personnel Costs	61,244	61,244	61,202	42
Utilities	18,000	20,460	18,430	2,030
Travel	700	700	271	429
Other Contractual Services	2,300	2,300	1,930	370
Operating Supplies	4,400	4,400	2,941	1,459
Repairs and Maintenance	700	700	600	100
Capital Outlay	700	700	679	21
Total Library	88,044	90,504	86,053	4,451
Total Recreation Center and Library	602,672	624,450	601,276	23,174
Debt Service				
Principal Payments	263,000	263,000	263,000	0
Interest and Finance Charges	31,444	31,444	31,444	0
Total Debt Service	294,444	294,444	294,444	0
Total Expenditures	8,495,635	8,880,679	7,484,111	1,396,568
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,236,845)	(2,604,179)	(1,162,703)	1,441,476
Other Financing Sources (Uses):				
Transfers In	101,000	101,000	0	(101,000)
Transfers Out	(346,244)	(346,244)	(38,256)	307,988
Transfers In Lieu of Tax-Electric Department	1,526,000	1,526,000	1,182,650	(343,350)
Total Other Financing Sources (Uses)	1,280,756	1,280,756	1,144,394	(136,362)
Net Change in Fund Balances	(956,089)	(1,323,423)	(18,309)	1,305,114
Fund Balance at Beginning of Year	3,943,436	3,943,436	3,943,436	0
Fund Balance at End of Year	$ 2,987,347	$ 2,620,013	$ 3,925,127	$ 1,305,114

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

CITY OF LAFOLLETTE, TENNESSEE

BALANCE SHEET - PROPRIETARY FUNDS

June 30, 2016

	Enterprise Funds		
	Electric Department	Water Department	Total
ASSETS AND DEFERRED OUTFLOWS			
CURRENT ASSETS:			
Cash and Cash Equivalents	$ 3,294,682	$ 331,741	$ 3,626,423
Utility Accounts Receivable, Net	4,821,316	1,331,867	6,153,183
Materials and Supplies Inventories	1,160,166	95,607	1,255,773
Prepaid Items and Other Current Assets	335,218	0	335,218
Total Current Assets	9,611,382	1,759,215	11,370,597
NONCURRENT ASSETS:			
Restricted Cash:			
Capital Asset Expenditures Fund	95,709	0	95,709
Construction Fund	0	42,216	42,216
Total Restricted Cash	95,709	42,216	137,925
Investments	1,000,201	0	1,000,201
Capital Assets:			
Nondepreciable Assets:			
Land and Land Rights	928,770	162,537	1,091,307
Construction Work in Progress	2,909,941	454,778	3,364,719
Total Nondepreciable Assets	3,838,711	617,315	4,456,026
Depreciable Assets:			
Structures and Improvements	3,136,301	16,775,532	19,911,833
Poles, Towers and Transmission Assets	79,368,872	0	79,368,872
Street Lighting Systems	3,913,677	0	3,913,677
Distribution Reservoir and Standpipes	0	2,317,140	2,317,140
Transmission and Distribution Mains	0	29,051,599	29,051,599
Service Installations	0	6,694,947	6,694,947
Equipment, Furniture and Fixtures	28,612,965	6,250,972	34,863,937
Total Depreciable Assets	115,031,815	61,090,190	176,122,005
Less Accumulated Depreciation	(52,512,980)	(26,724,710)	(79,237,690)
Net Depreciable Assets	62,518,835	34,365,480	96,884,315
Net Capital Assets	66,357,546	34,982,795	101,340,341
Total Noncurrent Assets	67,453,456	35,025,011	102,478,467
TOTAL ASSETS	77,064,838	36,784,226	113,849,064
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Bond Refunding Losses	338,494	0	338,494
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 77,403,332	$ 36,784,226	$ 114,187,558

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

CITY OF LAFOLLETTE, TENNESSEE

BALANCE SHEET - PROPRIETARY FUNDS (Continued)

June 30, 2016

	Enterprise Funds		
	Electric Department	Water Department	Total
LIABILITIES AND NET POSITION			
CURRENT LIABILITIES:			
Accounts Payable	$ 6,508,485	$ 219,743	$ 6,728,228
Current Maturities of Long-Term Debt	2,780,722	714,944	3,495,666
Current Portion of Accrued Compensated Absences	463,081	261,100	724,181
Accrued Interest Payable	131,442	0	131,442
Current Portion of Customer Deposits	410,112	0	410,112
Current Portion of Accrued Retirement Plan Payable	81,685	35,008	116,693
Current Portion of Accrued Post-Retirement Plan Liability	4,260	2,194	6,454
Total Current Liabilities	10,379,787	1,232,989	11,612,776
NONCURRENT LIABILITIES:			
Long-Term Debt, Net	28,815,064	10,325,567	39,140,631
Accrued Retirement Plan Payable - Long-Term	520,807	223,203	744,010
Accrued Compensated Absences - Long-Term	616,733	399,862	1,016,595
Customer Deposits - Long-Term	1,595,779	0	1,595,779
Accrued Post-Retirement Plan Liability	570,218	244,014	814,232
Total Noncurrent Liabilities	32,118,601	11,192,646	43,311,247
Total Liabilities	42,498,388	12,425,635	54,924,023
NET POSITION:			
Net Investment in Capital Assets	35,770,852	23,984,500	59,755,352
Unrestricted	(865,908)	374,091	(491,817)
Total Net Position	34,904,944	24,358,591	59,263,535
TOTAL LIABILITIES AND NET POSITION	$ 77,403,332	$ 36,784,226	$ 114,187,558

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

CITY OF LAFOLLETTE, TENNESSEE

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS

For the Year Ended June 30, 2016

	Enterprise Funds		
	Electric Department	Water Department	Total
OPERATING REVENUES:			
Charges for Services (Net of Bad Debt Expense of $61,000 and $32,427, Respectively)	$ 44,628,168	$ 6,329,980	$ 50,958,148
Other	1,117,857	203,623	1,321,480
Total Operating Revenues	45,746,025	6,533,603	52,279,628
OPERATING EXPENSES:			
Cost of Sales	30,648,064	497,304	31,145,368
Distribution, General and Administrative	6,093,082	1,697,409	7,790,491
Maintenance of Plant and Systems	1,633,998	2,357,195	3,991,193
Depreciation	3,343,095	1,425,420	4,768,515
Taxes	642,494	0	642,494
Total Operating Expenses	42,360,733	5,977,328	48,338,061
OPERATING INCOME (LOSS)	3,385,292	556,275	3,941,567
NONOPERATING REVENUES (EXPENSES):			
Interest and Dividend Income	28,091	647	28,738
Interest Expense	(612,580)	(131,617)	(744,197)
FEMA Grants	36,275	0	36,275
Total Nonoperating Revenues (Expenses)	(548,214)	(130,970)	(679,184)
INCOME (LOSS) BEFORE TRANSFERS & CONTRIBUTIONS	2,837,078	425,305	3,262,383
CAPITAL CONTRIBUTIONS	0	524,498	524,498
TRANSFERS TO CITY OF LAFOLLETTE - IN LIEU OF TAXES	(1,182,650)	0	(1,182,650)
CHANGE IN NET POSITION	1,654,428	949,803	2,604,231
NET POSITION - BEGINNING OF YEAR	33,250,516	23,408,788	56,659,304
NET POSITION - END OF YEAR	$ 34,904,944	$ 24,358,591	$ 59,263,535

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

CITY OF LAFOLLETTE, TENNESSEE

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

For the Year Ended June 30, 2016

	Enterprise Funds		
	Electric Department	Water Department	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Received from Customers	$ 44,426,342	$ 6,017,877	$ 50,444,219
Cash Receipts from Other Operations	1,117,857	203,623	1,321,480
Cash Paid to Employees	(6,912,162)	(2,938,191)	(9,850,353)
Cash Paid to Suppliers	(31,308,473)	(1,612,125)	(32,920,598)
Cash Payments for Taxes and Other Operations	(642,494)	0	(642,494)
Net Cash Provided by Operating Activities	6,681,070	1,671,184	8,352,254
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers to City of LaFollette - In Lieu of Taxes	(1,182,650)	0	(1,182,650)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from Maturities and Sales of Investments	2,499,705	0	2,499,705
Interest on Cash and Cash Equivalents	27,290	647	27,937
Net Cash Provided by Investing Activities	2,526,995	647	2,527,642
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Plant Additions and Construction	(6,114,382)	(676,864)	(6,791,246)
Plant and Equipment Removal Costs, Net	25,169	0	25,169
Decrease in Restricted Cash	913,951	107,889	1,021,840
Repayments on Long-Term Debt	(2,708,862)	(704,558)	(3,413,420)
Interest on Long-Term Debt	(559,926)	(132,700)	(692,626)
FEMA Grant	36,275	0	36,275
Net Cash Provided by (Used in) Capital and Related Financing Activities	(8,407,775)	(1,406,233)	(9,814,008)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(382,360)	265,598	(116,762)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,677,042	66,143	3,743,185
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 3,294,682	$ 331,741	$ 3,626,423

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

CITY OF LAFOLLETTE, TENNESSEE

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (Continued)

For the Year Ended June 30, 2016

	Enterprise Funds		
	Electric Department	Water Department	Total
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:			
Operating Income	$ 3,385,292	$ 556,275	$ 3,941,567
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used In) Operating Activities:			
Depreciation (Net of Capitalized Depreciation of $216,486 and $44,916, Respectively)	3,343,095	1,425,420	4,768,515
Changes in Assets and Liabilities:			
Increase in Utility Accounts Receivable	(281,251)	(312,103)	(593,354)
Increase in Materials and Supplies Inventory	(133,921)	(13,201)	(147,122)
Decrease in Prepaid Items and Other Current Assets	714	0	714
Increase in Customer Deposits	79,425	0	79,425
Increase in Accounts Payable	291,570	18,158	309,728
Increase in Accrued Compensated Absences	77,831	31,643	109,474
Decrease in Accrued Retirement Plan Payable	(81,685)	(35,008)	(116,693)
Total Adjustments	3,295,778	1,114,909	4,410,687
Net Cash Provided by Operating Activities	$ 6,681,070	$ 1,671,184	$ 8,352,254
Supplementary Schedule of Noncash Capital and Related Financing Activities:			
Amortization of Bond Premium	$ 33,525	$ 817	$ 34,342
Contributed Capital Assets	$ 0	$ 524,498	$ 524,498
Amortization of Deferred Amount on Refunding	$ (91,697)	$ 0	$ (91,697)
Gain (Loss) on Investments	$ 801	$ 0	$ 801

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

NOTE 1 - GENERAL INFORMATION

THE FINANCIAL REPORTING ENTITY

The City of LaFollette, Tennessee (the City) is a primary government entity governed by an elected city council consisting of the mayor and four council members. The accompanying financial statements present the primary government and its discretely presented component unit which is included because of the significance of its operational and financial relationship with the City. The component unit is reported in a separate column to emphasize that it is legally separate from the City.

Discretely Presented Component Unit - The City of LaFollette Emergency Communications District (the "District") provides local emergency telephone service and a primary emergency telephone number for the residents and businesses of the City of LaFollette, Tennessee. The District accounts for its operations as an enterprise fund. It is governed by an eight-member Board of Directors (the Board) appointed by the City Council of the City of LaFollette, Tennessee. A complete set of financial statements for the component unit may be obtained from the Finance Director of the City of LaFollette, Tennessee.

The accounting and reporting policies of the City relating to the accounts included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments (GAAP). Accounting principles generally accepted in the United States of America for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Government Units* and by the *Financial Accounting Standards Board* (where applicable). All applicable GASB Statements have been implemented. Net position comprises the various net earnings from operating and non-operating revenues, expenses, and contributions of capital. GAAP establishes standards for external financial reporting for all state and local governmental entities and requires the classification of net position in the statement of net position into three components - net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- Net investment in capital assets - This component of net position 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. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- Restricted - This component of net position consists of restrictions placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net position - This component of net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets." This net position is available for current use by the City.

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

NOTE 1 - GENERAL INFORMATION (Continued)

Government-Wide Statements - The statement of net position and the statement of activities display information about the primary government and its component unit. These statements include the financial activities of the overall government. These statements distinguish between the *governmental* and *business-type* activities of the City. Governmental activities are generally financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

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

GOVERNMENTAL FUND TYPES

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

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than special assessments or major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

Capital Projects Funds - Capital projects funds are used to account for financial resources segregated for the acquisition or construction of major capital facilities other than those financed by the enterprise funds.

PROPRIETARY FUND TYPES

Enterprise Funds - Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The City of LaFollette - Board of Public Utilities (the Board) is a political subdivision of the City of LaFollette, Tennessee. The Board is comprised of the Electric Department and the Water Department, which are reported as separate enterprise funds of the City. The Electric Department operates under a board of commissioners and services the majority of Campbell County and portions of Claiborne and Union Counties. The Electric Department purchases its entire supply of electrical power from the Tennessee Valley Authority (TVA) under the terms of an all-requirements contract with a 10-year rolling termination date. The Water Department operates under a board of commissioners and provides water and wastewater services to the City of LaFollette and portions of Campbell and Claiborne Counties.

NOTE 1 - GENERAL INFORMATION (Continued)

Fund Balance Classifications - GAAP establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. These classifications include nonspendable, restricted, committed, assigned, and unassigned and are based on the relative strength of the constraints that control how specific amounts can be spent. These classifications are defined as follows:

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. These amounts include inventories and prepaid items.

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.

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

Committed Fund Balance – includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal resolutions of the City Council, the City's highest level of decision-making authority. The distinction between restricted and committed fund balances is the source and strength of the constraints placed on them.

Assigned Fund Balance – includes amounts that the City intends to use for a specific purpose, but for which the use is not legislatively mandated. City Council is the authorized body to make assignments.

Unassigned Fund Balance – the residual classification of the General Fund. 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 Fund.

When committed, assigned or unassigned fund balance amounts are available for use, it is the City's policy to use the committed fund balance first; the assigned fund balance second; and then the unassigned fund balance, as they are needed.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenue is recorded when it becomes susceptible to accrual (measurable and available):

A. Revenue considered susceptible to accrual includes: property taxes, shared revenues, licenses, interest and charges for services (collected within sixty days after year-end).

B. Interest and principal on general long-term debt indebtedness is not accrued but is recorded as an expenditure on its due date.

C. Disbursements for purchase of capital assets providing future benefits are considered expenditures; bond proceeds are reported as other financing sources.

D. Other tax and nonexchange revenue receivable includes local and state sales taxes, local beer tax, state income tax, and state gasoline and motor fuel tax. Certain other nonexchange transaction revenue is not recognized due to immateriality and not being susceptible to accrual.

The City's proprietary funds use the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

The City reports the following major governmental fund: The General Fund which is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major proprietary funds: Electric Department Fund and Water Department 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 and interest income.

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

Interfund Activity - As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payment-in-lieu of taxes and other charges between the City's electric, water and wastewater utilities and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Cash and Cash Equivalents - Cash and cash equivalents consist of certificates of deposit, money market investment accounts and other temporary investments (including restricted cash) maturing within 90 days of original purchase.

Compensated Absences - The City records earned, but unused, vacation pay as a compensated absences liability. It is also the City's policy to allow governmental fund employees to be paid for accumulated sick leave upon retirement up to a maximum of 520 hours. In accordance with GAAP, a liability has been accrued for sick leave amounts that management has determined are earned and probable of being paid in the future, using the termination payment method. The amount of compensated absences due within one year on the balance sheet has been estimated based on prior years' experience.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Taxes - The City's property taxes are levied each October 1 on the assessed value as of the prior January 1 for all real and personal property located in the City. Assessed values are established by the State of Tennessee at the following rates of assumed market value:

1. Public utility property - 55% (railroads - 40%)
2. Industrial and commercial property
    a. Real - 40%
    b. Personal - 30%
3. Residential property - 25%

The last reappraisal was completed for the list of January 1, 2014. The assessed value of the list for the 2016 tax year was $132,533,866.

Taxes were levied at a rate of $1.19 per $100. Taxes are due in one payment on October 1 and delinquent on March 1 of the following year. Current tax collections for the fiscal year ended June 30, 2016 were 93% of the tax levy.

Deferred Property Taxes - Property taxes for 2016 are recognized as an enforceable legal claim as of January 1, 2016. However, the revenue, net of estimated refunds and estimated uncollectible amounts, is recognized in the year in which the taxes are levied, which occurs on October 1 of each year and therefore is deferred until the following fiscal year.

Capital Assets - Governmental Funds - Capital outlay is recorded as expenditures in the governmental fund financial statements and as assets in the government-wide financial statements to the extent the City's capitalization threshold of $5,000 is met. Depreciation on capital assets has been recorded using their estimated useful lives and the straight-line method. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Estimated useful lives of governmental funds' capital assets are as follows:

Land Improvements	10 - 17 years
Buildings and Improvements	25 - 50 years
Equipment	5 - 12 years
Vehicles	3 - 20 years
Infrastructure	15 - 50 years

In accordance with GAAP, infrastructure assets acquired prior to July 1, 2002 had to be valued and recorded in 2006 retroactively to 1980. Management contracted with a third-party consultant to assist them in estimating some of the original costs and estimated useful lives of its capital assets with costs in excess of the capitalization threshold of $5,000 or more. Management also performed an inventory of assets being used and researched its records to determine each asset's original cost and date acquired.

Budgetary Principles - Governmental Funds - Prior to the beginning of the fiscal year, the city council approves an operating budget for all governmental funds and holds public hearings. All supplemental appropriations must also be approved by city council. Actual expenditures and operating transfers out may not legally exceed "budget" appropriations at the individual fund level. Budgetary control, however, is maintained at the departmental level.

Appropriations lapse at the close of the fiscal year to the extent that they have not been transferred to encumbrances.

The City prepares its budget in accordance with the modified accrual basis of accounting, which is consistent with GAAP.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenues - Exchange and Nonexchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

Deferred Outflows/Inflows of Resources - In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The City's governmental funds' deferred outflows of resources consist of deferred pension outflows and the business-type activities' deferred outflows of resources consist of deferred bond refunding losses. In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. The City's governmental activities' deferred inflows of resources consist of deferred property taxes (see explanation on previous page), deferred pension inflows, and escrow for the hospital facilities lease (see note 16).

Governmental Funds Employees' Pension Plan - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to this pension plan, and governmental fund employees' pension expense, information about the fiduciary net position of the City's participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System (TCRS), and additions to/deductions from the City'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.

Evaluation of Subsequent Events - Management has evaluated subsequent events through January 30, 2017, which is the date the financial statements were available to be issued, and has determined that there are no subsequent events that require disclosure.

Electric Department - Additional Significant Accounting Policies

Related Party and Interfund Activities - For economic purposes and convenience, certain expenses incurred by the Board are incurred jointly between the Electric Department and the Water Department. The joint expenses are incurred for the use of the building, management, customer services, meter reading / service technicians, sharing of transportation vehicles, office personnel, equipment, etc. Expenses of the Electric Department and Water Department that cannot be directly attributed to the operations of each Department are allocated on a pro-rata basis of 66% and 34%, respectively, except for office building expenses which are allocated on a basis of 71% and 29%, respectively.

Additionally, the Electric Department bills and collects water and wastewater charges for the Water Department. These funds are periodically transferred to the Water Department. Accounts receivable and payable between the Electric Department and Water Department represent operating cash advances related to the transfer of these funds and the allocation of expenses mentioned above. These receivables and payables are included on the balance sheet within Accounts Receivable - Customers, Net and Accounts Payable. As of June 30, 2016 and 2015, balances due from the Electric Department to the Water Department were $506,239 and $179,483, respectively.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Electric Department - Additional Significant Accounting Policies (Continued)

Utility Plant - Utility plant and construction work in progress are stated at cost. Interest costs associated with long-term construction projects are capitalized in accordance with FASB ASC 835. Donated assets are valued at their estimated fair value on the date donated. The Electric Department defines a capital asset as an asset with an initial individual cost or a project with a cumulative total cost of more than $1,000 and estimated useful life in excess of one year. Major renewals and improvements are charged to the plant account while replacements, maintenance, and repairs, which do not improve or extend the life of the assets, are expensed currently. Utility plant items are depreciated over their estimated useful lives on the straight-line group method. Depreciation on property and equipment used by the Electric Department is charged as an expense against its operations. Accumulated depreciation is reported on the proprietary fund balance sheet. Depreciation has been provided at a rate of 2% to 20% per year for the Electric Department property and equipment.

Deposits and Investments - The Electric Department considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The department has not formally adopted an investment policy and places no limit on the amount that may be deposited with any one issuer. As of June 30, 2016, the department has investments in one issuer that represents 5% or more of the total investment assets other than U.S. Treasuries.

The Electric Department has no formal policy regarding interest rate risk. Deposits are structured in a manner that ensures sufficient cash is available to meet the anticipated liquidity needs. Selection of deposit maturities must be consistent with the cash requirements of the department in order to avoid the forced redemption of deposits prior to maturity.

As authorized by statutes of the State of Tennessee (the State), the department may only invest in obligations of the United States Treasury, its agencies and instrumentalities; money market funds; the Local Government Investment Pool or in obligations which are rated in either of the two highest rated categories by a nationally recognized rating agency. All of the Electric Department’s investments were rated in the highest two categories.

As of June 30, 2016, the Electric Department has invested in United States Treasury Obligations with maturity dates between less than 12 months and not more than 24 months.

Accounts Receivable/Allowance for Doubtful Accounts and Unbilled Revenue - The allowance for doubtful accounts is determined using historical information and current evaluations of existing economic conditions. Recognition has been given to unbilled revenue in the financial statements.

Materials and Supplies - Materials and supplies are valued at average cost.

Customer Deposits - The Electric Department requires customers to pay a refundable deposit when service is connected. Customer deposits are refunded when the customer has made their payments timely for a two year period. The amount of customer deposits due within one year on the balance sheet has been estimated based on the prior years’ experience.

Compensated Absences - It is the Electric Department's policy to permit employees to accumulate earned but unused vacation leave up to a maximum of 240 hours. A liability representing the Electric Department's commitment to fund such costs from future operations has been recorded. It is also the Electric Department's policy to allow employees to be paid for accumulated sick leave upon retirement. In accordance with GAAP, a liability has been accrued for sick leave amounts that management has determined are earned and probable of being paid in the future, using the termination payment method. The amount of compensated absences due within one year on the balance sheet has been estimated based on prior years’ experience.

Presentation of Certain Taxes - The Electric Department collects various taxes from customers and remits these amounts to applicable taxing authorities. The Electric Department’s accounting policy is to exclude these taxes from revenues and cost of sales.

Revenue and Expenses - Revenue and expenses are recorded on the accrual basis in accordance with the Uniform System of Accounts prescribed by the Federal Regulatory Commission (FERC).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Electric Department - Additional Significant Accounting Policies (Continued)

Budgeting - The Electric Department adopts flexible annual operating and capital budgets. Budgets are adopted on a basis consistent with generally accepted accounting principles. The current operating budget details the Electric Department's plans to earn and expend funds for charges incurred for operation, maintenance, certain interest and general functions, and other charges for the fiscal year. The capital budget details the plan to receive and expend capital contributions, grants, borrowings and certain revenues for capital projects. The Electric Department's budgets are not legally binding. During the year, management is authorized to transfer budgeted amounts between line items within the Electric Department's departments.

Implementation of GASB Statement No. 72 - During the fiscal year ended June 30, 2016, the Electric Department implemented GASB Statement No. 72, *Fair Value Measurement and Application*, which establishes guidance for determining fair value measurement for financial reporting purposes, for applying fair value to certain investments and disclosures related to all fair value measurements (see Note 12).

Evaluation of Subsequent Events - Management has evaluated subsequent events through October 26, 2016, which is the date the financial statements were available to be issued, and has determined that there are no subsequent events that require disclosure.

Water Department - Additional Significant Accounting Policies

Related Party and Interfund Activities - For economic purposes and convenience, certain expenses incurred by the Board are incurred jointly between the Electric Department and the Water Department. The joint expenses are incurred for the use of the building, management, customer services, meter reading / service technicians, sharing of transportation vehicles, office personnel, equipment, etc. Expenses of the Electric Department and Water Department that cannot be directly attributed to the operations of each Department are allocated on a pro-rata basis of 66% and 34%, respectively, except for office building expenses which are allocated on a basis of 71% and 29%, respectively.

Additionally, the Electric Department bills and collects water and wastewater charges for the Water Department. These funds are periodically transferred to the Water Department. Accounts receivable and payable between the Electric Department and Water Department represent operating cash advances related to the transfer of these funds and the allocation of expenses mentioned above. These receivables and payables are included on the balance sheet within Accounts Receivable – Customers, Net and Accounts Payable. As of June 30, 2016 and 2015, balances due from the Electric Department to the Water Department were $506,239 and $179,483, respectively.

Utility Plant - Utility plant and construction work in progress are stated at cost. Interest costs associated with long-term construction projects are capitalized in accordance with FASB ASC 835. Donated assets are valued at their estimated fair market value on the date donated. The Water Department defines a capital asset as an asset with an initial individual cost or a project with a cumulative total cost of more than $1,000 and estimated useful life in excess of one year. Major renewals and improvements are charged to the plant account while replacements, maintenance, and repairs which do not improve or extend the life of the assets are expensed currently. Utility plant items are depreciated over their estimated useful lives on the straight-line group method. Depreciation on property and equipment used by the Water Department is charged as an expense against its operations. Accumulated depreciation is reported on the proprietary fund balance sheet. Depreciation has been provided at a rate of 2% to 25% per year for the Water Department's property and equipment.

Accounts Receivable/Allowance for Doubtful Accounts and Unbilled Revenue - The allowance for doubtful accounts is determined using historical information and current evaluations of existing economic conditions. Recognition has been given to unbilled revenue in the financial statements.

Materials and Supplies - Materials and supplies are valued at average cost.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Water Department - Additional Significant Accounting Policies

Compensated Absences - It is the Water Department's policy to permit employees to accumulate earned but unused vacation leave up to a maximum of 240 hours. A liability representing the Water Department's commitment to fund such costs from future operations has been recorded. The Water Department allows employees to be paid for accumulated sick leave upon retirement. In accordance with GAAP, a liability has been accrued for sick leave amounts that management has determined are earned and probable of being paid in the future, using the termination payment method. The amount of compensated absences due within one year on the balance sheet has been estimated based on prior years' experience.

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

Revenue and Expenses - Revenue and expenses are recorded on the accrual basis in accordance with the Uniform System of Accounts for Class A and B Water Utilities adopted by the National Association of Regulatory Utility Commissioners. Labor, materials, and overhead costs of treated but unsold water are charged to operations as they are incurred, and no attempt is made to inventory these at year-end. Certain revenue and expenses of the water division and wastewater division that cannot be directly attributed to the operations of each division are allocated on a pro-rata basis of 73% and 27%, respectively.

Budgeting - The Water Department adopts flexible annual operating and capital budgets. Budgets are adopted on a basis consistent with generally accepted accounting principles. The current operating budget details the Water Department's plans to earn and expend funds for charges incurred for operation, maintenance, certain interest and general functions, and other charges for the fiscal year. The capital budget details the plan to receive and expend capital contributions, grants, borrowings and certain revenues for capital projects. The Water Department's budgets are not legally binding. During the year, management is authorized to transfer budgeted amounts between line items within the Water Department's divisions.

Evaluation of Subsequent Events - Management has evaluated subsequent events through October 26, 2016, which is the date the financial statements were available to be issued, and has determined that there are no subsequent events that require disclosure.

Emergency Communications District - Additional Significant Accounting Policies

Budget - Formal budgetary integration is employed as a management control device during the year for this fund. This annual budget is prepared on a basis consistent with generally accepted accounting principles (GAAP) and is approved by the District's Board of Commissioners. The budget may be amended by a majority vote of the Board of Commissioners. Actual expenditures and operating transfers out may not legally exceed budget appropriations. Budgetary control is maintained at the line item level. Appropriations lapse at the close of the fiscal year.

Capital Assets - Capital assets are carried at cost and defined as an asset with an initial individual cost, or project with a cumulative total cost of more than $1,000, and estimated useful life in excess of one year. Depreciation is computed using the straight-line method over an estimated useful life of five to twenty-five years.

NOTE 3 - UNBILLED REVENUE

As of June 30, 2016 the Electric and Water Departments reported estimated unbilled revenues of approximately $2,304,000 and $302,000, respectively, which are included in accounts receivable.

NOTE 4 - CASH AND CASH EQUIVALENTS

Custodial Credit Risk - Deposits - For cash and cash equivalents, this is the risk that, in the event of a bank failure, the City's balances may not be available or the City will not be able to recover collateral securities in the possession of an outside party. The City follows State law regarding collateralization of deposits, which requires collateral to be obtained on any deposits exceeding insurance coverage of the Federal Deposit Insurance Corporation (FDIC). At June 30, 2016, the City's deposits were covered by FDIC Insurance, by pledged collateral held by the City's agent bank in the City's name, or by the Tennessee Bank Collateral Pool Board.

Governmental Funds

As of June 30, 2016, the book balances of the governmental fund types' cash were $5,182,550 and the bank balances were $5,611,757. Of the bank balances, $750,000 was covered by FDIC insurance and $4,861,757 was covered by collateral held by the City's safekeeping bank agent in the City's name. The City has entered into three-party agreements with People's Bank of the South and CenterState Bank, and with Community Trust Bank and First Tennessee Bank.

Electric Department

As of June 30, 2016, the book balances of the Electric Department's deposits were $3,390,391 and the bank balances were $3,529,646. Of the bank balances, $374,457 was covered by FDIC insurance and $3,155,190 was covered by collateral held by the Tennessee Bank Collateral Pool Board of the State of Tennessee Treasury Department. The Electric Department has entered into agreements with First Volunteer Bank and First Tennessee Bank, which participate in the Tennessee Bank Collateral Pool.

Water Department

As of June 30, 2016, the book balances of the Water Department's deposits were $373,957 and the bank balances were $373,957. Of the bank balances, $250,000 was covered by FDIC insurance and $123,957 was covered by collateral held by the Tennessee Bank Collateral Pool Board of the State of Tennessee Treasury Department. The Water Department has entered into agreements with First Volunteer Bank and First Tennessee Bank, which participate in the Tennessee Bank Collateral Pool.

Emergency Communications District

As of June 30, 2016, the book balances of the Emergency Communications District's cash accounts were $632,470 and the bank balances were $635,765. Of the bank balances, $250,000 was covered by FDIC insurance and $385,765 was covered by collateral held by the Tennessee Bank Collateral Pool Board of the State of Tennessee Treasury Department.

NOTE 5 - INTERFUND TRANSFERS

Transfers To:		Transfers From General Fund
Special Police Fund	$	25,865
Drug Fund		12,391
Total	$	38,256

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 use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 6 - CAPITAL ASSETS / RELATED PARTY TRANSACTION

Governmental Funds

Capital asset activity for the year ended June 30, 2016 is as follows:

	Balance June 30, 2015	Increases	Decreases	Balance June 30, 2016
Capital Assets, Not Being Depreciated:				
Land	$ 569,005	$ 8,094	$ 0	$ 577,099
Construction In Progress	608,187	1,069,145	(1,677,332)	0
Total Capital Assets, Not Being Depreciated	1,177,192	1,077,239	(1,677,332)	577,099
Capital Assets, Being Depreciated:				
Land Improvements	697,527	254,039	0	951,566
Buildings and Improvements	3,469,405	32,540	0	3,501,945
Equipment, Furniture and Fixtures	1,382,021	38,510	(15,000)	1,405,531
Vehicles	3,078,992	300,712	(68,495)	3,311,209
Infrastructure	13,263,989	1,423,293	0	14,687,282
Total Capital Assets, Being Depreciated	21,891,934	2,049,094	(83,495)	23,857,533
Less Accumulated Depreciation for:				
Land Improvements	345,779	34,627	0	380,406
Buildings and Improvements	1,066,930	119,812	0	1,186,742
Equipment, Furniture and Fixtures	822,879	91,359	(7,000)	907,238
Vehicles	1,858,835	177,396	(68,493)	1,967,738
Infrastructure	8,915,164	291,239	0	9,206,403
Total Accumulated Depreciation	13,009,587	714,433	(75,493)	13,648,527
Total Capital Assets, Being Depreciated, Net	8,882,347	1,334,661	(8,002)	10,209,006
Governmental Activities Capital Assets, Net	$ 10,059,539	$ 2,411,900	$ (1,685,334)	$ 10,786,105

Depreciation was charged to governmental functions as follows:

Administration and Finance	$ 91,286
Police Protection	65,044
Fire Protection	93,859
Animal and Infectious Disease Control	6,304
Streets and Highways and General Public Works	377,253
Recreation Center and Library	80,687
	$ 714,433

The City's capital assets do not include any amounts for assets under capital leases.

NOTE 6 - CAPITAL ASSETS / RELATED PARTY TRANSACTION (Continued)

Electric Department

Capital asset activity for the year ended June 30, 2016 is as follows:

	Balance June 30, 2015	Increases	Decreases	Balance June 30, 2016
Capital Assets, Not Being Depreciated:				
Land and Land Rights	$ 877,922	$ 50,848	$ 0	$ 928,770
Construction Work in Progress	825,961	5,274,183	(3,190,203)	2,909,941
Total Capital Assets, Not Being Depreciated	1,703,883	5,325,031	(3,190,203)	3,838,711
Capital Assets, Being Depreciated:				
Structures and Improvements	3,104,779	31,522	0	3,136,301
Poles, Towers, and Transmission Assets	76,250,835	3,547,311	(429,274)	79,368,872
Street Lighting Systems	3,778,152	189,381	(53,856)	3,913,677
Equipment, Furniture and Fixtures	28,276,028	427,826	(90,889)	28,612,965
Total Capital Assets, Being Depreciated	111,409,794	4,196,040	(574,019)	115,031,815
Less Accumulated Depreciation for:				
Structures and Improvements	903,757	63,841	0	967,598
Poles, Towers, and Transmission Assets	30,730,180	2,281,291	(425,601)	32,585,870
Street Lighting Systems	2,553,320	178,590	(44,370)	2,687,540
Equipment, Furniture and Fixtures	15,314,992	1,035,859	(78,879)	16,271,972
Total Accumulated Depreciation	49,502,249	3,559,581	(548,850)	52,512,980
Total Capital Assets, Being Depreciated, Net	61,907,545	636,459	(25,169)	62,518,835
Capital Assets, Net	$ 63,611,428	$ 5,961,490	$ (3,215,372)	$ 66,357,546

Water Department

Capital asset activity for the year ended June 30, 2016 is as follows:

	Balance June 30, 2015	Increases	Decreases	Balance June 30, 2016
Capital Assets, Not Being Depreciated:				
Land and Land Rights	$ 162,537	$ 0	$ 0	$ 162,537
Construction Work in Progress	444,145	480,785	(470,152)	454,778
Total Capital Assets, Not Being Depreciated	606,682	480,785	(470,152)	617,315
Capital Assets, Being Depreciated:				
Structures and Improvements	16,763,464	12,068	0	16,775,532
Furniture, Fixtures and Equipment	5,791,247	478,824	(19,099)	6,250,972
Distribution Reservoir and Standpipes	2,317,140	0	0	2,317,140
Transmission and Distribution Mains	28,451,525	600,074	0	29,051,599
Service Installations	6,550,268	144,679	0	6,694,947
Total Capital Assets, Being Depreciated	59,873,644	1,235,645	(19,099)	61,090,190
Less Accumulated Depreciation for:				
Structures and Improvements	5,645,318	420,713	0	6,066,031
Furniture, Fixtures and Equipment	5,228,174	181,058	(19,099)	5,390,133
Distribution Reservoir and Standpipes	886,511	46,343	0	932,854
Transmission and Distribution Mains	10,080,772	570,894	0	10,651,666
Service Installations	3,432,698	251,328	0	3,684,026
Total Accumulated Depreciation	25,273,473	1,470,336	(19,099)	26,724,710
Total Capital Assets, Being Depreciated, Net	34,600,171	(234,691)	0	34,365,480
Capital Assets, Net	$ 35,206,853	$ 246,094	$ (470,152)	$ 34,982,795

NOTE 6 - CAPITAL ASSETS / RELATED PARTY TRANSACTION (Continued)

Emergency Communications District

Capital asset activity for the component unit for the year ended June 30, 2016 is as follows:

	Balance June 30, 2015	Increases	Decreases	Balance June 30, 2016
Capital Assets, Not Being Depreciated:				
Land and Land Rights	$ 4,000	$ 0	$ 0	$ 4,000
Capital Assets, Being Depreciated:				
Equipment, Furniture and Fixtures	1,076,875	52,556	(479,528)	649,903
Less Accumulated Depreciation for:				
Equipment, Furniture and Fixtures	880,283	75,630	(408,364)	547,549
Total Capital Assets, Being Depreciated, Net	196,592	(23,074)	(71,164)	102,354
Capital Assets, Net	$ 200,592	$ (23,074)	$ (71,164)	$ 106,354

NOTE 7 - RESTRICTED CASH

Governmental Funds

Restricted cash and cash equivalents in the General Fund consists of an escrow deposit of $1,209,545 related to the HMA hospital facilities lease (see Note 16) and monies set aside for special contracts of $34,644. The remaining restricted cash and cash equivalents totaling $344,881 relate to special revenue funds.

Electric Department and Water Department

The capital asset expenditures fund and the construction fund consist of proceeds from bonds payable to be used for specific construction projects.

NOTE 8 - LONG-TERM DEBT

Changes in long-term debt for the year ended June 30, 2016 are as follows:

	Balance June 30, 2015	Increases	Decreases	Balance June 30, 2016	Current Portion
Governmental Activities:					
General Obligation:					
Capital Outlay Note	$ 234,000	$ 0	$ (115,000)	$ 119,000	$ 119,000
Capital Outlay Note	955,000	0	(148,000)	807,000	152,000
	$ 1,189,000	$ 0	$ (263,000)	$ 926,000	$ 271,000
Business-Type Activities:					
General Obligation:					
Loans Payable to PBA Clarksville, Series 2003, 2004, 2008 and 2010	$ 9,071,000	$ 0	$ (699,000)	$ 8,372,000	$ 718,000
Loan Payable to PBA Montgomery County, Series 2006	8,329,000	0	(386,000)	7,943,000	405,000
TLDA Loans	6,728,151	0	(438,012)	6,290,139	441,490
Series 2014A	9,964,929	0	(1,264,342)	8,700,587	1,270,000
Refunding, Series 2015A	5,990,000	0	(380,000)	5,610,000	380,000
Refunding, Series 2015B	4,225,000	0	(250,000)	3,975,000	250,000
Rural Development Revenue and Tax Bonds	1,775,979	0	(30,408)	1,745,571	31,176
	$ 46,084,059	$ 0	$ (3,447,762)	$ 42,636,297	$ 3,495,666

NOTE 8 - LONG-TERM DEBT (Continued)

Governmental Funds

General obligation capital outlay notes and leases payable currently outstanding are as follows:

	Interest Rates	Date Issued	Final Maturity Date	Amount of Original Issue	Balance June 30, 2016
General Obligation Capital Outlay Note	3.14%	03/16/11	12/01/16	$ 648,000	$ 119,000
General Obligation Capital Outlay Note	2.94%	10/27/10	10/01/20	1,500,000	807,000
					$ 926,000

Annual debt service requirements to maturity of the primary government for the notes and lease are as follows:

	Principal	Interest
Year Ending June 30,		
2017	271,000	25,227
2018	157,000	16,949
2019	161,000	12,274
2020	166,000	7,468
2021	171,000	2,514
Total	$ 926,000	$ 64,432

Electric Department

Changes in long-term obligations for the year ended June 30, 2016 are as follows:

	Balance June 30, 2015	Increases	Decreases	Balance June 30, 2016	Amounts Due Within One Year
Loan Payable to the Public Building Authority of the City of Clarksville, Tennessee - Series 2004 (PBA Clarksville, Series 2004) - Variable Rate based on Bank of America Daily Rate	$ 4,781,607	$ 0	$ (428,637)	$ 4,352,970	$ 438,883
Loan Payable to the Public Building Authority of the County of Montgomery, Tennessee - Series 2006 (PBA Montgomery County, Series 2006) - Variable Rate based on Bank of America Daily Rate	8,329,000	0	(386,000)	7,943,000	405,000
Loan Payable to the Public Building Authority of the City of Clarksville, Tennessee - Series 2008 (PBA Clarksville, Series 2008) - Variable Rate based on Bank of America Daily Rate	1,557,166	0	(74,225)	1,482,941	76,839
GO Bonds Series 2014A, 2.0% to 4.0%	9,060,000	0	(1,190,000)	7,870,000	1,230,000
GO Refunding Bonds Series 2015A, 2.0%	5,990,000	0	(380,000)	5,610,000	380,000
GO Refunding Bonds Series 2015B, 2.0% to 2.75%	4,225,000	0	(250,000)	3,975,000	250,000
	33,942,773	0	(2,708,862)	31,233,911	2,780,722
Plus Unamortized Premiums on Issuance	395,400	0	(33,525)	361,875	0
	$ 34,338,173	$ 0	$ (2,742,387)	$ 31,595,786	$ 2,780,722

NOTE 8 - LONG-TERM DEBT (Continued)

Electric Department (Continued)

The bonds and loans payable outstanding as of June 30, 2016 are as follows:

	Interest Rates	Date Issued	Final Maturity Date	Amount of Original Issue	Balance June 30, 2016
Loan Payable to PBA - Clarksville, Series 2004	Variable	5/24/2005	5/25/2025	$ 8,538,600	$ 4,352,970
Loan Payable to PBA - Montgomery County - Series 2006	Variable	3/3/2008	5/25/2030	10,000,000	7,943,000
Loan Payable to PBA - Clarksville, Series 2008	Variable	10/31/2008	5/25/2031	1,829,500	1,482,941
Electric System General Obligation Bonds, Series 2014A	2.00% - 4.00%	12/5/2014	3/1/2035	9,075,000	7,870,000
Electric System General Obligation Refunding Bonds, Series 2015A	2.00%	2/27/2015	3/1/2022	5,990,000	5,610,000
Electric System General Obligation Refunding Bonds, Series 2015B	2.00% - 2.75%	3/31/2015	3/1/2030	4,225,000	3,975,000
					$ 31,233,911

Annual debt service requirements to maturity of the bonds and loans payable are as follows for the years ending June 30:

	Principal	Interest
2017	$ 2,780,722	$ 544,874
2018	2,819,582	512,991
2019	2,884,295	464,125
2020	2,995,532	414,238
2021	3,043,769	362,412
2022-2026	9,483,753	1,187,623
2027-2031	6,006,258	548,687
2032-2035	1,220,000	118,725
Total	$ 31,233,911	$ 4,153,675

The general taxing authority of the City of LaFollette is pledged as collateral for all of the loans payable to Public Building Authorities. Proceeds from these loans were also used to finance certain construction projects.

On December 5, 2014, the Electric Department issued $9,075,000 in General Obligation Bonds (Series 2014A) to advance refund portions of its 2005 Series bonds. The advance refunding resulted in an accounting loss which is being deferred and amortized on a straight-line basis over the weighted average life of the bonds defeased in accordance with GASB No. 23. Amortization of the deferred amount on the refunding of bonds for the year ended June 30, 2016 of $31,323 is included in interest expense in the statements of revenues, expenses and changes in net position. These bonds also resulted in approximately $5,000,000 in additional proceeds to provide financing for certain construction projects.

On February 27, 2015, the Electric Department issued $5,990,000 in General Obligation Refunding Bonds (Series 2015A) to advance refund portions of its 2006 Series bonds. The advance refunding resulted in an accounting loss which is being deferred and amortized on a straight-line basis over the weighted average life of the bonds defeased in accordance with GASB No. 23. Amortization of the deferred amount on the refunding of bonds for the year ended June 30, 2016 of $60,374 is included in interest expense in the statements of revenues, expenses and changes in net position.

On March 31, 2015, the Electric Department issued $4,225,000 in General Obligation Refunding Bonds (Series 2015B) to advance refund portions of its 2010 Series loan payable. The advance refunding did not result in an accounting loss.

The 2014 and 2015 General Obligation Bonds are payable from but not secured by a pledge of the Electric Department’s revenues. The full faith and credit of the City of LaFollette is pledged as collateral for these bonds.

NOTE 8 - LONG-TERM DEBT (Continued)

Water Department

Changes in long-term obligations for the year ended June 30, 2016 are as follows:

	Balances June 30, 2015	Increases	Decreases	Balances June 30, 2016	Amounts Due Within One Year
Loan Payable to the Public Building Authority of the City of Clarksville, Tennessee - Series 2003 (PBA Clarksville, Series 2003) - Variable Rate (Based on Bank of America Daily Rate)	$ 492,000	$ 0	$ (55,000)	$ 437,000	$ 57,000
Loan Payable to the Public Building Authority of the City of Clarksville, Tennessee - Series 2004 (PBA Clarksville, Series 2004) - Variable Rate (Based on Bank of America Daily Rate)	818,393	0	(73,363)	745,030	75,117
State Revolving Fund Loan Payable to the Tennessee Local Development Authority - Series 2003 (TLDA, Series 2003)	579,623	0	(52,920)	526,703	53,302
State Revolving Fund Loan Payable to the Tennessee Local Development Authority Series 2006 (TLDA, Series 2006)	6,148,528	0	(385,092)	5,763,436	388,188
Loan Payable to the Public Building Authority of the City of Clarksville, Tennessee - Series 2008 (PBA Clarksville, Series 2008) - Variable Rate (Based on Bank of America Daily Rate)	1,421,834	0	(67,775)	1,354,059	70,161
Rural Development Water and Sewer Revenue and Tax Bonds - Series 2012 - Fixed Rate of 2.5%	1,775,979	0	(30,408)	1,745,571	31,176
Water System General Obligation Bonds, Series 2014A, 2.00% to 2.75%	500,000	0	(40,000)	460,000	40,000
	11,736,357	0	(704,558)	11,031,799	714,944
Plus: Unamortized Premiums on Issuance	9,529	0	(817)	8,712	0
	$ 11,745,886	$ 0	$ (705,375)	$ 11,040,511	$ 714,944
Summary for Note9a.1 Revenue / Refunding Bonds	1,775,979	0	(30,408)	1,745,571	31,176

The bonds, loans and notes payable outstanding as of June 30, 2016 are as follows:

	Interest Rates	Date Issued	Final Maturity Date	Amount of Original Issue	Balance June 30, 2016
Loan Payable to PBA - Clarksville, Series 2003	Variable	12/29/2003	5/25/2023	$ 1,000,000	$ 437,000
Loan Payable to PBA - Clarksville, Series 2004	Variable	5/24/2005	5/25/2025	1,461,400	745,030
Loan Payable to TLDA, Series 2003	0.71%	6/23/2003	6/30/2026	1,060,000	526,703
Loan Payable to TLDA, Series 2006	0.80%	6/25/2007	2/20/2030	7,997,945	5,763,436
Loan Payable to PBA - Clarksville, Series 2008	Variable	10/31/2008	5/25/2031	1,670,500	1,354,059
Rural Development Water and Sewer Revenue and Tax Bonds, Series 2012	2.50%	12/4/2012	6/30/2051	1,825,000	1,745,571
Water System General Obligation Bonds, Series 2014A	2.00% to 2.75%	12/5/2014	3/1/2027	500,000	460,000
					$ 11,031,799

NOTE 8 - LONG-TERM DEBT (Continued)

Water Department (Continued)

Annual debt service requirements to maturity of the general obligation bonds, loans payable and notes payable (assuming principal amounts are fully drawn) are as follows for the years ended June 30:

	Principal	Interest
2017	$ 714,944	$ 130,133
2018	725,372	125,616
2019	735,982	117,869
2020	746,127	109,982
2021	757,319	101,976
2022-2026	3,642,222	387,104
2027-2031	2,524,490	212,201
2031-2035	238,478	133,822
2037-2041	270,197	102,103
2042-2046	306,132	66,168
2047-2051	346,850	25,451
2052	23,686	120
Total	$ 11,031,799	$ 1,512,545

The future net revenues of the Water Department, the general taxing authority of the City of LaFollette, and the City’s state-shared tax revenues are pledged as collateral for the loans payable to TLDA and Rural Development. Proceeds from these loans provided financing for certain construction projects. The debt for which revenues have been pledged is payable through 2051. Annual principal and interest payments on the debt are expected to require less than 9% of annual net revenues of the Water Department. The total principal and interest remaining to be paid on the debt is $9,271,025 based on rates in effect as of June 30, 2016. Principal and interest paid for the current year and total net revenues of the Water Department were $564,204 and $6,533,603, respectively.

The general taxing authority of the City of LaFollette is pledged as collateral for all three of the loans from the Public Building Authority of the City of Clarksville and the Revenue and Tax Bonds. Proceeds from these loans were also used to finance certain construction projects.

The 2014A General Obligation Bonds are payable from but not secured by a pledge of the Water Department’s revenues. The full faith and credit of the City of LaFollette is pledged as collateral for these Bonds.

NOTE 9 - OTHER LONG-TERM LIABILITIES

Governmental Funds

Changes in other long-term liabilities for the year ended June 30, 2016 are as follows:

	Balance June 30, 2015	Increases	Decreases	Balance June 30, 2016	Amounts Due Within One Year
Accrued Compensated Absences	$ 216,587	$ 265,177	$ (216,587)	$ 265,177	$ 265,177
Accrued Post-Retirement Plan	887,567	77,491	(33,044)	932,014	27,960
	$ 1,104,154	$ 342,668	$ (249,631)	$ 1,197,191	$ 293,137

Electric Department

Changes in other long-term liabilities for the year ended June 30, 2016 are as follows:

	Balance June 30, 2015	Increases	Decreases	Balance June 30, 2016	Amounts Due Within One Year
Customer Deposits	$ 1,926,466	$ 480,490	$ (401,065)	$ 2,005,891	$ 410,112
Accrued Compensated Absences	1,001,983	510,764	(432,933)	1,079,814	463,081
Accrued Retirement Plan	684,177	0	(81,685)	602,492	81,685
Accrued Post-Retirement Plan	574,478	2,472	(2,472)	574,478	4,260
	$ 4,187,104	$ 993,726	$ (918,155)	$ 4,262,675	$ 959,138

NOTE 9 - OTHER LONG-TERM LIABILITIES (Continued)

Water Department

Changes in other long-term liabilities for the year ended June 30, 2016 are as follows:

	Balance June 30, 2015	Increases	Decreases	Balance June 30, 2016	Amounts Due Within One Year
Accrued Compensated Absences	$ 629,319	$ 218,421	$ (186,778)	$ 660,962	$ 261,100
Accrued Retirement Plan	293,219	0	(35,008)	258,211	35,008
Accrued Post-Retirement Plan	246,208	1,274	(1,274)	246,208	2,194
	$ 1,168,746	$ 219,695	$ (223,060)	$ 1,165,381	$ 298,302

NOTE 10 - RETIREMENT PLANS

Governmental Funds Pension Plan

Plan Description

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

Benefits Provided

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

Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than ½%. A 1% COLA is granted if the CPI change is between ½% and 1%. 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, 2015, the following numbers of employees were covered by the benefit terms:

Inactive Employees or Beneficiaries Currently Receiving Benefits	59
Inactive Employees Entitled to but not yet Receiving Benefits	87
Active Employees	80
Total	226

NOTE 10 - RETIREMENT PLANS (Continued)

Governmental Funds Pension Plan (Continued)

Contributions

Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5% of salary. The City 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 Actuarially Determined Contribution (ADC) for the City was $257,236 based on a rate of 9.77% of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept the City'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

The City's net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability 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	3.0%
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 rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3%. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. Equity	6.46%	33%
Developed Market International Equity	6.26%	17%
Emerging Market International Equity	6.40%	5%
Private Equity and Strategic Lending	4.61%	8%
U.S. Fixed Income	0.98%	29%
Real Estate	4.73%	7%
Short-Term Securities	0.00%	1%
		100%

NOTE 10 - RETIREMENT PLANS (Continued)

Governmental Funds Pension Plan (Continued)

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5% 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%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the City 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

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at June 30, 2014	$ 11,812,002	$ 11,559,807	$ 252,195
Changes for the Year			
Service Cost	213,215	0	213,215
Interest	878,279	0	878,279
Difference between Expected and Actual Experience	(164,633)	0	(164,633)
Contribution - Employer	0	257,236	(257,236)
Contribution - Employee	0	131,646	(131,646)
Net Investment Income	0	352,257	(352,257)
Benefit Payments, including Refunds of Employee Contributions	(629,674)	(629,674)	0
Administrative Expense	0	(4,284)	4,284
Net Changes	297,187	107,181	190,006
Balance at June 30, 2015	$ 12,109,189	$ 11,666,988	$ 442,201

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
City's Net Pension Liability (Asset)	$ 1,827,803	$ 442,201	$ (723,068)

Negative Pension Expense

For the year ended June 30, 2016, the City recognized negative pension expense of $2,350.

Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to this Pension Plan in the statement of net position from the following sources:

NOTE 10 - RETIREMENT PLANS (Continued)

Governmental Funds Pension Plan (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Sources That Will be Recognized as an Increase or Decrease in Pension Expense in Subsequent Years:		
Differences Between Expected and Actual Experience	$ 0	$ 159,932
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	404,430	547,537
Total	404,430	707,469
Sources that Will be Recognized as a Reduction to the Net Pension Liability at June 30, 2017:		
Contributions Subsequent to the Measurement Date of June 30, 2015	269,832	0
Totals on the Statement of Net Position-Governmental Activities	$ 674,262	$ 707,469

Amounts reported as deferred outflows of resources and deferred inflows of resources related to this Pension Plan that will be recognized in pension expense in the future, will be recognized in the years and amounts as follows:

Year Ended June 30,	
2017	$ (108,687)
2018	(108,687)
2019	(108,687)
2020	73,826
2021	(27,282)
Thereafter	(23,522)

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

Payable to the Pension Plan

At June 30, 2016, the City did not have any outstanding accrued contributions to the pension plan, so there is no payable reported in the governmental activities column of the statement of net position.

Electric and Water Department Pension Plan

Plan Description - The Electric and Water Department contribute to the National Rural Electric Cooperative Association (NRECA) Retirement Security Plan (RS Plan) which is a non-contributory defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. The Plan is a cost-sharing multiple-employer plan under the accounting standards. The plan sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333. The NRECA has the authority to amend benefit provisions and the Electric and Water Department's board of commissioners has the authority to establish benefit levels. The NRECA issues a publicly available financial report that includes financial statements and required supplementary information, which may be obtained by writing to NRECA, 4301 Wilson Blvd., Arlington, VA, 22203-1860.

A unique characteristic of a multiple-employer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

NOTE 10 - RETIREMENT PLANS (Continued)

Electric and Water Department Pension Plan

Participants have been credited for employment with the Electric or Water Department since 1970, and substantially all employees are participants. In accordance with GASB Statement No. 27 the Electric Department and Water Department accrued a liability in 1997 for past service costs. The Electric and Water Department's contractual liability for past service costs as of June 30, 2016 is as follows:

	Electric Department	Water Department
Contractual Liability - Beginning of Year	$ 684,177	$ 293,219
Amounts Remitted to the NRECA	(81,685)	(35,008)
Contractual Liability - End of Year	602,492	258,211
Less Current Portion of Accrued Liability	(81,685)	(35,008)
Long-Term Portion of Accrued Liability	$ 520,807	$ 223,203

In December 2015, the GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans,* which amends GASB Statement No. 68, and establishes financial reporting standards for governmental employers who provide pensions to their employees through plans that have the characteristics described in paragraph 2 of the Statement. Management has determined that the RS Plan meets all of the characteristics in paragraph 2, and has adopted the Statement for their financial reporting.

Plan participants do not contribute to the Plan and the Electric and Water Departments are required to contribute at an actuarially determined rate. The 2016 rate is 25.05% of annual covered payroll. The Electric and Water Departments made contributions to the plan of $789,138 and $406,526, respectively, which represents all of the required contributions for each year, and no amounts are included in accounts payable at year end. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

Electric and Water Department 401(k) Plan

The Electric Department and Water Department also have a defined contribution 401(k) plan through the NRECA which covers substantially all employees. The Electric Department and Water Department match up to 4% of participants' base pay each year. Voluntary participant contributions are allowed and totaled $245,904 for the Electric Department and $126,678 for the Water Department for the year ended June 30, 2016. Contributions by the Electric Department totaled $140,586 and contributions by the Water Department totaled $72,423 for the year ended June 30, 2016.

NOTE 11 - POST-RETIREMENT HEALTHCARE PLANS

Governmental Funds

In addition to the retirement benefits described in Note 10, City Council approved a plan effective July 1, 2002 that provides payment of health insurance premiums for retiring employees who worked for its governmental funds. The Plan provides for the City to pay health insurance premiums for up to five years for anyone who has attained 20 years of service and age 60, or 30 years of service under TCRS and age 60. Effective July 1, 2006, the Plan was amended to add an early retiree health benefit. The amendment provides for the City to pay 1/2 of health insurance premiums for anyone who has attained 20 years of service and age 55, or 30 years of service under TCRS, until the earlier of age 65 or the eligibility date for Medicare.

NOTE 11 - POST-RETIREMENT HEALTHCARE PLANS (Continued)

Governmental Funds (Continued)

The contribution requirements are established and may be amended by the City Council. The Plan is currently being funded on a pay-as-you go basis. Contributions for the year ended June 30, 2016 are as follows:

	$	%
Retiree Contributions	$ 12,996	28%
City Contributions	$ 33,044	72%

The Plan's annual other postemployment benefit (OPEB) expense is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the Plan's annual OPEB cost for the year ended, the amount actually contributed to the plan, and changes in the net OPEB obligation:

Annual OPEB Cost	$ 137,462
City Contributions Made	(33,044)
Implicit Rate Subsidy	(59,971)
Increase in Net OPEB Obligations	44,447
Net OPEB Obligations - Beginning of Year	887,567
Net OPEB Obligations - End of Year	$ 932,014
OPEB Plan Liability:	
Current	$ 27,960
Long-Term	904,054
Total Net OPEB Plan Liability	$ 932,014

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016 and the two previous years is as follows:

Fiscal Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2016	$ 137,462	24.0%	$ 932,014
2015	$ 140,737	18.8%	$ 887,567
2014	$ 122,841	24.0%	$ 833,279

As of July 1, 2016, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was $1,090,922, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $1,090,922. The covered payroll (annual payroll of active employees covered by the plan) was approximately $2.8 million, and the ratio of the UAAL to the covered payroll was 38%. The reconciliation of the annual required contribution to the annual OPEB cost is as follows:

Annual Required Contribution	$ 178,717
Interest on Net OPEB Obligation	35,503
Adjustment to Annual Required Contribution	(76,758)
Annual OPEB Cost	$ 137,462

NOTE 11 - POST-RETIREMENT HEALTHCARE PLANS (Continued)

Governmental Funds (Continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2016 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include an annual healthcare cost trend rate of 5% per year and a discount rate of 4%. The UAAL is being amortized on a straight-line basis. The remaining amortization period as of July 1, 2016 is 6 years.

Electric Department and Water Department

In addition to the retirement benefits described in Note 10, The City of LaFollette – Board of Public Utilities' board of commissioners approved a single-employer defined benefit healthcare plan that is self-administered. The Plan provides partial payment of health insurance premiums for eligible retirees and their dependents. The Plan provides for each Department to pay 2% per year of service up to a maximum of 50% of the employee premium for a total of 5 years. It also provides for each Department to pay 1% per year of service up to a maximum of 25% of the dependent and surviving spouse's premium for a total of 5 years.

Funding Policy. The contribution requirements are established and may be amended by the board of commissioners. The Plan is currently being funded on a pay-as-you-go basis whereby amounts paid to retirees and their matching payments are the only contributions. Contributions for the year ended June 30, 2016 are as follows:

	$	%
Retiree Contributions	$ 10,542	74%
Company Contributions	$ 3,746	26%

NOTE 11 - POST-RETIREMENT HEALTHCARE PLANS (Continued)

Electric Department and Water Department (Continued)

Annual OPEB Cost and Net OPEB Obligation. The Plan's annual other postemployment benefit (OPEB) expense is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the Plan's annual OPEB cost for the year ended June 30, 2016, the amount actually contributed to the plan, and changes in the net OPEB obligation:

		2016
Annual OPEB Cost	$	3,746
Company Contributions Made		(3,746)
Increase in Net OPEB Obligations		0
Net OPEB Obligations - Beginning of Year		820,686
Net OPEB Obligations - End of Year	$	820,686
OPEB Plan Liability:		
Electric Department - Current	$	4,260
Electric Department - Long-Term		570,218
Water Department - Current		2,194
Water Department - Long-Term		244,014
Total Net OPEB Plan Liability	$	820,686

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016 and the two preceding years are as follows:

Fiscal Year Ended June 30,		Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed		Net OPEB Obligation
2016	$	3,746	100.0%	$	820,686
2015		22,336	7.8%		820,686
2014		(16,653)	-23.7%		800,088

Funded Status and Funding Progress. As of July 1, 2014, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was $648,450, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $648,450. The covered payroll (annual payroll of active employees covered by the plan) was approximately $6.3 million, and the ratio of the UAAL to the covered payroll was 10.4%. The reconciliation of the annual required contribution to the annual OPEB cost is as follows:

Annual Required Contribution	$	72,774
Interest on Net OPEB Obligation		32,322
Adjustment to Annual Required Contribution		(101,350)
Annual OPEB Cost	$	3,746

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

NOTE 11 - POST-RETIREMENT HEALTHCARE PLANS (Continued)

Electric Department and Water Department (Continued)

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2014 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include an annual healthcare cost trend rate of 5% per year and a discount rate of 4%. The UAAL is being amortized on a straight-line basis. The remaining amortization period as of July 1, 2014 was 23 years.

NOTE 12 - FAIR VALUE OF INVESTMENTS

Fair Value Measurements

GASB Statement 72 *Fair Value Measurements and Disclosures* (GASB 72) defines fair value and expands disclosures about fair value measurements. GASB 72 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GASB 72 also established a fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

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

Investments whose values are based on quoted market prices in active markets, and are therefore classified within Level 1, primarily include U. S. Treasury obligations, and certain common stock and preferred stock equities. These investments are traded daily in public markets in the United States and other foreign countries. The fair value of these investments is based on the last reported sales price on the last day of the reporting period.

Investments that trade in markets that are not considered to be actively traded on a daily basis, but are valued based on quoted market prices, dealer and broker quotations, bid prices, or alternative pricing sources using observable inputs, are classified within Level 2. These include certain U.S. Government and foreign obligations, investment grade corporate bonds and bank loans, certain mortgage and asset backed securities, less liquid listed securities, certain government agency securities, and foreign currency exchange purchase and sales contracts. Common and collective trust funds, investment entities, and short-term investment funds, whose underlying assets are primarily invested in securities that are actively traded, are fair valued based upon the redemption value of each unit on the last business day of the reporting period.

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

NOTE 12 - FAIR VALUE OF INVESTMENTS (Continued)

A description of valuation methodologies used for assets recorded at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is shown below. The categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Debt securities classified as Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

The following table sets forth by level, within the fair value hierarchy, the Electric Department's assets measured at fair value as of June 30, 2016 and 2015:

	Fair Value Measurements Using			
Investments by Fair Value Level	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
As of June 30, 2016				
Debt Securities:				
U.S. Treasury	$ 1,000,201	$ 0	$ 0	$ 1,000,201
Total Investments	$ 1,000,201	$ 0	$ 0	$ 1,000,201
As of June 30, 2015				
Debt Securities:				
U.S. Treasury	$ 3,499,105	$ 0	$ 0	$ 3,499,105
Total Investments	$ 3,499,105	$ 0	$ 0	$ 3,499,105

NOTE 13 - RISK MANAGEMENT

The City of LaFollette and its funds purchase commercial insurance and participate in the Tennessee Municipal League Risk Management Pool to handle risks arising from workers' compensation, torts, asset theft, damage or destruction, errors or omissions, or acts of God, whereby these risks are transferred to the Pool and/or insurance company. Insurance coverage is virtually the same as in prior years, with no major changes. Settled claims have not exceeded the insurance coverage limits in any of the past three fiscal years.

Coverage through the Pool will pay all damage claims and defend the City of LaFollette and its funds in any damage suit that is included in the coverage, up to the policy's applicable limits, at the Pool's expense. This includes any other necessary costs relating to the defense. The City of LaFollette and its funds have the responsibility of following any reporting requirements, including timely reporting on any incidents which might result in a damage claim. The City of LaFollette and its funds are to do everything necessary to protect the rights of recovery of the Pool and enforcement of these rights by complying with all terms of the policy.

NOTE 14 - CONTINGENCIES

Various claims and lawsuits are pending against the City and its funds. In the opinion of management, the potential loss on these claims and lawsuits will not be significant to the City's financial statements.

NOTE 15 - COMMITMENTS

The Electric Department and the Water Department periodically enter into work plans for various system improvements. As of June 30, 2016, the Electric Department and the Water Department have approximately $1,181,000 and $98,000, respectively in contractual construction commitments.

NOTE 16 - LEASE OF HOSPITAL FACILITIES

On October 1, 2011, the City entered into an agreement with Mercy Health Partners. Inc. (successor in interest to St. Mary's Health Systems, Inc.) to assign the lease of the hospital facilities to Campbell County HMA, LLC, a subsidiary of Health Management Associates, Inc. (HMA).

The agreement requires HMA to remit $300,000 per year to the City for 8 years and the City is required to hold these funds and any related earnings thereon in an escrow account until either: (1) HMA constructs additional healthcare facilities and requests reimbursement from the escrowed funds, or (2) upon termination of the lease without construction of additional healthcare facilities by HMA, the City will be allowed to release the funds from escrow and utilize them for City government purposes. As of June 30, 2014, the City held $1,209,545 in the escrow account, which is shown as restricted cash and deferred inflows of resources in the statement of net position and in the general fund balance sheet.

NOTE 17 - CAPITAL CONTRIBUTIONS

Water Department

Capital contributions in 2016 in the Water Department consist of contributions from the City totaling $524,498 of a sewer system improvement project.

REQUIRED SUPPLEMENTARY INFORMATION SECTION

CITY OF LAFOLLETTE, TENNESSEE

SCHEDULE OF CHANGES IN THE GOVERNMENTAL FUNDS NET PENSION LIABILITY AND RELATED RATIOS

Last Two Fiscal Years Ending June 30,

	2014	2015
Total Pension Liability		
Service Cost	$ 189,730	$ 213,215
Interest	850,331	878,279
Changes of Benefit Terms	0	0
Differences between Actual and Expected Experience	(26,344)	(164,633)
Changes of Assumptions	0	0
Benefits Payment, Including Refunds of Employee Contributions	(699,454)	(629,674)
Net Change in Total Pension Liability	314,263	297,187
Total Pension Liability - Beginning	11,497,739	11,812,002
Total Pension Liability - Ending (a)	$ 11,812,002	$ 12,109,189
Plan Fiduciary Net Position		
Contributions - Employer	$ 242,516	$ 257,236
Contributions - Employee	121,017	131,646
Net Investment Income	1,667,229	352,257
Benefit Payments, Including Refunds of Employee Contributions	(699,454)	(629,674)
Administrative Expense	(3,360)	(4,284)
Net Change in Plan Fiduciary Net Position	1,327,948	107,181
Plan Fiduciary Net Position - Beginning	10,231,859	11,559,807
Plan Fiduciary Net Position - Ending (b)	$ 11,559,807	$ 11,666,988
Net Pension Liability - Ending (a) - (b)	$ 252,195	$ 442,201
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98%	96%
Covered-Employee Payroll	$ 2,420,330	$ 2,631,594
Net Pension Liability as a Percentage of Covered-Employee Payroll	10%	17%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively.

Years will be added to this schedule in future fiscal years until 10 years of information is available.

CITY OF LAFOLLETTE, TENNESSEE

SCHEDULE OF GOVERNMENTAL FUNDS PENSION CONTRIBUTIONS BASED ON PARTICIPATION IN THE PUBLIC EMPLOYEE PENSION PLAN OF TCRS

Last Three Fiscal Year Ending June 30,

	2014	2015	2016
Actuarially Determined Contribution	$ 242,516	$ 257,236	$ 269,832
Contributions in Relation to the Actuarially Determined Contribution	242,516	257,236	269,832
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0
Covered-Employee Payroll	$ 2,420,330	$ 2,631,594	$ 2,849,207
Contributions as a Percentage of Covered-Employee Payroll	10%	10%	9%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively.

Years will be added to this schedule in future fiscal years until 10 years of information is available.

Notes:

Valuation Date: Actuarially determined contribution rates for 2016 were calculated based on the July 1, 2015 actuarial valuation.

Methods and Assumptions used to Determine Contribution Rates:

Actuarial Cost Method:	Frozen initial liability
Amortization Method:	Level dollar, closed (not to exceed 20 years)
Remaining Amortization Period:	10 years
Asset Valuation:	10-year smoothed within a 20% corridor to market value
Inflation:	3%
Salary Increases:	Graded salary ranges from 8.97% to 3.71% based on age, including inflation,
Investment Rate of Return:	7.5%, net of investment expense, including inflation
Retirement Age:	Pattern of retirement determined by experience study
Mortality:	Customized table based on actual experience including an adjustment for some anticipated improvement
Cost of Living Adjustments:	2.5%

CITY OF LAFOLLETTE, TENNESSEE

SCHEDULE OF FUNDING PROGRESS – GOVERNMENTAL FUNDS POST-RETIREMENT PLAN

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
07/01/16	$0	$1,090,922	$1,090,922	0%	$2,849,207	38%
07/01/15	$0	$851,200	$851,200	0%	$2,645,563	32%
07/01/14	$0	$801,612	$801,612	0%	$2,574,823	31%

CITY OF LAFOLLETTE, TENNESSEE

BOARD OF PUBLIC UTILITIES - ELECTRIC AND WATER DEPARTMENTS

SCHEDULE OF REQUIRED PENSION CONTRIBUTIONS

A schedule of the Electric Department's required contributions for the NRECA pension plan for each of the ten most recent fiscal years is as follows:

Fiscal Year Ended June 30,	Required Contributions Made	Repayment of Contractual Liability	Total
2007	$ 334,726	$ 81,685	$ 416,411
2008	369,658	81,685	451,343
2009	422,822	81,685	504,507
2010	537,043	81,685	618,728
2011	785,176	81,685	866,861
2012	747,444	81,685	829,129
2013	743,716	81,685	825,401
2014	793,156	81,685	874,841
2015	779,285	81,685	860,970
2016	789,138	81,685	870,823

The increasing trend in required contributions shown above is due to both increases in covered payroll and increases in contribution rates from the NRECA.

A schedule of the Water Department's required contributions for the NRECA pension plan for each of the ten most recent fiscal years is as follows:

Fiscal Year Ended June 30,	Required Contributions Made	Repayment of Contractual Liability	Total
2007	$ 143,454	$ 35,008	$ 178,462
2008	158,425	35,008	193,433
2009	181,209	35,008	216,217
2010	230,161	35,008	265,169
2011	336,504	35,008	371,512
2012	285,325	35,008	320,333
2013	318,735	35,008	353,743
2014	339,924	35,008	374,932
2015	401,450	35,008	436,458
2016	406,526	35,008	441,534

The increasing trend in required contributions shown above is due to both increases in covered payroll and increases in contribution rates from the NRECA.

CITY OF LAFOLLETTE, TENNESSEE

BOARD OF PUBLIC UTILITIES - ELECTRIC AND WATER DEPARTMENTS

SCHEDULE OF FUNDING PROGRESS - POST-RETIREMENT PLAN

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
07/01/14	$0	$648,450	$648,450	0.00%	$6,250,374	10.4%
07/01/12	$0	$465,847	$465,847	0.00%	$5,723,471	8.1%
07/01/10	$0	$838,084	$838,084	0.00%	$5,069,083	16.5%

SUPPLEMENTARY INFORMATION SECTION

CITY OF LAFOLLETTE, TENNESSEE

COMBINING BALANCE SHEETS- NONMAJOR GOVERNMENTAL FUNDS

June 30, 2016

	Special Revenue Funds				
	Drug Fund	State Street Aid Fund	Special Police Fund	Capital Projects Fund	Total
ASSETS					
Restricted Cash and Cash Equivalents	$ 32,391	$ 245,463	$ 66,988	$ 39	$ 344,881
Accounts Receivable Other	1,331	0	0	0	1,331
Other Taxes and Nonexchange Revenue	0	0	2,304	0	2,304
TOTAL ASSETS	$ 33,722	$ 245,463	$ 69,292	$ 39	$ 348,516
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts Payable	$ 2,410	$ 11,523	$ 0	$ 0	$ 13,933
Fund Balances:					
Restricted	31,312	233,940	69,292	0	334,544
Unrestricted					
Committed	0	0	0	39	39
Total Fund Balances	31,312	233,940	69,292	39	334,583
TOTAL LIABILITIES AND FUND BALANCES	$ 33,722	$ 245,463	$ 69,292	$ 39	$ 348,516

CITY OF LAFOLLETTE, TENNESSEE

COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended June 30, 2016

	Special Revenue Funds				
	Drug Fund	State Street Aid Fund	Special Police Fund	Capital Projects Fund	Total
REVENUES:					
Charges for Services	$ 7,281	$ 0	$ 0	$ 0	$ 7,281
Grant Revenue and Local Allocations	0	0	0	544,787	544,787
State Highway and Street Funds	0	169,681	0	0	169,681
Interest Income and Other	70	363	101	0	534
Total Revenues	7,351	170,044	101	544,787	722,283
EXPENDITURES:					
Current:					
Police Protection	55,310	0	28,223	0	83,533
Streets and Highways and General Public Works	0	253,815	0	0	253,815
Sanitation	0	0	0	544,748	544,748
Total Expenditures	55,310	253,815	28,223	544,748	882,096
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(47,959)	(83,771)	(28,122)	39	(159,813)
OTHER FINANCING SOURCES (USES):					
Transfers In	12,391	0	25,865	0	38,256
CHANGES IN FUND BALANCES	(35,568)	(83,771)	(2,257)	39	(121,557)
FUND BALANCES - BEGINNING OF YEAR	66,880	317,711	71,549	0	456,140
FUND BALANCES - END OF YEAR	$ 31,312	$ 233,940	$ 69,292	$ 39	$ 334,583

CITY OF LAFOLLETTE, TENNESSEE

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - DRUG FUND

For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance- Favorable (Unfavorable)
REVENUES:				
Charges for Services - Drug Fines and Seizures	$ 10,000	$ 10,000	$ 7,281	$ (2,719)
Interest Income	0	0	70	70
Total Revenues	10,000	10,000	7,351	(2,649)
EXPENDITURES:				
Police Protection:				
General Purpose Equipment	54,000	54,000	43,330	10,670
Employee Education	3,000	3,000	4,172	(1,172)
Office Supplies	1,000	1,000	350	650
Clothing and Uniforms	3,500	3,500	3,412	88
Informant Payments and Other	17,500	17,500	4,046	13,454
Total Police Protection Expenditures	79,000	79,000	55,310	23,690
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(69,000)	(69,000)	(47,959)	21,041
OTHER FINANCING SOURCES (USES):				
Transfers In	24,000	24,000	12,391	(11,609)
CHANGES IN FUND BALANCES	(45,000)	(45,000)	(35,568)	9,432
FUND BALANCE - BEGINNING OF YEAR	66,880	66,880	66,880	0
FUND BALANCE - END OF YEAR	$ 21,880	$ 21,880	$ 31,312	$ 9,432

CITY OF LAFOLLETTE, TENNESSEE

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - STATE STREET AID FUND

For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance- Favorable (Unfavorable)
REVENUES:				
State Highway and Street Funds - State Gasoline Tax	$ 197,000	$ 197,000	$ 169,681	$ (27,319)
Interest Income	0	0	363	363
Total Revenues	197,000	197,000	170,044	(26,956)
EXPENDITURES:				
Streets and Highways and General Public Works:				
Paving	30,500	30,500	29,643	857
Electricity	123,000	123,000	122,070	930
Crushed Stone	7,800	7,800	7,629	171
Sodium Chloride	30,000	30,000	29,444	556
Other	69,675	69,675	65,029	4,646
Total Expenditures	260,975	260,975	253,815	7,160
CHANGES IN FUND BALANCE	(63,975)	(63,975)	(83,771)	(19,796)
FUND BALANCE - BEGINNING OF YEAR	317,711	317,711	317,711	0
FUND BALANCE - END OF YEAR	$ 253,736	$ 253,736	$ 233,940	$ (19,796)

CITY OF LAFOLLETTE, TENNESSEE

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - SPECIAL POLICE FUND

For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance- Favorable (Unfavorable)
REVENUES:				
Miscellaneous	$ 0	$ 0	$ 101	$ 101
EXPENDITURES:				
Police Protection:				
Repair and Maintenance - Other	1,850	1,850	760	1,090
Equipment	23,000	23,000	20,964	2,036
Operating Supplies	1,450	1,450	1,371	79
Other	9,500	9,500	5,128	4,372
Total Police Protection Expenditures	35,800	35,800	28,223	7,577
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(35,800)	(35,800)	(28,122)	7,678
OTHER FINANCING SOURCES (USES):				
Transfer from General Fund	27,800	27,800	25,865	(1,935)
Transfer to General Fund	0	0	0	0
Net Other Financing Sources (Uses)	27,800	27,800	25,865	(1,935)
CHANGES IN FUND BALANCE	(8,000)	(8,000)	(2,257)	5,743
FUND BALANCE - BEGINNING OF YEAR	71,549	71,549	71,549	0
FUND BALANCE - END OF YEAR	$ 63,549	$ 63,549	$ 69,292	$ 5,743

CITY OF LAFOLLETTE, TENNESSEE

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - CAPITAL PROJECTS FUND

For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance-Favorable (Unfavorable)
REVENUES:				
Grant Revenue and Local Allocations	$ 515,213	$ 515,213	$ 544,787	$ (29,574)
EXPENDITURES:				
Sanitation - Sewer System Rehabilitation:				
Construction	413,650	459,400	459,342	58
Construction Inspection	45,000	45,000	44,843	157
Engineering Design	4,250	11,000	10,500	500
Grant Administration	27,000	27,000	27,000	0
Engineering Services	4,813	4,813	3,063	1,750
Other Costs	20,500	0	0	0
Total Expenditures	515,213	547,213	544,748	2,465
CHANGES IN FUND BALANCE	0	(32,000)	39	32,039
FUND BALANCE - BEGINNING OF YEAR	0	0	0	0
FUND BALANCE - END OF YEAR	$ 0	$ (32,000)	$ 39	$ 32,039

CITY OF LAFOLLETTE, TENNESSEE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE

For the Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor	CFDA Number	Contract Number	Expenditures
FEDERAL AWARDS:			
Direct Federal Awards:			
U.S. Department of Justice - Bureau of Justice Assistance:			
Bulletproof Vest Partnership Grant	16.607	N/A	$ 5,977
Indirect Federal Awards:			
Federal Emergency Management Agency:			
Pass-Through Program From:			
Tennessee Emergency Management Agency	97.036	FEMA-4211-DR-TN	36,275
U.S. Department of Housing and Urban Development:			
Pass-Through Program From:			
Tennessee Department of Economic and Community Development			
Community Development Block Grant	14.228	GG-11-35237-00	472,252
U.S. Department of Transportation - FHWA:			
Pass-Through Programs From:			
Tennessee Department of Transportation:			
Federal-Aid Highway Program - Sidewalk Project	20.205	130294	127,305
Federal-Aid Highway Program - East Beech Street Bridge Project	20.205	130305	743,356
Total CFDA Number 20.205			870,661
U.S. Department of Transportation - NHTSA:			
Pass-Through Programs From:			
Tennessee Department of Transportation:			
High Visibility Enforcement	20.607	47354	4,924
TOTAL FEDERAL AWARDS			$ 1,390,089
STATE FINANCIAL ASSISTANCE:			
Tennessee Department of Environment and Conservation:			
Local Parks and Recreation Fund Grant	N/A	32701-02333	$ 3,250
TOTAL STATE FINANCIAL ASSISTANCE			3,250
TOTAL FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE			$ 1,393,339

CITY OF LAFOLLETTE, TENNESSEE

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

June 30, 2016

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal and state award activity of the City of LaFollette under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City of LaFollette, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 3 - INDIRECT COSTS

The City participates in certain federally funded programs which allow indirect costs to be charged and include them as a line item in the grant budget. However, if the grant budget does not specifically provide for indirect costs to be charged, none of the indirect costs are reported as costs to the grantor nor are the costs included or presented in the schedule of expenditures of federal awards and state financial assistance. The City has elected not to use the 10% de minimis rate as allowed under the Uniform Guidance.

OTHER INFORMATION SECTION

CITY OF LAFOLLETTE, TENNESSEE

SCHEDULE OF LOANS AND CAPITAL LEASES

GOVERNMENTAL FUNDS

June 30, 2016

	Tennessee Municipal Bond Fund Series 2010		Tennessee Municipal Bond Fund Series 2011		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	$ 152,000	$ 21,491	$ 119,000	$ 3,736	$ 271,000	$ 25,227
2018	157,000	16,949	0	0	157,000	16,949
2019	161,000	12,274	0	0	161,000	12,274
2020	166,000	7,468	0	0	166,000	7,468
2021	171,000	2,514	0	0	171,000	2,514
	$ 807,000	$ 60,696	$ 119,000	$ 3,736	$ 926,000	$ 64,432

CITY OF LAFOLLETTE - BOARD OF PUBLIC UTILITIES - ELECTRIC DEPARTMENT

SCHEDULE OF DEBT SERVICE REQUIREMENTS

June 30, 2016

	Series 2004 Loan Payable to PBA - Clarksville Based on Rate as of 6/30/16 of 1.21%		Series 2006 Loan Payable to PBA - Montgomery County Based on Rate as of 6/30/16 of 1.21%		Series 2008 Loan Payable to PBA - Clarksville Based on Rate as of 6/30/16 of 1.23%		Series 2014A General Obligation Bonds 2.00% to 4.00%		Series 2015A General Obligation Refunding Bonds 2.00%		Series 2015B General Obligation Refunding Bonds 2.00% to 2.75%		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2017	$ 438,883	$ 47,476	$ 405,000	$ 86,631	$ 76,839	$ 16,441	$ 1,230,000	$ 195,250	$ 380,000	$ 112,200	$ 250,000	$ 86,876	$ 2,780,722	$ 544,874
2018	449,129	47,360	426,000	91,210	79,453	17,295	1,230,000	170,650	380,000	104,600	255,000	81,876	2,819,582	512,991
2019	460,229	41,926	447,000	86,055	82,066	16,318	1,255,000	146,050	380,000	97,000	260,000	76,776	2,884,295	464,125
2020	471,330	36,357	469,000	80,647	85,202	15,308	215,000	120,950	1,490,000	89,400	265,000	71,576	2,995,532	414,238
2021	482,430	30,654	493,000	74,972	88,339	14,260	220,000	116,650	1,490,000	59,600	270,000	66,276	3,043,769	362,412
2022	494,384	24,817	517,000	69,006	91,475	13,174	225,000	112,250	1,490,000	29,800	275,000	60,876	3,092,859	309,923
2023	506,338	18,835	543,000	62,751	94,611	12,049	225,000	107,750	0	0	280,000	55,376	1,648,949	256,761
2024	519,146	12,708	570,000	56,180	97,748	10,885	235,000	103,251	0	0	285,000	49,776	1,706,894	232,800
2025	531,101	6,426	599,000	49,283	101,407	9,683	240,000	97,963	0	0	290,000	44,076	1,761,508	207,431
2026	0	0	629,000	42,035	104,543	8,435	245,000	91,962	0	0	295,000	38,276	1,273,543	180,708
2027	0	0	660,000	34,425	108,202	7,149	250,000	85,838	0	0	300,000	32,081	1,318,202	159,493
2028	0	0	693,000	26,439	112,384	5,819	260,000	78,962	0	0	310,000	24,956	1,375,384	136,176
2029	0	0	728,000	18,053	116,043	4,436	265,000	71,815	0	0	315,000	17,206	1,424,043	111,510
2030	0	0	764,000	9,244	120,224	3,009	275,000	63,862	0	0	325,000	8,938	1,484,224	85,053
2031	0	0	0	0	124,405	1,530	280,000	54,925	0	0	0	0	404,405	56,455
2032	0	0	0	0	0	0	290,000	45,825	0	0	0	0	290,000	45,825
2033	0	0	0	0	0	0	300,000	35,675	0	0	0	0	300,000	35,675
2034	0	0	0	0	0	0	310,000	24,425	0	0	0	0	310,000	24,425
2035	0	0	0	0	0	0	320,000	12,800	0	0	0	0	320,000	12,800
	$ 4,352,970	$ 266,559	$ 7,943,000	$ 786,931	$ 1,482,941	$ 155,791	$ 7,870,000	$ 1,736,853	$ 5,610,000	$ 492,600	$ 3,975,000	$ 714,941	$ 31,233,911	$ 4,153,675

CITY OF LAFOLLETTE - BOARD OF PUBLIC UTILITIES - WATER DEPARTMENT

SCHEDULE OF DEBT SERVICE REQUIREMENTS

June 30, 2016

	2003 Series Loan Payable to PBA - Clarksville Based on Rate as of 6/30/16 of 1.36%		2003 Series State Revolving Fund Loan Payable to TLDA at 0.71%		2004 Series Loan Payable to PBA - Clarksville Based on Rate as of 6/30/16 of 1.21%		2006 Series State Revolving Fund Loan Payable to TLDA at 0.80%		2008 Series Loan Payable to PBA - Clarksville Based on Rate as of 6/30/16 of 1.23%		2012 Series Rural Development Water & Sewer Revenue & Tax Bonds at 2.50%		2014A Series General Obligation Bonds 2.00% to 2.75%		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2017	$ 57,000	$ 5,357	53,302	$ 3,566	75,117	$ 8,126	$ 388,188	$ 44,688	$ 70,161	$ 15,012	$ 31,176	$ 43,284	$ 40,000	$ 10,100	$ 714,944	$ 130,133
2018	59,000	5,168	53,681	3,187	76,871	8,106	391,308	41,568	72,547	15,792	31,965	42,495	40,000	9,300	725,372	125,616
2019	61,000	4,366	54,064	2,804	78,771	7,176	394,440	38,436	74,934	14,900	32,773	41,687	40,000	8,500	735,982	117,869
2020	62,000	3,536	54,449	2,419	80,670	6,223	397,608	35,268	77,798	13,978	33,602	40,858	40,000	7,700	746,127	109,982
2021	64,000	2,693	54,836	2,031	82,570	5,247	400,800	32,076	80,661	13,021	34,452	40,008	40,000	6,900	757,319	101,976
2022	66,000	1,822	55,227	1,641	84,616	4,247	404,028	28,848	83,525	12,029	35,323	39,137	40,000	6,100	768,719	93,824
2023	68,000	925	55,621	1,247	86,662	3,224	407,268	25,608	86,389	11,002	36,216	38,244	40,000	5,300	780,156	85,550
2024	0	0	56,017	851	88,854	2,175	410,544	22,332	89,252	9,939	37,132	37,328	45,000	4,500	726,799	77,125
2025	0	0	56,416	452	90,899	1,101	413,832	19,044	92,593	8,841	38,071	36,389	45,000	3,488	736,811	69,315
2026	0	0	33,090	80	0	0	417,156	15,720	95,457	7,702	39,034	35,426	45,000	2,362	629,737	61,290
2027	0	0	0	0	0	0	420,504	12,372	98,798	6,528	40,021	34,439	45,000	1,238	604,323	54,577
2028	0	0	0	0	0	0	423,888	8,988	102,616	5,313	41,033	33,427	0	0	567,537	47,728
2029	0	0	0	0	0	0	427,284	5,592	105,957	4,051	42,071	32,389	0	0	575,312	42,032
2030	0	0	0	0	0	0	430,716	2,160	109,776	2,747	43,134	31,326	0	0	583,626	36,233
2031	0	0	0	0	0	0	35,872	0	113,595	1,396	44,225	30,235	0	0	193,692	31,631
2032	0	0	0	0	0	0	0	0	0	0	45,344	29,116	0	0	45,344	29,116
2033	0	0	0	0	0	0	0	0	0	0	46,490	27,970	0	0	46,490	27,970
2034	0	0	0	0	0	0	0	0	0	0	47,666	26,794	0	0	47,666	26,794
2035	0	0	0	0	0	0	0	0	0	0	48,871	25,589	0	0	48,871	25,589
2036	0	0	0	0	0	0	0	0	0	0	50,107	24,353	0	0	50,107	24,353
2037	0	0	0	0	0	0	0	0	0	0	51,374	23,086	0	0	51,374	23,086
2038	0	0	0	0	0	0	0	0	0	0	52,674	21,786	0	0	52,674	21,786
2039	0	0	0	0	0	0	0	0	0	0	54,006	20,454	0	0	54,006	20,454
2040	0	0	0	0	0	0	0	0	0	0	55,371	19,089	0	0	55,371	19,089
2041	0	0	0	0	0	0	0	0	0	0	56,772	17,688	0	0	56,772	17,688
2042	0	0	0	0	0	0	0	0	0	0	58,207	16,253	0	0	58,207	16,253
2043	0	0	0	0	0	0	0	0	0	0	59,679	14,781	0	0	59,679	14,781
2044	0	0	0	0	0	0	0	0	0	0	61,188	13,272	0	0	61,188	13,272
2045	0	0	0	0	0	0	0	0	0	0	62,736	11,724	0	0	62,736	11,724
2046	0	0	0	0	0	0	0	0	0	0	64,322	10,138	0	0	64,322	10,138
2047	0	0	0	0	0	0	0	0	0	0	65,949	8,511	0	0	65,949	8,511
2048	0	0	0	0	0	0	0	0	0	0	67,617	6,843	0	0	67,617	6,843
2049	0	0	0	0	0	0	0	0	0	0	69,327	5,134	0	0	69,327	5,134
2050	0	0	0	0	0	0	0	0	0	0	71,080	3,380	0	0	71,080	3,380
2051	0	0	0	0	0	0	0	0	0	0	72,877	1,583	0	0	72,877	1,583
2052	0	0	0	0	0	0	0	0	0	0	23,686	120	0	0	23,686	120
	$ 437,000	$ 23,867	$ 526,703	$ 18,278	$ 745,030	$ 45,625	$ 5,763,436	$ 332,700	$ 1,354,059	$ 142,251	$ 1,745,571	$ 884,336	$ 460,000	$ 65,488	$ 11,031,799	$ 1,512,545

* - Assuming principal amounts were fully drawn.

CITY OF LAFOLLETTE, TENNESSEE

SCHEDULE OF PROPERTY TAX INFORMATION

For the Year Ended June 30, 2016

Changes in Taxes Receivable:

	Current Year	Prior Years	Total
Balance at Beginning of Year	$ 0	$ 1,835,755	$ 1,835,755
Add: Fiscal Year 2016 Taxes Levied	1,577,153	0	1,577,153
Less: Taxes Collected	0	(1,680,076)	(1,680,076)
	1,577,153	155,679	1,732,832
Allowance for Uncollectible Accounts	(8,960)	(118,982)	(127,942)
Balance at End of Year	$ 1,568,193	$ 36,697	$ 1,604,890

TAX ASSESSMENTS AND UNPAID BALANCES

Tax Year	Assessed Value	Tax Rate Per $100.00	Taxes Assessed	Adjustments, Collections, Releases and Abatements In Prior Years	Adjustments, Collections, Releases and Abatements In Current Year	Unpaid Balances
2016	$ 132,533,866	$ 1.19	$ 1,577,153	$ 0	$ 0	$ 1,577,153
2015	129,692,521	1.19	1,543,341	0	1,433,242	110,099
2014	126,279,076	1.19	1,502,721	1,315,528	145,717	41,476
2013	124,821,176	1.19	1,485,372	1,414,128	71,244	0
2012	125,595,418	1.19	1,494,585	1,476,096	18,489	0
2011	119,799,288	1.19	1,425,612	1,425,612	0	0
2010	118,890,587	1.19	1,414,798	1,413,302	1,496	0
2009	101,320,365	1.39	1,408,353	1,397,090	7,976	3,287
2008	100,142,171	1.39	1,391,976	1,390,599	1,377	0
2007	99,998,516	1.39	1,389,979	1,388,945	770	264
2006	100,216,698	1.39	1,393,012	1,390,381	2,078	553
						$ 1,732,832

Property taxes unpaid for periods prior to 2005 have been filed with the Campbell County Circuit Court Clerk.

CITY OF LAFOLLETTE, TENNESSEE

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - SOLID WASTE MANAGEMENT FUND

For the Year Ended June 30, 2016

	Final Budget *	Actual	Variance-Favorable (Unfavorable)
REVENUES:			
Interest Income	$ 0	$ 56	$ 56
Total Revenues	0	56	56
EXPENDITURES:			
Sanitation:			
Repair and Maintenance - Vehicle	0	0	0
Vehicle Parts and Supplies	10,300	8,742	1,558
Total Sanitation Expenditures	10,300	8,742	1,558
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(10,300)	(8,686)	1,614
OTHER FINANCING SOURCES:			
Transfer from General Fund	8,500	8,500	0
Net Other Financing Sources	8,500	8,500	0
CHANGES IN FUND BALANCE	(1,800)	(186)	1,614
FUND BALANCE - BEGINNING OF YEAR	30,878	30,878	0
FUND BALANCE - END OF YEAR	$ 29,078	$ 30,692	$ 1,614

* There were no changes from the original budget to the final budget.

CITY OF LAFOLLETTE, TENNESSEE

SCHEDULES OF UTILITY RATES AND NUMBER OF CUSTOMERS

June 30, 2016

ELECTRIC DEPARTMENT

Residential - Schedule RS		
Customer Charge	$	16.35
Energy Charge Per kWh		0.10045
General Power - Schedule GSA		
Part 1		
Customer Charge		26.88
Energy Charge Per kWh		0.11819
Part 2		
Customer Charge		101.46
Demand Charges:		
First 50 kW		0.00
Excess Over 50 kW		15.72
Energy Charges:		
First 15,000 kWh		0.11858
Additional kWh		0.06589
Part 3		
Customer Charge		355.12
Demand Charges:		
First 1,000 kW		15.82
Next 1,500 kW		20.40
Excess of Higher of 2,500 kW or Contract Demand		40.80
Energy Charge Per kWh		0.06589
Outdoor Lighting - Schedule LS		
Customer Charge		26.88
Energy Charge Per kWh		0.07219
General Power - Schedule GSB		
Customer Charge		1,500.00
Demand Charges:		
Onpeak		10.12
Excess Offpeak		4.92
Excess Over Contract		10.12
Energy Charge		
Onpeak		0.08946
Offpeak First 200 hours		0.06622
Offpeak Next 200 hours		0.02316
Offpeak Additional kWh		0.01989
General Power - Schedule GSC		
Customer Charge		1,500.00
Demand Charges:		
Onpeak		10.12
Excess Offpeak		4.31
Excess Over Contract		10.12

CITY OF LAFOLLETTE, TENNESSEE

SCHEDULES OF UTILITY RATES AND NUMBER OF CUSTOMERS (Continued)

June 30, 2016

ELECTRIC DEPARTMENT (Continued)

Energy Charge	
Onpeak	0.08946
Offpeak First 200 hours	0.06622
Offpeak Next 200 hours	0.02306
Offpeak Additional kWh	0.01989
General Power - Schedule GSD	
Customer Charge	1,500.00
Demand Charges:	
Onpeak	10.12
Excess Offpeak	4.30
Excess Over Contract	10.12
Energy Charge	
Onpeak	0.08946
Offpeak First 200 hours	0.06622
Offpeak Next 200 hours	0.02200
Offpeak Additional kWh	0.01989

Customers - As of June 30, 2016 the total number of customers was 21,990.

CITY OF LAFOLLETTE, TENNESSEE

SCHEDULES OF UTILITY RATES AND NUMBER OF CUSTOMERS (Continued)

June 30, 2016

WATER DEPARTMENT

WATER CHARGES - WITHIN CITY LIMITS

First	1,500 Gallons	$15.15 Minimum Monthly Bill
Next	8,500 Gallons	4.89 Per Thousand Gallons
Over	10,000 Gallons	3.93 Per Thousand Gallons

WATER CHARGES - OUTSIDE CITY LIMITS

First	1,500 Gallons	$23.83 Minimum Monthly Bill
Next	8,500 Gallons	8.15 Per Thousand Gallons
Over	10,000 Gallons	6.54 Per Thousand Gallons

SEWER CHARGES - WITHIN CITY LIMITS

First	1,500 Gallons	$28.73 Minimum Monthly Bill
Over	1,500 Gallons	5.95 Per Thousand Gallons

SEWER CHARGES - OUTSIDE CITY LIMITS

First	1,500 Gallons	$35.79 Minimum Monthly Bill
Over	1,500 Gallons	9.87 Per Thousand Gallons

CUSTOMERS

As of June 30, 2016, the number of customers was as follows:

Water	9,739
Wastewater	3,534

AWWA Free Water Audit Software:
Reporting Worksheet

WAS v5.0
American Water Works Association.

? Click to access definition
+ Click to add a comment

Water Audit Report for: LaFollette Utilities Board (0000374)
Reporting Year: 2016 | 7/2015 - 6/2016

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

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

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

Master Meter and Supply Error Adjustments

WATER SUPPLIED

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

						Pcnt:		Value:	
Volume from own sources:	+ ?	9	635.339	MG/Yr	+ ? 7	1.00%	● ○	20.272	MG/Yr
Water imported:	+ ?	9	0.000	MG/Yr	+ ?		● ○		MG/Yr
Water exported:	+ ?	10	0.000	MG/Yr	+ ?		● ○		MG/Yr

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

WATER SUPPLIED: 629.049 MG/Yr

AUTHORIZED CONSUMPTION

Click here: ?
for help using option buttons below

					Pcnt:		Value:	
Billed metered:	+ ?	10	415.595	MG/Yr				
Billed unmetered:	+ ?	10	0.050	MG/Yr				
Unbilled metered:	+ ?	9	16.131	MG/Yr				
Unbilled unmetered:	+ ?	9	7.863	MG/Yr	1.25%	● ○		MG/Yr

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

AUTHORIZED CONSUMPTION: ? 439.639 MG/Yr

Use buttons to select percentage of water supplied
OR
value

WATER LOSSES (Water Supplied - Authorized Consumption) 189.409 MG/Yr

Apparent Losses

					Pcnt:		Value:	
Unauthorized consumption:	+ ?	10	1.573	MG/Yr	0.25%	● ○		MG/Yr

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

Customer metering inaccuracies:	+ ?	9	0.000	MG/Yr		● ○		MG/Yr
Systematic data handling errors:	+ ?	5	1.039	MG/Yr	0.25%	● ○		MG/Yr

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

Apparent Losses: ? 2.612 MG/Yr

Real Losses (Current Annual Real Losses or CARL)

Real Losses = Water Losses - Apparent Losses: ? 186.798 MG/Yr

WATER LOSSES: 189.409 MG/Yr

NON-REVENUE WATER

NON-REVENUE WATER: ? 213.404 MG/Yr

= Water Losses + Unbilled Metered + Unbilled Unmetered

SYSTEM DATA

Length of mains:	+ ?	9	700.0	miles
Number of active AND inactive service connections:	+ ?	10	9,931	
Service connection density:	?		14	conn./mile main
Are customer meters typically located at the curbstop or property line?			Yes	
Average length of customer service line:	+ ?	9	0.0	ft

(length of service line, beyond the property boundary, that is the responsibility of the utility)

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

Average operating pressure:	+ ?	9	125.0	psi

COST DATA

Total annual cost of operating water system:	+ ?	10	$4,103,288	$/Year
Customer retail unit cost (applied to Apparent Losses):	+ ?	10	$13.04	$/1000 gallons (US)
Variable production cost (applied to Real Losses):	+ ?	10	$551.07	$/Million gallons ☐ Use Customer Retail Unit Cost to value real losses

WATER AUDIT DATA VALIDITY SCORE:

*** YOUR SCORE IS: 90 out of 100 ***

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

PRIORITY AREAS FOR ATTENTION:

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

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

WAS v5.0

American Water Works Association.

AWWA Free Water Audit Software:
System Attributes and Performance Indicators

Water Audit Report for: LaFollette Utilities Board (0000374)
Reporting Year: 2016 7/2015 - 6/2016

*** YOUR WATER AUDIT DATA VALIDITY SCORE IS: 90 out of 100 ***

System Attributes:

	Apparent Losses:	2.612	MG/Yr
+	Real Losses:	186.798	MG/Yr
=	Water Losses:	189.409	MG/Yr
?	Unavoidable Annual Real Losses (UARL):	240.75	MG/Yr
	Annual cost of Apparent Losses:	$34,055	
	Annual cost of Real Losses:	$102,939	Valued at Variable Production Cost

Return to Reporting Worksheet to change this assumpiton

Performance Indicators:

Financial:	Non-revenue water as percent by volume of Water Supplied:	33.9%	
	Non-revenue water as percent by cost of operating system:	3.7%	Real Losses valued at Variable Production Cost
Operational Efficiency:	Apparent Losses per service connection per day:	0.72	gallons/connection/day
	Real Losses per service connection per day:	N/A	gallons/connection/day
	Real Losses per length of main per day*:	731.11	gallons/mile/day
	Real Losses per service connection per day per psi pressure:	N/A	gallons/connection/day/psi

	From Above, Real Losses = Current Annual Real Losses (CARL):	186.80	million gallons/year
?	Infrastructure Leakage Index (ILI) [CARL/UARL]:	0.78	

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

COMPLIANCE SECTION

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

Mayor and City Council
City of LaFollette, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the Emergency Communications District, which is presented as a discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of LaFollette, Tennessee as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise City of LaFollette's basic financial statements, and have issued our report thereon dated January 30, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2016-001, that we consider to be a significant deficiency.

Compliance and Other Matters

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

Purpose of this Report

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

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
January 30, 2017

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Mayor and City Council
City of LaFollette, Tennessee

Report on Compliance for Each Major Federal Program

We have audited the City of LaFollette's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended June 30, 2016. The City of LaFollette's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City of LaFollette's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of LaFollette's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of LaFollette's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of LaFollette complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of the City of LaFollette is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of LaFollette's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of LaFollette's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Pugh & Company, P.C.
Certified Public Accountants
Knoxville, Tennessee
January 30, 2017

CITY OF LAFOLLETTE, TENNESSEE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2016

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's reports issued: *Unqualified*

Internal control over financial reporting:

- Material weakness(es) identified? ______yes ___X__no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? __X___yes ______none reported

Noncompliance material to financial statements noted? ______yes ___X__none

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ______yes ___X__none
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? ______yes ___X__none reported

Type of auditor's report issued on compliance for major federal programs: *Unmodified*

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516 (a)? ______yes ___X__no

Identification of major programs:

CFDA Number(s)	*Name of Federal Program or Cluster*
20.205	Federal-Aid Highway Program – East Beech Street Bridge Project
20.205	Federal-Aid Highway Program – Sidewalk Project

Dollar threshold used to distinguish between type A and type B programs: $ 750,000

Auditee qualified as low-risk auditee? __X___yes ______no

Section II - Financial Statement Findings

Current Year Audit Findings:

2016-001 Recreation Department Revenue

Criteria or Specific Requirement - Good internal control procedures require formal accounting procedures for all City activities.

Condition - Gate fees and concession income from City recreational activities are maintained independently by sports organizations.

Cause and Effect - A user agreement is not in place to cover procedures for gate fees and concession income for recreational activities at City facilities.

Recommendations - We recommend that the City develop user agreements to cover financial responsibilities for sport organizations utilizing City facilities. The agreements should cover procedures regarding gate fees and concession income including which entity deposits these funds.

Management's Response - The City attorney will draft agreements between the City and the sports organizations which will be approved by the City Council.

Section III - Federal Award Findings and Questioned Costs

No matters are being reported.

CITY OF LAFOLLETTE, TENNESSEE

SCHEDULE OF DISPOSITION OF PRIOR YEAR FINDINGS

For the Year Ended June 30, 2016

There were no prior year audit findings.

GENERAL PURPOSE FINANCIAL STATEMENTS

THE CITY OF LAFOLLETTE, TENNESSEE
BOARD OF PUBLIC UTILITIES – ELECTRIC DEPARTMENT

CITY OF LAFOLLETTE - BOARD OF PUBLIC UTILITIES -

ELECTRIC DEPARTMENT

(An Enterprise Fund of the City of LaFollette, Tennessee)

LaFollette, Tennessee

FINANCIAL STATEMENTS

June 30, 2016 and 2015

PUGH
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CITY OF LAFOLLETTE - BOARD OF PUBLIC UTILITIES - ELECTRIC DEPARTMENT

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INTRODUCTORY SECTION

CITY OF LAFOLLETTE – BOARD OF PUBLIC UTILITIES
ELECTRIC DEPARTMENT

ROSTER OF OFFICIALS

June 30, 2016

Kent D. Younce	Board of Directors – Chairman
James R. Walker	Board of Directors – Vice Chairman
David R. Longmire	Board of Directors – Secretary / Treasurer
C. Boyd Henegar	Board of Directors – Member
James B. Campbell	Board of Directors – Member
Walter (Kenny) Baird, Jr.	General Manager

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners and Senior Management
City of LaFollette - Board of Public Utilities -
Electric Department
LaFollette, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the City of LaFollette - Board of Public Utilities - Electric Department, an enterprise fund of the City of LaFollette, Tennessee, which comprise the balance sheets as of June 30, 2016 and 2015, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended and the related notes to the financial statements, as listed in the table of contents, which collectively compose the basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of LaFollette - Board of Public Utilities - Electric Department, as of June 30, 2016 and 2015, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements of the City of LaFollette - Board of Public Utilities - Electric Department, are intended to present the financial position, the changes in financial position and cash flows of only that portion of the business-type activities of the City of LaFollette, Tennessee that is attributable to the transactions of the Electric Department. They do not purport to, and do not, present fairly the financial position of the City of LaFollette, Tennessee as of June 30, 2016 and 2015, the changes in its financial position, or its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-11, schedule of required pension contributions on page 30 and schedule of funding progress for post-retirement plan on page 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the City of LaFollette - Board of Public Utilities - Electric Department. The introductory section, the supplementary information section, and the other information section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The information included in the introductory section and the other information section as listed in the table of contents 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 October 26, 2016 on our consideration of the City of LaFollette - Board of Public Utilities - Electric Department'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 the City of LaFollette - Board of Public Utilities - Electric Department's internal control over financial reporting and compliance.

Pugh & Company, P.C.
Certified Public Accountants
Knoxville, Tennessee
October 26, 2016

CITY OF LAFOLLETTE – BOARD OF PUBLIC UTILITIES
ELECTRIC DEPARTMENT

Fiscal Years Ending June 30, 2016 and 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of LaFollette – Board of Public Utilities (LUB) is a political subdivision of the City of LaFollette, Tennessee. LUB's responsibility is to oversee the purchase, production, distribution and processing of electricity, water and wastewater services. The Electric Department provides services to certain customers in Campbell County and in the surrounding counties of Claiborne and Union in East Tennessee. The Electric Department purchases its entire supply of electrical power from the Tennessee Valley Authority (TVA) under the terms of an all-requirements contract with a 10-year rolling termination date.

The Electric Department's discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Electric Department's financial activity, and (c) identify major changes in the Electric Department's financial position.

The Electric Department's Management Discussion and Analysis (MD&A) focuses on the fiscal years ending June 30, 2016 and 2015 activities, resulting changes and current known facts, and should be read in conjunction with the Electric Department's financial statements.

ELECTRIC DEPARTMENT HIGHLIGHTS

Financial Highlights

- The Electric Department's net position increased $1,654,428 or 4% in fiscal year 2016.
- During 2016, operating revenue decreased $1,787,961 or 4%. Purchased power expense decreased $2,626,227 or 8%. Margin on power sales (operating revenue less purchased power expense) increased $838,266 or 6%.
- Operating expenses (excluding purchased power expense) decreased $209,294 or 2%.
- Interest and dividend income increased $12,703 or 83%.
- Interest expense decreased $134,735 or 18%.
- Capital assets, net of depreciation, increased $2,746,118 or 4%.
- Long-term debt represented 48% of the Electric Department's capital structure, compared to 51% last year. Capital structure equals long-term debt (including the current portion of bonds due to be retired next fiscal year) plus net position.
- The Electric Department's maximum debt service requirement is $3,409,770 (fiscal year 2020).

Electric Department Highlights

- Electric customers increased by 68 during fiscal year 2016 representing a customer increase rate of 0.31%.
- Completed distribution system improvements throughout the Electric Department's service territory. Began upgrade work at several distribution substations, with the work at the Caryville substation being substantially completed during the fiscal year. LUB continues to strive to upgrade distribution facilities according to a long-range capital improvements plan based on engineering and operations studies.

- Completed several general plant improvements during the year. Began construction of a new vehicle maintenance facility on property adjacent to LUB's headquarters building. Construction will continue into the next fiscal year.

LUB, ELECTRIC DEPARTMENT, FINANCIAL STATEMENTS

The Electric Department's financial performance is reported under three basic financial statements: the Balance Sheets; the Statements of Revenues, Expenses and Changes in Net Position; and the Statements of Cash Flows.

Balance Sheet

The Electric Department reports its assets, liabilities, and net position in the Balance Sheets. Assets are classified as current, restricted, capital assets, or other non-current assets.

Liabilities are classified as current or non-current (which includes long-term debt.) Net position is classified as net investment in capital assets, restricted for debt service or unrestricted.

Net investment in capital assets reflects the book value of all capital assets less the outstanding balances of debt used to acquire, construct or improve those assets.

Net position restricted for debt service reflects amounts deposited in the debt service reserve funds net of accrued interest payable that will be paid out of those funds in the future.

Unrestricted net position is a residual classification; the amount remaining after reporting net position as either invested in capital or restricted is reported there.

Statements of Revenues, Expenses and Changes in Net Position

The Electric Department reports its revenues and expenses (both operating and non-operating) on the Statements of Revenues, Expenses and Changes in Net Position. In addition, any capital contributions (funds received from grants, developers, etc. to fund capital projects) and associated write-downs of plant are reported on these statements.

Total revenue less total expenses, transfers and prior period adjustments equals the change in net position for the reporting period. Net position at the beginning of the period are increased or decreased, as applicable, by the change in net position for the reporting period.

The change in net position for the reporting period is added to the net position segment of the Balance Sheets.

Statements of Cash Flows

The Electric Department reports cash flows from operating activities, investing activities and noncapital and capital and related financing activities on the Statements of Cash Flows. These statements tell the user the Electric Department's sources of cash and what the Electric Department did with its cash during the reporting period.

The statements indicate the Electric Department's beginning cash balance and ending cash balance and the means by which it was either increased or decreased during the reporting period. The statements also reconcile cash flow to the operating income as it appears on the Statements of Revenues, Expenses and Changes in Net Position.

CONDENSED FINANCIAL STATEMENTS

Balance Sheets

The following table reflects the condensed Balance Sheets for the Electric Department:

Balance Sheets
As of June 30

($ in thousands)

	2016	2015	2014
Current and Other Assets	$ 10,707	$ 14,089	$ 10,706
Capital Assets, Net	66,358	63,611	63,675
Total Assets	77,065	77,700	74,381
Deferred Outflows of Resources	338	430	500
Total Assets and Deferred Outflows	77,403	78,130	74,881
Current and Other Liabilities	13,683	13,250	12,841
Long-Term Debt, Net	28,815	31,629	28,910
Total Liabilities	42,498	44,879	41,751
Net Position:			
Net Investment in Capital Assets	35,771	33,782	32,487
Restricted for Debt Service	0	0	520
Unrestricted	(866)	(531)	123
Total Net Position	$ 34,905	$ 33,251	$ 33,130

Normal Impacts on Balance Sheets

The following is a description of activities which will normally impact the comparability of the Balance Sheets presentation.

- Change in net position (from Statements of Revenues, Expenses and Change in Net Position): impacts (increase/decrease) current and other assets and/or capital assets and unrestricted net position.
- Issuing debt for capital: increases current and other assets and long-term debt.
- Spending debt proceeds on new capital: reduces current assets and increases capital assets.
- Spending of non-debt related current assets on new capital: (a) reduces current assets and increases capital assets and (b) reduces unrestricted net position and increases net investment in capital assets.
- Principal payment on debt: (a) reduces current and other assets and reduces long-term debt and (b) reduces unrestricted net position and increases net investment in capital assets.
- Reduction of capital assets through depreciation: reduces capital assets and net investment in capital assets.

Current Year Impacts and Analysis

- During 2016, current and other assets decreased $3,380,757 or 24%. The Electric Department's cash and cash equivalents decreased $382,360 or 10%. During 2015, current and other assets increased $3,382,294 or 32%. The Electric Department's cash and cash equivalents decreased $173,046 or 4%.
- Capital assets increased $2,746,118 or 4% in 2016 and decreased $63,497 or less than 1% in 2015. Capital asset additions during the current year included various distribution system improvements, substation upgrade projects, new vehicle maintenance facility construction, and vehicle and equipment purchases.
- Deferred outflows of resources decreased $91,697 or 21% in 2016 and decreased $69,801 or 14% in 2015 due to amortization of the deferred amount on refunding of bonds.
- Current and other liabilities increased $433,483 or 3% in 2016 compared to an increase of $408,535 or 3% in 2015.
- Long-term debt decreased $2,814,247 or 9% in 2016. Long-term debt retired this fiscal year was $2,708,862. In 2015, long-term debt increased $2,719,676 or 9%, and long-term debt retired in the prior fiscal year was $2,078,002.
- During 2016, net investment in capital assets increased $1,988,832 or 6%. Net position restricted for debt service was $0 in 2016. Unrestricted net position decreased $334,404 or 63%. During 2015, net investment in capital assets increased $1,294,731 or 4%. Net position restricted for debt service decreased $519,293 or 100%. Unrestricted net position decreased $654,653 or 532%.

Statements of Revenues, Expenses and Changes in Net Position

The following table reflects the condensed Statements of Revenues, Expenses and Changes in Net Position for the Electric Department:

Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30

	($ in thousands)		
	2016	2015	2014
Operating Revenue	$ 45,746	$ 47,534	$ 48,013
Less: Purchased Power Expense	30,648	33,274	32,949
Margin from Sales	15,098	14,260	15,064
Operating Expenses:			
Distribution, Customer Accounts and Sales Expenses	3,259	3,128	2,997
General and Administrative	2,834	2,600	2,521
Maintenance of Distribution Plant	1,485	2,053	1,822
Maintenance of General Plant	149	153	132
Depreciation	3,343	3,380	3,150
Taxes	642	608	572
Total Operating Expenses	11,712	11,922	11,194
Operating Income	3,386	2,338	3,870
Interest and Dividend Income	28	15	11
FEMA Reimbursement	36	15	0
Interest Expense	(613)	(747)	(847)
Debt Issuance Costs	0	(395)	0
Transfers to City of LaFollette - In-Lieu-of-Taxes	(1,183)	(1,105)	(1,056)
Change in Net Position	$ 1,654	$ 121	$ 1,978

Normal Impacts on Statements of Revenues, Expenses and Changes in Net Position

The following is a description of activities which will normally impact the comparability of the Statements of Revenues, Expenses and Changes in Net Position presentation.

- Operating revenue is largely determined by volume of electric power sales for the fiscal year. Any change (increase/decrease) in retail electric rates would also be a cause of a change in operating revenue.
- Purchased power expense is determined by volume of power purchases from TVA for the fiscal year. Also, any change (increase/decrease) in TVA wholesale electric rates would result in a change in purchased power expense.
- Operating expenses (distribution, customer accounts and sales, general and administrative, maintenance of distribution plant and maintenance of general plant) are normally impacted by changes in areas including but not limited to labor cost (staffing, wage rates), group health insurance costs, and overhead line maintenance (tree trimming, pole inspection, etc.)
- Depreciation expense is impacted by plant additions and retirements during the fiscal year.
- Taxes and equivalents are impacted by plant additions/retirements, changes in tax equivalent payments to the City of LaFollette, and gross margin levels.
- Interest income is impacted by the levels of interest rates and investments.
- Interest expense on debt is impacted by the levels of outstanding debt and the interest rate(s) on the outstanding debt.

Current Year Impacts and Analysis

- Operating revenue decreased $1,787,961 or 4% for the fiscal year ending June 30, 2016, the result of lower power sales. Operating revenue decreased $479,371 or 1% for the fiscal year ending June 30, 2015.

- Purchased power expense decreased $2,626,227 or 8% in 2016 and increased $325,307 or 1% in 2015. Current year change is a result of lower power sales.

- Margin on power sales (operating revenue less purchased power expense) increased $838,266 or 6% compared to 2015. Change in prior year was a decrease of $804,674 or 5%.

- Operating expenses (excluding purchase power expense) decreased $209,294 or 2% from last fiscal year, compared to an increase of $728,085 or 7% in 2015.

  - Distribution, customer accounts and sales expenses increased $130,528 or 4% in 2016 and increased $132,341 or 4% in 2015. Change from prior year is due to a general increase in costs for the fiscal year.

  - General and administrative expenses increased $234,625 or 9% in 2016 and increased $78,628 or 3% in 2015. Change from prior year is due to a general increase in costs for the fiscal year, including higher health insurance costs than in the previous fiscal year.

  - Maintenance of distribution plant decreased $567,980 or 28% in 2016 and increased $230,202 or 13% in 2015. Change from prior year is due to less funding dedicated to right-of-way clearing costs. This is a result of the timing of several right-of-way clearing contracts that won't be worked until the next fiscal year.

  - Maintenance of general plant decreased $3,720 or 2% in 2016 and increased $21,265 or 16% in 2015. Change from prior year is due to a general decrease in costs for the fiscal year.

  - Depreciation expense decreased $36,743 or 1% in 2016 and increased $229,612 or 7% in 2015. Change in 2016 is due to less items being closed to plant than the prior year. Most of the plant additions were still considered construction in progress at the end of the fiscal year.

  - Taxes increased $33,997 or 6% in 2016 and increased $36,037 or 6% in 2015. Current year change is due to a general increase in payments to local governments for in-lieu-of- taxes.

- Interest and dividend income increased $12,703 or 83% in 2016 and increased $4,525 or 42% in 2015. Change from prior year is due to LUB moving some of its construction funds into investments bearing a higher rate of interest during the current year. The interest rate paid by the bank for LUB's other funds also increased during the fiscal year.

- Interest expense decreased $134,735 or 18% in 2016 and decreased $100,079 or 12% in 2015. Current year change is due to lower interest costs due to debt retirements during the year.

- Debt issuance costs decreased $394,374 in 2016 and increased $394,374 in 2015. Current year change is the result of not issuing any new debt during the fiscal year.

- Transfers to the City of LaFollette for in-lieu-of-taxes increased $77,550 or 7% in 2016 and increased $48,825 or 5% in 2015. Change from prior year is due to the overall increase in net plant and average gross margin, all numbers that are used in the state formula for calculating tax equivalent payments.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2016, the Electric Department had $66,357,546 invested in a variety of capital assets, as reflected in the schedule below, which represents a net increase (including additions, retirements, and depreciation) of $2,746,118 or 4% over the end of 2015. As of June 30, 2015, investment in capital assets was $63,611,428 which represented a net decrease (including additions, retirements, and depreciation) of $63,497 or less than 1% over the end of 2014.

Capital Assets
As of June 30
(Net of Depreciation)

	2016	2015	2014
Land and Land Rights	$ 928,770	$ 877,922	$ 877,922
Structures and Improvements	2,168,703	2,201,022	2,098,814
Poles, Towers and Transmission Assets	46,783,002	45,520,655	44,705,791
Street Lighting Systems	1,226,137	1,224,832	1,233,748
Equipment, Furniture and Fixtures	12,340,993	12,961,036	13,945,592
Construction Work in Progress	2,909,941	825,961	813,058
Total Net Capital Assets	$ 66,357,546	$ 63,611,428	$ 63,674,925

Major capital asset additions during the year were as follows:

Completed distribution system improvements throughout the Electric Department's service territory. Began upgrade work at several distribution substations, with the Caryville substation upgrade being substantially complete at the end of the fiscal year. Began construction of a new vehicle facility on property adjacent to LUB's headquarters building. Purchased a new bucket truck during the year.

Debt Outstanding

As of June 30, 2016 and 2015, the Electric Department had $31,223,911 and $33,942,773 in debt outstanding, a decrease of $2,708,862 or 8% in 2016 and an increase of $2,783,998 or 9% in 2015. The Series 1999 Revenue Bonds were paid off during 2015. All of the outstanding Series 2005 and Series 2006 Revenue Bonds were refinanced during 2015, along with the Series 2010 Tennessee Municipal Bond Fund Loan, resulting in substantial interest savings due to lower interest rates. The Revenue Bonds were refinanced with General Obligation Bonds. $5 million in new money was included in the 2014A Bond issue.

The following is a schedule of the Electric Department's outstanding debt as of June 30, 2016 and 2015, and 2014:

Outstanding Debt
As of June 30

	2016	2015	2014
Revenue Bonds	$ 0	$ 0	$ 11,240,000
General Obligation Bonds	17,455,000	19,275,000	0
Tennessee Municipal Bond Fund Loans	13,778,911	14,667,773	19,918,775
Total Outstanding Debt	$ 31,233,911	$ 33,942,773	$ 31,158,775

IMPACTS ON FUTURE FINANCIAL POSITION

The Electric Department isn't expected to add very many new electric customers over the course of the next fiscal year. Capital improvement plans are being developed for projects to be completed over the next 5 fiscal years.

No other facts, decisions, or conditions are currently known which would have a significant impact on the Electric Department's financial position or results of operations during fiscal year 2017.

FINANCIAL CONTACT

The Electric Department's financial statements are designed to present users (citizens, customers, investors and creditors) with a general overview of the Electric Department's financial position and results of operations for the fiscal years ending June 30, 2016 and June 30, 2015. If you have questions about the statements or need additional financial information, contact LUB's General Manager at 302 North Tennessee Avenue, LaFollette, Tennessee 37766.

CITY OF LAFOLLETTE - BOARD OF PUBLIC UTILITIES-
ELECTRIC DEPARTMENT

BALANCE SHEETS

As of June 30,	2016	2015
ASSETS AND DEFERRED OUTFLOWS		
CURRENT ASSETS:		
Cash and Cash Equivalents	$ 3,294,682	$ 3,677,042
Accounts Receivable - Customers, Net	4,821,316	4,540,065
Materials and Supplies	1,160,166	1,026,245
Prepaid Items and Other Current Assets	335,218	335,932
Total Current Assets	9,611,382	9,579,284
NONCURRENT ASSETS:		
RESTRICTED CASH:		
Capital Asset Expenditures Fund	95,709	1,009,660
INVESTMENTS	1,000,201	3,499,105
CAPITAL ASSETS:		
Land and Land Rights	928,770	877,922
Construction Work in Progress	2,909,941	825,961
Structures and Improvements	3,136,301	3,104,779
Poles, Towers and Transmission Assets	79,368,872	76,250,835
Street Lighting Systems	3,913,677	3,778,152
Equipment, Furniture and Fixtures	28,612,965	28,276,028
Less Accumulated Depreciation	(52,512,980)	(49,502,249)
Net Capital Assets	66,357,546	63,611,428
Total Noncurrent Assets	67,453,456	68,120,193
TOTAL ASSETS	77,064,838	77,699,477
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Bond Refunding Losses	338,494	430,191
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 77,403,332	$ 78,129,668

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

CITY OF LAFOLLETTE - BOARD OF PUBLIC UTILITIES- ELECTRIC DEPARTMENT

BALANCE SHEETS (Continued)

As of June 30,	2016	2015
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES:		
Accounts Payable	$ 6,508,485	$ 6,216,915
Accrued Interest Payable	131,442	136,960
Current Portion of Customer Deposits	410,112	382,970
Current Portion of Accrued Compensated Absences	463,081	296,327
Current Portion of Accrued Retirement Plan Payable	81,685	81,685
Current Portion of Accrued Post-Retirement Plan Liability	4,260	427
Current Maturities of Long-Term Debt	2,780,722	2,708,862
Total Current Liabilities	10,379,787	9,824,146
NONCURRENT LIABILITIES:		
Customer Deposits - Long-Term	1,595,779	1,543,496
Accrued Compensated Absences - Long-Term	616,733	705,656
Accrued Retirement Plan Payable - Long-Term	520,807	602,492
Accrued Post-Retirement Plan Liability - Long-Term	570,218	574,051
Long-Term Debt, Net	28,815,064	31,629,311
Total Noncurrent Liabilities	32,118,601	35,055,006
Total Liabilities	42,498,388	44,879,152
NET POSITION:		
Net Investment in Capital Assets	35,770,852	33,782,020
Unrestricted	(865,908)	(531,504)
Total Net Position	34,904,944	33,250,516
TOTAL LIABILITIES AND NET POSITION	$ 77,403,332	$ 78,129,668

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

CITY OF LAFOLLETTE - BOARD OF PUBLIC UTILITIES-
ELECTRIC DEPARTMENT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Years Ended June 30,	2016	2015
OPERATING REVENUES:		
Electricity (Net of Bad Debts of $61,000 in 2016 and $0 in 2015)	$ 44,628,168	$ 46,204,932
Rents and Other Services	1,117,857	1,329,054
Total Operating Revenues	45,746,025	47,533,986
OPERATING EXPENSES:		
Cost of Sales - Purchased Power	30,648,064	33,274,291
Distribution, Customer Accounts and Sales Expenses	3,258,879	3,128,351
General and Administrative	2,834,203	2,599,578
Maintenance of Distribution Plant	1,484,648	2,052,628
Maintenance of General Plant	149,350	153,070
Depreciation	3,343,095	3,379,839
Taxes	642,494	608,497
Total Operating Expenses	42,360,733	45,196,254
OPERATING INCOME	3,385,292	2,337,732
NONOPERATING REVENUES (EXPENSES):		
Interest and Dividend Income	28,091	15,388
Interest Expense	(612,580)	(747,315)
Debt Issuance Costs	0	(394,374)
FEMA Grants	36,275	14,504
Total Nonoperating Expenses	(548,214)	(1,111,797)
INCOME BEFORE TRANSFERS	2,837,078	1,225,935
TRANSFERS TO CITY OF LAFOLLETTE - IN LIEU OF TAXES	(1,182,650)	(1,105,150)
CHANGE IN NET POSITION	1,654,428	120,785
NET POSITION - BEGINNING OF YEAR	33,250,516	33,129,731
NET POSITION - END OF YEAR	$ 34,904,944	$ 33,250,516

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

CITY OF LAFOLLETTE - BOARD OF PUBLIC UTILITIES-
ELECTRIC DEPARTMENT

STATEMENTS OF CASH FLOWS

For the Years Ended June 30,	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received From Customers	$ 44,426,342	$ 46,265,657
Cash Receipts From Other Operations	1,117,857	1,329,054
Cash Paid to Employees	(6,912,162)	(6,669,615)
Cash Paid to Suppliers	(31,308,473)	(34,324,182)
Cash Payments For Taxes and Other Operations	(642,494)	(608,497)
Net Cash Provided by (Used in) Operating Activities	6,681,070	5,992,417
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Transfers to City of LaFollette - In Lieu of Taxes	(1,182,650)	(1,105,150)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Plant Additions and Construction	(6,114,382)	(3,355,151)
Plant and Equipment Removal Costs, Net	25,169	38,809
(Increase) Decrease in Restricted Cash	913,951	(338,811)
Cash Proceeds From Long-Term Debt Borrowing	0	4,876,738
Repayment On Long-Term Debt	(2,708,862)	(2,078,002)
Interest On Long-Term Debt	(559,926)	(734,683)
FEMA Grants	36,275	14,504
Net Cash Provided by (Used in) Capital and Related Financing Activities	(8,407,775)	(1,576,596)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of Investments	0	(3,499,105)
Proceeds from Sales and Maturities of Investments	2,499,705	0
Interest on Cash and Cash Equivalents	27,290	15,388
Net Cash Provided by (Used in) Investing Activities	2,526,995	(3,483,717)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(382,360)	(173,046)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,677,042	3,850,088
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 3,294,682	$ 3,677,042

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

CITY OF LAFOLLETTE - BOARD OF PUBLIC UTILITIES-
ELECTRIC DEPARTMENT

STATEMENTS OF CASH FLOWS (Continued)

For the Years Ended June 30,	2016	2015
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Income (Loss)	$ 3,385,292	$ 2,337,732
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation (Net of Capitalized Depreciation of $216,486 in 2016 and $374,186 in 2015)	3,343,095	3,379,839
(Increase) Decrease in Assets:		
Accounts Receivable - Customers	(281,251)	43,317
Due From Water Department	0	259,623
Materials and Supplies	(133,921)	(21,956)
Prepaid Items and Other Current Assets	714	1,592
Increase (Decrease) in Liabilities:		
Customer Deposits	79,425	17,408
Accounts Payable	291,570	27,060
Accrued Compensated Absences	77,831	15,069
Accrued Retirement Plan Payable	(81,685)	(81,685)
Accrued Post-Retirement Plan Liability	0	14,418
Total Adjustments	3,295,778	3,654,685
Net Cash Provided by (Used in) Operating Activities	$ 6,681,070	$ 5,992,417
Supplementary Schedule of Noncash Capital and Related Financing Activities:		
Bonds Issued to Refund Previously Issued Bonds	$ 0	$ 14,428,000
Debt Issuance Costs on Bonds Issued	$ 0	$ 394,374
Deferred Amount on Refunding of Bonds, Net	$ 0	$ 19,941
Amortization of Deferred Amount on Refunding	$ (91,697)	$ (89,742)
Amortization of Bond Premium	$ 33,525	$ 16,288
Gain (Loss) on Investments	$ 801	$ 0

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The City of LaFollette - Board of Public Utilities (the Board) is a political subdivision of the City of LaFollette, Tennessee. The Board is comprised of the Electric Department and the Water Department, which are reported as separate enterprise funds of the City. The Electric Department operates under a board of commissioners and services the majority of Campbell County and portions of Claiborne and Union Counties. The Electric Department purchases its entire supply of electrical power from the Tennessee Valley Authority (TVA) under the terms of an all-requirements contract with a 10-year rolling termination date.

Basis of Presentation - The financial statements of the City of LaFollette - Board of Public Utilities - Electric Department have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

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

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

Budgeting - The Electric Department adopts flexible annual operating and capital budgets. Budgets are adopted on a basis consistent with generally accepted accounting principles. The current operating budget details the Electric Department's plans to earn and expend funds for charges incurred for operation, maintenance, certain interest and general functions, and other charges for the fiscal year. The capital budget details the plan to receive and expend capital contributions, grants, borrowings and certain revenues for capital projects. The Electric Department's budgets are not legally binding. During the year, management is authorized to transfer budgeted amounts between line items within the Electric Department's departments.

Revenues and Expenses - Revenues and expenses are recorded on the accrual basis in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC). Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Electric Department are charges to customers for electricity. The Electric Department also recognizes as operating revenue rent from Electric Department property and other services. Operating expenses for the Electric Department include the cost of sales and services, administrative expenses, maintenance, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related Party and Interfund Activities - For economic purposes and convenience, certain expenses incurred by the Board are incurred jointly between the Electric Department and the Water Department. The joint expenses are incurred for the use of the building, management, customer services, meter reading / service technicians, sharing of transportation vehicles, office personnel, equipment, etc. Expenses of the Electric Department and Water Department that cannot be directly attributed to the operations of each Department are allocated on a pro-rata basis of 66% and 34%, respectively, except for office building expenses which are allocated on a basis of 71% and 29%, respectively.

Additionally, the Electric Department bills and collects water and wastewater charges for the Water Department. These funds are periodically transferred to the Water Department. Accounts receivable and payable between the Electric Department and Water Department represent operating cash advances related to the transfer of these funds and the allocation of expenses mentioned above. These receivables and payables are included on the balance sheet within Accounts Receivable - Customers, Net and Accounts Payable. As of June 30, 2016 and 2015, balances due from the Electric Department to the Water Department were $506,239 and $179,483, respectively.

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

Utility Plant - Utility plant and construction work in progress are stated at cost. Interest costs associated with long-term construction projects are capitalized in accordance with FASB ASC 835. Donated assets are valued at their estimated fair value on the date donated. The Electric Department defines a capital asset as an asset with an initial individual cost or a project with a cumulative total cost of more than $1,000 and estimated useful life in excess of one year. Major renewals and improvements are charged to the plant account while replacements, maintenance, and repairs which do not improve or extend the life of the assets are expensed currently. Utility plant items are depreciated over their estimated useful lives on the straight-line group method. Depreciation on property and equipment used by the Electric Department is charged as an expense against its operations. Accumulated depreciation is reported on the proprietary fund balance sheet. Depreciation has been provided at a rate of 2% to 20% per year for the Electric Department property and equipment.

Deposits and Investments - The Electric Department considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The department has not formally adopted an investment policy and places no limit on the amount that may be deposited with any one issuer. As of June 30, 2016, the department has investments in one issuer that represents 5% or more of the total investment assets other than U.S. Treasuries.

The Electric Department has no formal policy regarding interest rate risk. Deposits are structured in a manner that ensures sufficient cash is available to meet the anticipated liquidity needs. Selection of deposit maturities must be consistent with the cash requirements of the department in order to avoid the forced redemption of deposits prior to maturity.

As authorized by statutes of the State of Tennessee (the State), the department may only invest in obligations of the United States Treasury, its agencies and instrumentalities; money market funds; the Local Government Investment Pool or in obligations which are rated in either of the two highest rated categories by a nationally recognized rating agency. All of the Electric Department's investments were rated in the highest two categories.

As of June 30, 2016, the Electric Department has invested in United States Treasury Obligations with maturity dates between less than 12 months and not more than 24 months.

Accounts Receivable/Allowance for Doubtful Accounts and Unbilled Revenue - The allowance for doubtful accounts is determined using historical information and current evaluations of existing economic conditions. Recognition has been given to unbilled revenue in the financial statements (see Note 3).

Materials and Supplies - Materials and supplies are valued at average cost.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Customer Deposits - The Electric Department requires customers to pay a refundable deposit when service is connected. Customer deposits are refunded when the customer has made their payments timely for a two year period. The amount of customer deposits due within one year on the balance sheet has been estimated based on the prior years' experience.

Compensated Absences - It is the Electric Department's policy to permit employees to accumulate earned but unused vacation leave up to a maximum of 240 hours. A liability representing the Electric Department's commitment to fund such costs from future operations has been recorded. It is also the Electric Department's policy to allow employees to be paid for accumulated sick leave upon retirement. In accordance with Statement No. 16 of the GASB, a liability has been accrued for sick leave amounts that management has determined are earned and probable of being paid in the future, using the termination payment method. The amount of compensated absences due within one year on the balance sheet has been estimated based on prior years' experience.

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

Deferred Outflows/Inflows of Resources - In addition to assets, the balance sheet reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Electric Department's deferred outflows of resources consist of deferred bond refunding losses (see Note 7). In addition to liabilities, the balance sheet may sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. The Electric Department did not have any deferred inflows of resources to report as of June 30, 2016 and 2015.

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

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

Implementation of GASB Statement No. 72 - During the fiscal year ended June 30, 2016, the Electric Department implemented GASB Statement No. 72, *Fair Value Measurement and Application*, which establishes guidance for determining fair value measurement for financial reporting purposes, for applying fair value to certain investments and disclosures related to all fair value measurements (see Note 12).

Reclassifications - Certain items in the 2015 financial statements have been reclassified to conform with the 2016 financial statements.

Evaluation of Subsequent Events - Management has evaluated subsequent events through October 26, 2016, which is the date the financial statements were available to be issued, and has determined that there are no subsequent events that require disclosure.

NOTE 2 - CONCENTRATION OF CREDIT RISK

As of June 30, 2016, the book balances of the Electric Department's deposits were $3,390,391 and the bank balances were $3,529,646. Of the bank balances, $374,457 was covered by FDIC insurance and $3,155,190 was covered by collateral held by the Tennessee Bank Collateral Pool Board of the State of Tennessee Treasury Department. The Electric Department has entered into agreements with First Volunteer Bank and First Tennessee Bank, which participate in the Tennessee Bank Collateral Pool.

NOTE 3 - UNBILLED REVENUE

As of June 30, 2016 and 2015, estimated unbilled revenue of approximately $2,304,000 and $1,775,000, respectively, is included in accounts receivable.

NOTE 4 - RESTRICTED CASH

The capital asset expenditures fund consists of proceeds from bonds payable to be used for specific construction projects.

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 is as follows:

	Balances, July 01, 2015	Additions	Reductions	Balances, June 30, 2016
Capital Assets, Not Being Depreciated:				
Land and Land Rights	$ 877,922	$ 50,848	$ 0	$ 928,770
Construction Work in Progress	825,961	5,274,183	3,190,203	2,909,941
Total Capital Assets, Not Being Depreciated	1,703,883	5,325,031	3,190,203	3,838,711
Capital Assets, Being Depreciated:				
Structures and Improvements	3,104,779	31,522	0	3,136,301
Poles, Towers, and Transmission Assets	76,250,835	3,547,311	429,274	79,368,872
Street Lighting Systems	3,778,152	189,381	53,856	3,913,677
Equipment, Furniture and Fixtures	28,276,028	427,826	90,889	28,612,965
Total Capital Assets, Being Depreciated	111,409,794	4,196,040	574,019	115,031,815
Less Accumulated Depreciation for:				
Structures and Improvements	903,757	63,841	0	967,598
Poles, Towers, and Transmission Assets	30,730,180	2,281,291	425,601	32,585,870
Street Lighting Systems	2,553,320	178,590	44,370	2,687,540
Equipment, Furniture and Fixtures	15,314,992	1,035,859	78,879	16,271,972
Total Accumulated Depreciation	49,502,249	3,559,581	548,850	52,512,980
Total Capital Assets, Being Depreciated, Net	61,907,545	636,459	25,169	62,518,835
Capital Assets, Net	$ 63,611,428	$ 5,961,490	$ 3,215,372	$ 66,357,546

NOTE 5 - CAPITAL ASSETS (Continued)

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

	Balances, July 01, 2014	Additions	Reductions	Balances, June 30, 2015
Capital Assets, Not Being Depreciated:				
Land and Land Rights	$ 877,922	$ 0	$ 0	$ 877,922
Construction Work in Progress	813,058	3,008,893	2,995,990	825,961
Total Capital Assets, Not Being Depreciated	1,690,980	3,008,893	2,995,990	1,703,883
Capital Assets, Being Depreciated:				
Structures and Improvements	2,941,181	163,598	0	3,104,779
Poles, Towers, and Transmission Assets	73,616,854	3,037,460	403,479	76,250,835
Street Lighting Systems	3,626,901	174,372	23,121	3,778,152
Equipment, Furniture and Fixtures	27,951,424	341,004	16,400	28,276,028
Total Capital Assets, Being Depreciated	108,136,360	3,716,434	443,000	111,409,794
Less Accumulated Depreciation for:				
Structures and Improvements	842,367	61,390	0	903,757
Poles, Towers, and Transmission Assets	28,911,063	2,201,737	382,620	30,730,180
Street Lighting Systems	2,393,153	181,738	21,571	2,553,320
Equipment, Furniture and Fixtures	14,005,832	1,309,160	0	15,314,992
Total Accumulated Depreciation	46,152,415	3,754,025	404,191	49,502,249
Total Capital Assets, Being Depreciated, Net	61,983,945	(37,591)	38,809	61,907,545
Capital Assets, Net	$ 63,674,925	$ 2,971,302	$ 3,034,799	$ 63,611,428

NOTE 6 - COMMITMENTS

The Electric Department periodically enters into work plans for various system improvements. As of June 30, 2016, the Department has approximately $1,181,000 in contractual construction commitments.

NOTE 7 - LONG-TERM DEBT

Changes in long-term debt for the year ended June 30, 2016 are as follows:

	Balances July 01, 2015	Increases	Decreases	Balances June 30, 2016	Amounts Due Within One Year
Loan Payable to the Public Building Authority of the City of Clarksville, Tennessee - Series 2004 (PBA Clarksville, Series 2004) - Variable Rate based on Bank of America Daily Rate	$ 4,781,607	$ 0	$ (428,637)	$ 4,352,970	$ 438,883
Loan Payable to the Public Building Authority of the County of Montgomery, Tennessee - Series 2006 (PBA Montgomery County, Series 2006) - Variable Rate based on Bank of America Daily Rate	8,329,000	0	(386,000)	7,943,000	405,000
Loan Payable to the Public Building Authority of the City of Clarksville, Tennessee - Series 2008 (PBA Clarksville, Series 2008) - Variable Rate based on Bank of America Daily Rate	1,557,166	0	(74,225)	1,482,941	76,839
Electric System General Obligation Bonds, Series 2014A, 2.0% to 4.0%	9,060,000	0	(1,190,000)	7,870,000	1,230,000
Electric System General Obligation Refunding Bonds, Series 2015A, 2.0%	5,990,000	0	(380,000)	5,610,000	380,000
Electric System General Obligation Refunding Bonds, Series 2015B, 2.0% to 2.75%	4,225,000	0	(250,000)	3,975,000	250,000
	33,942,773	0	(2,708,862)	31,233,911	2,780,722
Plus Unamortized Premiums on Issuance	395,400	0	(33,525)	361,875	0
	$ 34,338,173	$ 0	$ (2,742,387)	$ 31,595,786	$ 2,780,722

NOTE 7 - LONG-TERM DEBT (Continued)

Changes in long-term debt for the year ended June 30, 2015 are as follows:

	Balances July 01, 2014	Increases	Decreases	Balances June 30, 2015	Amounts Due Within One Year
Electric System Revenue Refunding and Improvement Bonds, Series 1999, 4.15% to 4.90%	$ 485,000	$ 0	$ (485,000)	$ 0	$ 0
Loan Payable to the Public Building Authority of the City of Clarksville, Tennessee - Series 2004 (PBA Clarksville, Series 2004) - Variable Rate based on Bank of America Daily Rate	5,199,997	0	(418,390)	4,781,607	428,637
Electric System Revenue Refunding Bonds, Series 2005, 3.25% to 4.50%	4,460,000	0	(4,460,000)	0	0
Electric System Revenue Refunding Bonds, Series 2006, 3.70% to 4.00%	6,295,000	0	(6,295,000)	0	0
Loan Payable to the Public Building Authority of the County of Montgomery, Tennessee - Series 2006 (PBA Montgomery County, Series 2006) - Variable Rate based on Bank of America Daily Rate	8,697,000	0	(368,000)	8,329,000	386,000
Loan Payable to the Public Building Authority of the City of Clarksville, Tennessee - Series 2008 (PBA Clarksville, Series 2008) - Variable Rate based on Bank of America Daily Rate	1,628,778	0	(71,612)	1,557,166	74,225
Loan Payable to the Public Building Authority of the City of Clarksville, Tennessee - Series 2010 (PBA Clarksville, Series 2010) - Fixed Rate of 3.15%	4,393,000	0	(4,393,000)	0	0
Electric System General Obligation Bonds, Series 2014A, 2.0% to 4.0%	0	9,075,000	(15,000)	9,060,000	1,190,000
Electric System General Obligation Refunding Bonds, Series 2015A, 2.0%	0	5,990,000	0	5,990,000	380,000
Electric System General Obligation Refunding Bonds, Series 2015B, 2.0% to 2.75%	0	4,225,000	0	4,225,000	250,000
	31,158,775	19,290,000	(16,506,002)	33,942,773	2,708,862
Plus Unamortized Premiums on Issuance	28,861	409,112	(42,573)	395,400	0
	$ 31,187,636	$ 19,699,112	$ (16,548,575)	$ 34,338,173	$ 2,708,862

The bonds and loans payable outstanding as of June 30, 2016 are as follows:

	Interest Rates	Date Issued	Final Maturity Date	Amount of Original Issue	Balance June 30, 2016
Loan Payable to PBA - Clarksville, Series 2004	Variable	5/24/2005	5/25/2025	$ 8,538,600	$ 4,352,970
Loan Payable to PBA - Montgomery County, Series 2006	Variable	3/3/2008	5/25/2030	10,000,000	7,943,000
Loan Payable to PBA - Clarksville, Series 2008	Variable	10/31/2008	5/25/2031	1,829,500	1,482,941
Electric System General Obligation Bonds, Series 2014A	2.00% to 4.00%	12/5/2014	3/1/2035	9,075,000	7,870,000
Electric System General Obligation Refunding Bonds, Series 2015A	2.00%	2/27/2015	3/1/2022	5,990,000	5,610,000
Electric System General Obligation Refunding Bonds, Series 2015B	2.00% to 2.75%	3/31/2015	3/1/2030	4,225,000	3,975,000
					$ 31,233,911

NOTE 7 - LONG-TERM DEBT (Continued)

Annual debt service requirements to maturity of the bonds and loans payable are as follows for the year ending June 30:

	Principal	Interest
2017	$ 2,780,722	$ 544,874
2018	2,819,582	512,991
2019	2,884,295	464,125
2020	2,995,532	414,238
2021	3,043,769	362,412
2022-2026	9,483,753	1,187,623
2027-2031	6,006,258	548,687
2032 - 2035	1,220,000	118,725
Total	$ 31,233,911	$ 4,153,675

The general taxing authority of the City of LaFollette is pledged as collateral for all of the loans payable to Public Building Authorities. Proceeds from these loans were also used to finance certain construction projects.

On December 5, 2014, the Electric Department issued $9,075,000 in General Obligation Bonds (Series 2014A) to advance refund portions of its 2005 Series bonds. The advance refunding resulted in an accounting loss which is being deferred and amortized on a straight-line basis over the weighted average life of the bonds defeased in accordance with GASB No. 23. Amortization of the deferred amount on the refunding of bonds for the years ended June 30, 2016 and 2015 of $31,323 and $10,441, respectively, is included in interest expense in the statements of revenues, expenses and changes in net position. These bonds also resulted in approximately $5,000,000 in additional proceeds to provide financing for certain construction projects.

On February 27, 2015, the Electric Department issued $5,990,000 in General Obligation Refunding Bonds (Series 2015A) to advance refund portions of its 2006 Series bonds. The advance refunding resulted in an accounting loss which is being deferred and amortized on a straight-line basis over the weighted average life of the bonds defeased in accordance with GASB No. 23. Amortization of the deferred amount on the refunding of bonds for the years ended June 30, 2016 and 2015 of $60,374 and $35,218, respectively, is included in interest expense in the statements of revenues, expenses and changes in net position.

On March 31, 2015, the Electric Department issued $4,225,000 in General Obligation Refunding Bonds (Series 2015B) to advance refund portions of its 2010 Series loan payable. The advance refunding did not result in an accounting loss.

On March 1, 2006, the Electric Department issued $7,000,000 in Electric System Revenue Refunding Bonds to advance refund portions of its 2002 Series bonds. The advance refunding resulted in an accounting loss which was deferred and amortized on a straight-line basis over the weighted average life of the bonds defeased in accordance with GASB No. 23. Amortization of the deferred amount on the refunding of bonds is included in interest expense in the statements of revenues, expenses and changes in net position, in accordance with GASB No. 23. Amortization totaled $23,201 for the year ended June 30, 2015. These bonds were refunded during the year ended June 30, 2015.

On September 1, 2005, the Electric Department issued $6,805,000 in Electric System Revenue Refunding Bonds to advance refund portions of its 1997 and 1999 Series bonds. The advance refunding resulted in an accounting loss which was deferred and amortized on a straight-line basis over the weighted average life of the bonds defeased in accordance with GASB No. 23. Amortization of the deferred amount on the refunding of bonds for the year ended June 30, 2015 of $20,882 is included in interest expense in the statements of revenues, expenses and changes in net position. These bonds were refunded during the year ended June 30, 2015.

The 2014 and 2015 General Obligation Bonds are payable from but not secured by a pledge of the Electric Department's revenues. The full faith and credit of the City of LaFollette is pledged as collateral for these bonds.

NOTE 8 - OTHER LONG-TERM LIABILITIES

Changes in other long-term liabilities for the year ended June 30, 2016 are as follows:

	Balance July 01, 2015	Increases	Decreases	Balance June 30, 2016	Amounts Due Within One Year
Customer Deposits	$ 1,926,465	$ 480,491	$ (401,065)	$ 2,005,891	$ 410,112
Accrued Compensated Absences	1,001,983	510,764	(432,933)	1,079,814	463,081
Accrued Retirement Plan (see Note 9)	684,177	0	(81,685)	602,492	81,685
Accrued Post-Retirement Plan (see Note 10)	574,478	2,472	(2,472)	574,478	4,260
	$ 4,187,103	$ 993,727	$ (918,155)	$ 4,262,675	$ 959,138

Changes in other long-term liabilities for the year ended June 30, 2015 are as follows:

	Balance July 01, 2014	Increases	Decreases	Balance June 30, 2015	Amounts Due Within One Year
Customer Deposits	$ 1,909,058	$ 387,706	$ (370,298)	$ 1,926,466	$ 382,970
Accrued Compensated Absences	986,914	398,853	(383,784)	1,001,983	296,327
Accrued Retirement Plan (see Note 9)	765,862	0	(81,685)	684,177	81,685
Accrued Post-Retirement Plan (see Note 10)	560,060	15,565	(1,147)	574,478	427
	$ 4,221,894	$ 802,124	$ (836,914)	$ 4,187,104	$ 761,409

NOTE 9 - RETIREMENT PLANS

Pension Plan

Plan Description - The Electric Department contributes to the National Rural Electric Cooperative Association (NRECA) Retirement Security Plan (RS Plan), which is a non-contributory defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. The Plan is a cost-sharing multiple-employer plan under the accounting standards. The plan sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333. The NRECA has the authority to amend benefit provisions and the Electric Department's board of commissioners has the authority to establish benefit levels. The NRECA issues a publicly available financial report that includes financial statements and required supplementary information, which may be obtained by writing to NRECA, 4301 Wilson Blvd., Arlington, VA, 22203-1860.

A unique characteristic of a multiple-employer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

Participants have been credited for employment with the Electric Department since 1970, and substantially all employees are participants. In accordance with GASB Statement No. 27 the Electric Department accrued a liability in 1997 for past service costs. The Electric Department's contractual liability for past service costs as of June 30, 2016 and 2015 is as follows:

	2016	2015
Contractual Liability - Beginning of Year	$ 684,177	$ 765,862
Amounts Remitted to the NRECA	(81,685)	(81,685)
Contractual Liability - End of Year	602,492	684,177
Less Current Portion of Accrued Liability	81,685	81,685
Long-Term Portion of Accrued Liability	$ 520,807	$ 602,492

NOTE 9 - RETIREMENT PLANS (Continued)

Pension Plan (Continued)

In December 2015 the GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans,* which amends GASB Statement No. 68, and establishes financial reporting standards for governmental employers who provide pensions to their employees through plans that have the characteristics described in paragraph 2 of the new Statement. Management has determined that the RS Plan meets all of the characteristics in paragraph 2, and has adopted the Statement for their financial reporting.

Plan participants do not contribute to the Plan and the Electric Department is required to contribute at an actuarially determined rate. The 2016 rate is 25.05% of annual covered payroll (24.68% in 2015). The Electric Department made contributions to the plan of $789,138 in 2016 and $779,285 in 2015, which represents all of the required contributions for each year, and no amounts are included in accounts payable at either year end. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

401(k) Plan

The Electric Department also has a defined contribution 401(k) plan through the NRECA which covers substantially all employees. The Electric Department matches up to 4% of participants' base pay each year. Voluntary participant contributions are allowed and totaled $245,904 and $230,859 for the years ended June 30, 2016 and 2015, respectively. Contributions by the Electric Department for the years ended June 30, 2016 and 2015 were $140,586 and $132,745, respectively.

NOTE 10 - POST-RETIREMENT PLAN

Plan Description: In addition to the retirement benefits described in Note 9, The City of LaFollette – Board of Public Utilities' board of commissioners approved a single-employer defined benefit healthcare plan that is self-administered. The Plan provides partial payment of health insurance premiums for eligible retirees and their dependents. The Plan provides for the Electric Department to pay 2% per year of service up to a maximum of 50% of the employee premium for a total of 5 years. It also provides for the Electric Department to pay 1% per year of service up to a maximum of 25% of the dependent and surviving spouse's premium for a total of 5 years. This is a joint plan with the Water Department.

Funding Policy: The contribution requirements are established and may be amended by the board of commissioners. The Plan is currently being funded on a pay-as-you-go basis whereby amounts paid to retirees and their matching payments are the only contributions. Contributions for the years ended June 30, 2016 and 2015 are as follows:

	2016		2015	
	$	%	$	%
Retiree Contributions	$ 10,542	74%	$ 5,163	75%
Company Contributions	3,746	26%	1,738	25%

NOTE 10 - POST-RETIREMENT PLAN (Continued)

Annual OPEB Cost and Net OPEB Obligation: The Plan's annual other postemployment benefit (OPEB) expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the Plan's annual OPEB cost for the year ended, the amount actually contributed to the plan, and changes in the net OPEB obligation:

	2016	2015
Annual OPEB Cost	$ 3,746	$ 22,336
Company Contributions Made	(3,746)	(1,738)
Increase (Decrease) in Net OPEB Obligations	0	20,598
Net OPEB Obligations- Beginning of Year	820,686	800,088
Net OPEB Obligations- End of Year	$ 820,686	$ 820,686
OPEB Plan Liability:		
Electric Department - Current	$ 4,260	$ 427
Electric Department - Long-Term	570,218	574,051
Water Department - Current	2,194	183
Water Department - Long-Term	244,014	246,025
Total Net OPEB Plan Liability	$ 820,686	$ 820,686

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016 and the two preceding years are as follows:

Fiscal Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2016	$ 3,746	100.0%	$ 820,686
2015	22,336	7.8%	820,686
2014	(16,653)	-23.7%	800,088

Funded Status and Funding Progress. As of July 1, 2014, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was $648,450, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $648,450. The covered payroll (annual payroll of active employees covered by the plan) was approximately $6.3 million, and the ratio of the UAAL to the covered payroll was 10.4%. The reconciliation of the annual required contribution to the annual OPEB cost is as follows:

	2016	2015
Annual Required Contribution	$ 72,774	$ 71,933
Interest on Net OPEB Obligation	32,322	32,003
Adjustment to Annual Required Contribution	(101,350)	(81,600)
Annual OPEB Cost	$ 3,746	$ 22,336

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

NOTE 10 - POST-RETIREMENT PLAN (Continued)

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2014 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include an annual healthcare cost trend rate of 5% per year and a discount rate of 4%. The UAAL is being amortized on a straight-line basis. The remaining amortization period as of July 1, 2014 was 23 years.

NOTE 11 - NET POSITION

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. The net position for 2016 and 2015 is as follows:

	2016	2015
Net Investment in Capital Assets:		
Net Capital Assets	$ 66,357,546	$ 63,611,428
Less: Long-Term Debt - Net of Discounts & Premiums	(31,595,786)	(34,338,173)
Add: Unspent Debt Proceeds to be Used for Capital Assets	1,009,092	4,508,765
	35,770,852	33,782,020
Restricted for Capital Assets Activity:		
Restricted Cash and Investments	1,095,910	4,508,765
Less: Unspent Debt Proceeds to be Used for Capital Assets	(1,009,092)	(4,508,765)
Less: Construction Retainage Payable	(86,818)	0
	0	0
Unrestricted	(865,908)	(531,504)
Total	$ 34,904,944	$ 33,250,516

NOTE 12 - FAIR VALUE OF INVESTMENTS

Fair Value Measurements

GASB Statement 72 *Fair Value Measurements and Disclosures* (GASB 72) defines fair value and expands disclosures about fair value measurements. GASB 72 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GASB 72 also established a fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

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

NOTE 12 - FAIR VALUE OF INVESTMENTS (Continued)

Investments whose values are based on quoted market prices in active markets, and are therefore classified within Level 1, primarily include U. S. Treasury obligations, and certain common stock and preferred stock equities. These investments are traded daily in public markets in the United States and other foreign countries. The fair value of these investments is based on the last reported sales price on the last day of the reporting period.

Investments that trade in markets that are not considered to be actively traded on a daily basis, but are valued based on quoted market prices, dealer and broker quotations, bid prices, or alternative pricing sources using observable inputs, are classified within Level 2. These include certain U.S. Government and foreign obligations, investment grade corporate bonds and bank loans, certain mortgage and asset backed securities, less liquid listed securities, certain government agency securities, and foreign currency exchange purchase and sales contracts. Common and collective trust funds, investment entities, and short-term investment funds, whose underlying assets are primarily invested in securities that are actively traded, are fair valued based upon the redemption value of each unit on the last business day of the reporting period.

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

A description of valuation methodologies used for assets recorded at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is shown below. The categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Debt securities classified as Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

The following table sets forth by level, within the fair value hierarchy, the Electric Department's assets measured at fair value as of June 30, 2016 and 2015:

	Fair Value Measurements Using			
Investments by Fair Value Level	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
As of June 30, 2016				
Debt Securities:				
U.S. Treasury	$ 1,000,201	$ 0	$ 0	$ 1,000,201
Total Investments	$ 1,000,201	$ 0	$ 0	$ 1,000,201
As of June 30, 2015				
Debt Securities:				
U.S. Treasury	$ 3,499,105	$ 0	$ 0	$ 3,499,105
Total Investments	$ 3,499,105	$ 0	$ 0	$ 3,499,105

NOTE 13 - LITIGATION

From time to time, various claims and lawsuits are pending against the Electric Department. In the opinion of the Electric Department's management, the potential loss on all claims and lawsuits will not be significant to the Electric Department's financial statements.

NOTE 14 - RISK MANAGEMENT

The Electric Department purchases commercial insurance and participates in the Tennessee Municipal League Risk Management Pool to handle risks arising from workers' compensation, torts, asset theft, damage or destruction, errors or omissions, or acts of God, whereby these risks are transferred to the Pool and/or insurance company. Insurance coverage was virtually the same as in prior years, with no major changes.

Coverage through the Pool will pay all damage claims and defend the Electric Department in any damage suit that is included in the coverage, up to the policy's applicable limits, at the Pool's expense. This includes any other necessary costs relating to the defense. The Electric Department has the responsibility of following any reporting requirements, including timely reporting of any incidents which might result in a damage claim. The Electric Department is to do everything necessary to protect the rights of recovery of the Pool and enforcement of these rights by complying with all terms of the policy.

REQUIRED SUPPLEMENTARY INFORMATION SECTION

CITY OF LAFOLLETTE - BOARD OF PUBLIC UTILITIES - ELECTRIC DEPARTMENT

SCHEDULE OF REQUIRED PENSION CONTRIBUTIONS

A schedule of the Electric Department's required contributions for the NRECA pension plan for each of the ten most recent fiscal years is as follows:

Fiscal Year Ended June 30,	Required Contributions Made	Repayment of Contractual Liability	Total
2007	$ 334,726	$ 81,685	$ 416,411
2008	369,658	81,685	451,343
2009	422,822	81,685	504,507
2010	537,043	81,685	618,728
2011	785,176	81,685	866,861
2012	747,444	81,685	829,129
2013	743,716	81,685	825,401
2014	793,156	81,685	874,841
2015	779,285	81,685	860,970
2016	789,138	81,685	870,823

The increasing trend in required contributions shown above is due to both increases in covered payroll and increases in contribution rates from the NRECA.

CITY OF LAFOLLETTE - BOARD OF PUBLIC UTILITIES - ELECTRIC DEPARTMENT*

SCHEDULE OF FUNDING PROGRESS FOR POST-RETIREMENT PLAN*

Actuarial Valuation Date		Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2014		$ 0	$ 648,450	$ 648,450	0.00%	$ 6,250,374	10.4%
7/1/2012		0	465,847	465,847	0.00%	5,723,471	8.1%
7/1/2010	**	0	838,084	838,084	0.00%	5,069,083	16.5%

*Amounts reported above include the Electric Department and the Water Department since the same plan is used for both departments.

**Actuarial valuations can be done triennially after 2010 as allowed by GASB No. 45.

SUPPLEMENTARY INFORMATION SECTION

CITY OF LAFOLLETTE - BOARD OF PUBLIC UTILITIES - ELECTRIC DEPARTMENT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE

For the Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	CFDA Number	Contract Number	Expenditures
Federal Awards:			
Federal Emergency Management Agency:			
Pass-Through Program From:			
Tennessee Emergency Management Agency	97.036	FEMA-4211-DR-TN	$ 36,275
			$ 36,275

CITY OF LAFOLLETTE - BOARD OF PUBLIC UTILITIES - ELECTRIC DEPARTMENT

NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE

For the Year Ended June 30, 2016

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards and state financial assistance summarizes the expenditures of the City of LaFollette - Board of Public Utilities - Electric Department under programs of federal and state governments for the year ended June 30, 2016. The schedule is presented using the modified accrual basis of accounting.

OTHER INFORMATION SECTION

CITY OF LAFOLLETTE - BOARD OF PUBLIC UTILITIES - ELECTRIC DEPARTMENT

SCHEDULE OF DEBT SERVICE REQUIREMENTS

For the Year Ended June 30, 2016

	Series 2004 Loan Payable to PBA - Clarksville Based on Rate as of 6/30/16 of 1.21%		Series 2006 Loan Payable to PBA - Montgomery County Based on Rate as of 6/30/16 of 1.21%		Series 2008 Loan Payable to PBA - Clarksville Based on Rate as of 6/30/16 of 1.23%		Series 2014A General Obligation Bonds 2.00% to 4.00%		Series 2015A General Obligation Refunding Bonds 2.00%		Series 2015B General Obligation Refunding Bonds 2.00% to 2.75%		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2017	$ 438,883	$ 47,476	$ 405,000	$ 86,631	$ 76,839	$ 16,441	$ 1,230,000	$ 195,250	$ 380,000	$ 112,200	$ 250,000	$ 86,876	$ 2,780,722	$ 544,874
2018	449,129	47,360	426,000	91,210	79,453	17,295	1,230,000	170,650	380,000	104,600	255,000	81,876	2,819,582	512,991
2019	460,229	41,926	447,000	86,055	82,066	16,318	1,255,000	146,050	380,000	97,000	260,000	76,776	2,884,295	464,125
2020	471,330	36,357	469,000	80,647	85,202	15,308	215,000	120,950	1,490,000	89,400	265,000	71,576	2,995,532	414,238
2021	482,430	30,654	493,000	74,972	88,339	14,260	220,000	116,650	1,490,000	59,600	270,000	66,276	3,043,769	362,412
2022	494,384	24,817	517,000	69,006	91,475	13,174	225,000	112,250	1,490,000	29,800	275,000	60,876	3,092,859	309,923
2023	506,338	18,835	543,000	62,751	94,611	12,049	225,000	107,750	0	0	280,000	55,376	1,648,949	256,761
2024	519,146	12,708	570,000	56,180	97,748	10,885	235,000	103,250	0	0	285,000	49,776	1,706,894	232,799
2025	531,101	6,426	599,000	49,283	101,407	9,683	240,000	97,963	0	0	290,000	44,076	1,761,508	207,431
2026	0	0	629,000	42,035	104,543	8,435	245,000	91,963	0	0	295,000	38,276	1,273,543	180,709
2027	0	0	660,000	34,425	108,202	7,149	250,000	85,838	0	0	300,000	32,081	1,318,202	159,493
2028	0	0	693,000	26,439	112,384	5,819	260,000	78,963	0	0	310,000	24,956	1,375,384	136,177
2029	0	0	728,000	18,053	116,043	4,436	265,000	71,813	0	0	315,000	17,206	1,424,043	111,508
2030	0	0	764,000	9,244	120,224	3,009	275,000	63,863	0	0	325,000	8,938	1,484,224	85,054
2031	0	0	0	0	124,405	1,530	280,000	54,925	0	0	0	0	404,405	56,455
2032	0	0	0	0	0	0	290,000	45,825	0	0	0	0	290,000	45,825
2033	0	0	0	0	0	0	300,000	35,675	0	0	0	0	300,000	35,675
2034	0	0	0	0	0	0	310,000	24,425	0	0	0	0	310,000	24,425
2035	0	0	0	0	0	0	320,000	12,800	0	0	0	0	320,000	12,800
	$ 4,352,970	$ 266,559	$ 7,943,000	$ 786,931	$ 1,482,941	$ 155,791	$ 7,870,000	$ 1,736,853	$ 5,610,000	$ 492,600	$ 3,975,000	$ 714,941	$ 31,233,911	$ 4,153,675

CITY OF LAFOLLETTE - BOARD OF PUBLIC UTILITIES - ELECTRIC DEPARTMENT

SCHEDULES OF RATE STRUCTURE AND CUSTOMERS

June 30, 2016

Residential - Schedule RS		
Customer Charge	$	16.35
Energy Charge Per kWh		0.10045
General Power - Schedule GSA		
Part 1		
Customer Charge		26.88
Energy Charge Per kWh		0.11819
Part 2		
Customer Charge		101.46
Demand Charges:		
First 50 kW		0.00
Excess Over 50 kW		15.72
Energy Charges:		
First 15,000 kWh		0.11858
Additional kWh		0.06589
Part 3		
Customer Charge		355.12
Demand Charges:		
First 1,000 kW		15.82
Next 1,500 kW		20.40
Excess of Higher of 2,500 kW or Contract Demand		40.80
Energy Charge Per kWh		0.06589
Outdoor Lighting - Schedule LS		
Customer Charge		26.88
Energy Charge Per kWh		0.07219
General Power - Schedule GSB		
Customer Charge		1,500.00
Demand Charges:		
Onpeak		10.12
Maximum		4.92
Excess Over Contract		10.12
Energy Charge		
Onpeak		0.08946
Offpeak First 200 hours		0.06622
Offpeak Next 200 hours		0.02306
Offpeak Additional kWh		0.01989

CITY OF LAFOLLETTE - BOARD OF PUBLIC UTILITIES - ELECTRIC DEPARTMENT

SCHEDULES OF RATE STRUCTURE AND CUSTOMERS (Continued)

June 30, 2016

General Power - Schedule GSC		
Customer Charge	$	1,500.00
Demand Charges:		
Onpeak		10.12
Maximum		4.31
Excess Over Contract		10.12
Energy Charge		
Onpeak		0.08946
Offpeak First 200 hours		0.06622
Offpeak Next 200 hours		0.02306
Offpeak Additional kWh		0.01989
General Power - Schedule GSD		
Customer Charge		1,500.00
Demand Charges:		
Onpeak		10.12
Maximum		4.30
Excess Over Contract		10.12
Energy Charge		
Onpeak		0.08946
Offpeak First 200 hours		0.06622
Offpeak Next 200 hours		0.02200
Offpeak Additional kWh		0.01989

Customers - As of June 30, 2016 the total number of customers was 21,990.

CITY OF LAFOLLETTE - BOARD OF PUBLIC UTILITIES - ELECTRIC DEPARTMENT

SCHEDULES OF RATE STRUCTURE AND CUSTOMERS

June 30, 2015

Residential - Schedule RS		
Customer Charge	$	14.43
Energy Charge Per kWh		0.10145
General Power - Schedule GSA		
Part 1		
Customer Charge		26.49
Energy Charge Per kWh		0.11729
Part 2		
Customer Charge		100.00
Demand Charges:		
First 50 kW		0
Excess Over 50 kW		15.17
Energy Charges:		
First 15,000 kWh		0.11757
Additional kWh		0.06681
Part 3		
Customer Charge		350.00
Demand Charges:		
First 1,000 kW		15.24
Next 1,500 kW		19.61
Excess of Higher of 2,500 kW or Contract Demand		39.22
Energy Charge Per kWh		0.06681
Outdoor Lighting - Schedule LS		
Customer Charge		26.49
Energy Charge Per kWh		0.07310
General Power - Schedule GSB		
Customer Charge		1,500.00
Demand Charges:		
On-peak - Per kW		17.24
Excess Off-peak - Per kW		4.14
In Excess of Contract Demand - Per kW		17.24
Energy Charges:		
On-peak - Per kWh		0.09815
Off-peak First 425 hours - Per kWh		0.06163
Off-peak Next 195 hours - Per kWh		0.04198
Off-peak Additional kWh		0.02529

CITY OF LAFOLLETTE - BOARD OF PUBLIC UTILITIES - ELECTRIC DEPARTMENT

SCHEDULES OF RATE STRUCTURE AND CUSTOMERS (Continued)

June 30, 2015

General Power - Schedule GSC		
Customer Charge	$	1,500.00
Demand Charges:		
On-peak - Per kW		16.63
Excess Off-peak - Per kW		3.53
In Excess of Contract Demand - Per kW		16.63
Energy Charges:		
On-peak - Per kWh		0.09436
Off-peak First 425 hours - Per kWh		0.05888
Off-peak Next 195 hours - Per kWh		0.03921
Off-peak Additional kWh		0.02253
General Power - Schedule GSD		
Customer Charge		1,500.00
Demand Charges:		
On-peak - Per kW		16.62
Excess Off-peak - Per kW		3.52
In Excess of Contract Demand - Per kW		16.62
Energy Charge Per kWh		
On-peak - Per kWh		0.09275
Off-peak First 425 hours - Per kWh		0.05617
Off-peak Next 195 hours - Per kWh		0.03650
Off-peak Additional kWh		0.01982

Customers - As of June 30, 2015 the total number of customers was 21,922.

COMPLIANCE SECTION

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KNOXVILLE, TENNESSEE 37923
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Commissioners and Senior Management
City of LaFollette - Board of Public Utilities -
Electric Department
LaFollette, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the City of LaFollette - Board of Public Utilities - Electric Department, an enterprise fund of the City of LaFollette, Tennessee, which comprise the balance sheets as of June 30, 2016 and 2015, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended and the related notes to the financial statements, and have issued our report thereon dated October 26, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of LaFollette - Board of Public Utilities - Electric Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses referenced as item 2016-001.

The Electric Department's Response to Findings

The Electric Department's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. The Electric Department's response was not subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Pugh & Company, P.C.
Certified Public Accountants
Knoxville, Tennessee
October 26, 2016

CITY OF LAFOLLETTE - BOARD OF PUBLIC UTILITIES-
ELECTRIC DEPARTMENT

SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended June 30, 2016

2016–001 Retention of Portion of Contract Price in Escrow

Criteria or Specific Requirement - The Electric Department is required to comply with TCA 66-34-104 – Retention of Portion of Contract Price in Escrow.

Condition - The Electric Department is in violation of TCA 66-34-104. The code states that whenever, in any contract for the improvement of real property, a certain amount or percentage of the contract price is retained, that retained amount shall be deposited in a separate, interest bearing, escrow account with a third party. This section is applicable to contract amounts greater than $500,000.

Cause and Effect - Management was unaware of the requirement; therefore separate and distinguishable escrow accounts have not been established for individual contracts.

Recommendation - The Electric Department should comply with TCA 66-34-104 as applicable to all real property contracts greater than $500,000 by establishing separate, interest bearing escrow accounts with third parties.

Management's Response - Management concurs with the facts of the finding and will implement procedures to establish appropriate escrow accounts for future applicable contracts.

CITY OF LAFOLLETTE - BOARD OF PUBLIC UTILITIES-ELECTRIC DEPARTMENT

SCHEDULE OF PRIOR YEAR FINDINGS

For the Year Ended June 30, 2016

There were no prior findings reported.