

**NEW ISSUE**

**BOOK-ENTRY-ONLY**

Rating: S&P – “A+”

(See “MISCELLANEOUS-Rating” herein)

*In the opinion of Bond Counsel, based on existing law and assuming compliance with certain tax covenants of the City, as hereafter defined, 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. 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.)*

**\$13,465,000**

**CITY OF LAFOLLETTE, TENNESSEE  
General Obligation Bonds, Series 2019**

Dated: November 25, 2019

Due: March 1, as shown below.

The \$13,465,000 General Obligation Bonds, Series 2019 (the “Bonds”) issued by the City of LaFollette (the “City”) are issuable in fully registered form in denominations of \$5,000 and authorized integral multiples thereof. The Bonds will be issued in book-entry-only form and registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository of the Bonds. So long as Cede & Co. is the registered owner of the Bonds, as the nominee for DTC, principal and interest with respect to the Bonds shall be payable to Cede & Co., as nominee for DTC, which will, in turn, remit such principal and interest to the DTC participants for subsequent disbursements to the beneficial owners of the Bonds. Individual purchases of the Bonds will be made in book-entry-only form, in denominations of \$5,000 or integral multiples thereof and will bear interest at the annual rates as shown below. Interest on the Bonds is payable semi-annually from the date thereof commencing on March 1, 2020 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-only system, principal of and interest on the Bonds are payable at the designated corporate trust office of the Registration Agent.

The Bonds are payable from unlimited *ad valorem* taxes to be levied on all taxable property within the corporate limits of the City. For the prompt payment of principal of and interest on the Bonds, the full faith and credit of the City are irrevocably pledged. A portion of the Bonds shall be additionally payable from but not secured by a pledge of the revenues to be derived from the operation of the City’s electric system and a portion of the Bonds shall be additionally payable from but not secured by a pledge of the revenues to be derived from the operation of the City’s water and sewer system. See section entitled “SECURITIES OFFERED – Security”. See section entitled “SECURITIES OFFERED – Security”.

The Bonds maturing March 1, 2029 and thereafter are subject to optional redemption prior to maturity on or after March 1, 2028.

<u>Due</u> <u>(March 1)</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP**</u>	<u>Due</u> <u>(March 1)</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP**</u>
2020	\$ 1,250,000	5.00 %	1.23 %	503030PC6	2028	\$ 1,045,000	5.00 %	1.70 %	503030PL6
2021	1,000,000	5.00	1.27	503030PD4	2029	1,075,000	5.00	1.78 c	503030PM4
2022	1,000,000	5.00	1.30	503030PE2	2030	1,060,000	3.00	2.05 c	503030PN2
2023	1,335,000	5.00	1.34	503030PF9	2031	415,000	3.00	2.20 c	503030PP7
2024	1,345,000	5.00	1.38	503030PG7	2032	200,000	2.25	2.40	503030PQ5
2025	1,355,000	5.00	1.43	503030PH5	2033	200,000	2.375	2.45	503030PR3
2026	975,000	5.00	1.51	503030PJ1	2034	200,000	2.50	2.55	503030PS1
2027	1,010,000	5.00	1.59	503030PK8					

c = Yield to call on March 1, 2028

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, subject to the approval of the legality thereof by Bass, Berry & Sims PLC, Knoxville, Tennessee, Bond Counsel, whose opinion will be delivered with the Bonds. Certain legal matters will be passed upon for the City by Troutman & Troutman, P.C., counsel to the City. It is expected that the Bonds will be available for delivery through the facilities of Depository Trust Company in New York, New York, on or about November 25, 2019.

**Cumberland Securities Company, Inc.**  
Municipal Advisor

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

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

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

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

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

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

\*\* These CUSIP numbers have been assigned by S&P CUSIP Service Bureau, a division of the McCraw-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	<i>Mayor</i>
Terry Sweat	<i>Finance Director</i>
James Jeffries	<i>City Administrator</i>
Stan Foust	<i>City Clerk</i>
Reid Troutman	<i>City Attorney</i>
Walter M. (Kenny) Baird, Jr.	<i>Utilities General Manager</i>

**COUNCIL MEMBERS**

Lonnie Wilson, Vice Mayor  
Bill Archer  
Mark Hoskins  
Ann Thompson

**UNDERWRITER**

FHN Financial Capital Markets  
Memphis, Tennessee

**BOND REGISTRATION AND PAYING AGENT**

Regions Bank  
Nashville, Tennessee

**BOND COUNSEL**

Bass, Berry & Sims PLC  
Knoxville, Tennessee

**MUNICIPAL ADVISOR**

Cumberland Securities Company, Inc.





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**APPENDIX C-1: GENERAL PURPOSE FINANCIAL STATEMENTS – THE CITY OF LAFOLLETTE, TENNESSEE**

**APPENDIX C-2: GENERAL PURPOSE FINANCIAL STATEMENTS – THE CITY OF LAFOLLETTE, TENNESSEE – BOARD OF PUBLIC UTILITIES – ELECTRIC DEPARTMENT**

**APPENDIX C-3: GENERAL PURPOSE FINANCIAL STATEMENTS – THE CITY OF LAFOLLETTE, TENNESSEE – BOARD OF PUBLIC UTILITIES – WATER DEPARTMENT**

## SUMMARY STATEMENT

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

The Issuer .....	City of LaFollette, Tennessee (the “City” or “Issuer”). See APPENDIX B contained herein.
Securities Offered.....	\$13,465,000 General Obligation Bonds, Series 2019 (the “Bonds”) of the City, dated November 25, 2019. The Bonds mature each March 1 beginning March 1, 2020 through March 1, 2034, inclusive. See the section entitled “SECURITIES OFFERED” herein for additional information.
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 hereby irrevocably pledged. A portion of the Bonds shall be additionally payable from but not secured by a pledge of the revenues to be derived from the operation of the City’s electric system (the “Electric System”). A portion of the Bonds shall be additionally payable from but not secured by a pledge of the revenues to be derived from the operation of the City’s water and sewer system (the “W&S System”).
Purpose .....	The Bonds are being issued for the purpose of providing funds for (i) refinancing the Outstanding Debt, as described herein; (ii) the acquisition of land and the construction, renovation, extension and equipping of site improvements, facilities and equipment for the Electric System; (iii) the acquisition of all property, real and personal, appurtenant to the foregoing (collectively, the “Projects”); and (iv) the payment of legal, fiscal, administrative costs incident to the indebtedness described herein.
Optional Redemption .....	The Bonds maturing May 1, 2029 and thereafter are subject to optional redemption prior to maturity on or after March 1, 2028. See the section entitled “SECURITIES OFFERED – Optional Redemption”.
Tax Matters.....	In the opinion of Bond Counsel, based on existing law and assuming compliance with certain tax covenants of the City, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. 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 Matter *Preliminary, subject to change.
Rating.....	S&P: “A+”. See the section entitled “MISCELLANEOUS - Rating” for more information.
Municipal Advisor.....	Cumberland Securities Company, Inc., See the section entitled “MISCELLANEOUS-Municipal Advisor; Related parties; Other” herein.
Underwriter.....	FHN Financial Capital Markets, Memphis, Tennessee.
Bond Counsel .....	Bass, Berry & Sims PLC, Knoxville, Tennessee.

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

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

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

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

Other Information.....The information in this *Official Statement* is deemed “final” within the meaning of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 as of the date which appears on the cover hereof. For more information concerning the City or this *Official Statement*, contact Kenny Baird, General Manager, 302 North Tennessee Avenue, LaFollette, Tennessee 37766, Telephone: (423) 562-3316; or the City's Municipal Advisor, Cumberland Securities Company, Inc., Telephone: (865) 988-2663.

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**GENERAL FUND BALANCES**  
**Summary of Changes In Fund Balances (In Thousands)**  
**For the Fiscal Year Ended June 30**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
.....					
Beginning Fund Balance	\$4,734,537	\$3,714,571	\$3,928,663	\$3,925,127	\$5,709,842
Revenues	5,636,509	6,324,231	6,321,408	6,186,368	6,291,617
Expenditures	7,218,629	6,887,542	7,484,111	7,097,033	9,270,953
Other Financing Sources:					
Transfers In	-	11,000	-	-	-
Transfers Out	(494,171)	(338,747)	(38,256)	(42,295)	(46,969)
Bond/Note Proceeds	-	-	-	1,500,000	-
Transfers In Lieu of	1,056,325	1,105,150	1,182,650	1,237,675	1,250,850
Adjustments	-	-	14,773	-	-
<b>Ending Fund Balance</b>	<b><u>\$3,714,571</u></b>	<b><u>\$3,928,663</u></b>	<b><u>\$3,925,127</u></b>	<b><u>\$5,709,842</u></b>	<b><u>\$3,934,387</u></b>

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

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**\$13,465,000**  
**CITY OF LAFOLLETTE, TENNESSEE**  
**General Obligation Bonds, Series 2019**

**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 City of LaFollette, Tennessee (the “City”) of \$13,465,000 General Obligation Bonds, Series 2019 (the “Bonds”).

The Bonds are authorized to be issued pursuant to the provisions of Sections 9-21-101 *et. seq.*, *Tennessee Code Annotated*, and other applicable provisions of law and pursuant to a resolution duly adopted by the City Council on October 1, 2019 (the “Resolutions”).

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

**REFUNDING PLAN**

The City is proposing to issue the Bonds to refinance the City’s outstanding: (i) Loan Agreement, Series 2003, dated December 29, 2003 (the “2003 Loan”), (ii) Loan Agreement, Series 2004, dated May 24, 2005 (the “2004 Loan”), (iii) Loan Agreement, Series 2006, dated March 3, 2008 (the “2006 Loan”) and (iv) Loan Agreement, Series 2008, dated October 31, 2008 (the “2008 Loan”) (collectively, the “Outstanding Debt”) to fixed interest rate versus a variable interest rate. The Outstanding Debt will be called for redemption within 90 days of the closing.

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

**DESCRIPTION OF THE BONDS**

The Bonds will be dated and bear interest from November 25, 2019. Interest on the Bonds will be payable semi-annually on March 1 and September 1, commencing March 1, 2020. The Bonds are issuable in book-entry-only form in \$5,000 denominations or integral multiples thereof as shall be requested by each respective registered owner.

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

## **SECURITY**

The Bonds 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 hereby irrevocably pledged. A portion of the Bonds, so determined by the City, shall be additionally payable from but not secured by the revenues to be derived from the operation of the City's Electric System. A portion of the Bonds, so determined by the City, shall be additionally payable from but not secured by the revenues to be derived from the operation of the City's water and sewer system (the "W&S System").

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 taxes may be reduced to the extent of direct appropriations from the General Fund of the City or from the revenue of the Electric System or W&S System available for the payment of debt service on the Bonds.

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

## **OPTIONAL REDEMPTION OF THE BONDS**

The Bonds maturing March 1, 2029 and thereafter are subject to optional redemption prior to maturity on or after March 1, 2028 at a redemption price of par plus accrued interest.

If less than all the Bonds shall be called for redemption, the maturities to be redeemed shall be designated by the City Council, 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, whether optional or mandatory, 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 affect the redemption with the Registration Agent no later than the redemption date (“Conditional Redemption”). As long as DTC, or a successor Depository, is the registered owner of the Bonds, all redemption notices shall be mailed by the Registration Agent to DTC, or such successor Depository, as the registered owner of the Bonds, as and when above provided, and neither the 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.

## **PAYMENT OF BONDS**

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

## 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 follows.

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

### BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

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

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

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

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

Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

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

None of the Issuer, the Bond Counsel, the Registration Agent, the Municipal 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-only system has been obtained from sources that the City believes to be reliable, but the City, the Bond Counsel, the Registration Agent and the Municipal Advisor do not take any responsibility for the accuracy thereof. So long as Cede & Co. is the registered owner of the Bonds as nominee of DTC, references herein to the holders or registered owners of the Bonds will mean Cede & Co. and will not mean the Beneficial Owners of the Bonds. None of the City, the Bond Counsel, the Registration Agent or the Municipal Advisor will have any responsibility or obligation to the Participants, DTC or the persons for whom they act with

respect to (i) the accuracy of any records maintained by DTC or by any Direct or Indirect Participant of DTC, (ii) payments or the providing of notice to Direct Participants, the Indirect Participants or the Beneficial Owners or (iii) any other action taken by DTC or its partnership nominee as owner of the Bonds.

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

## **DISPOSITION OF BOND PROCEEDS**

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

- (a) a portion of the proceeds from the sale of the Bonds, together with such other City funds as may be identified by the Mayor and, if applicable, investment earnings on the foregoing, shall be applied to the refunding of the Outstanding Debt by paying such funds directly to the holders (or paying agents or trustees for the holders) of the Outstanding Debt; and
- (b) the balance of 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 a special fund known as the 2019 Construction Fund (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 of the Bonds, 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. Notwithstanding the foregoing, costs of issuance of the Bonds may be withheld from the good faith deposit or purchase price of the Bonds and paid to the Municipal Advisor to be used to pay costs of issuance of the Bonds. The remaining funds in the Construction Fund shall be disbursed solely to pay the costs of the Projects and to reimburse the City for any funds previously expended for costs of the Projects. Money in the Construction Fund shall be invested in such investments as shall be permitted by applicable law.

## **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 of 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.

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 deposited as aforesaid.

Except as otherwise described below, neither Defeasance Obligations nor moneys deposited with the Registration Agent pursuant to this Section nor principal or interest payments on any such Defeasance Obligations shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal and interest on said Bonds; provided that any cash received from such principal or interest payments on such Defeasance Obligations deposited with the Registration Agent, (A) to the extent such cash will not be required at any time for such purpose, shall be paid over to the 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 described above, 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 obligations of any agency or instrumentally of the United States of America, which obligations shall not be subject to redemption prior to their maturity other than at the option of the registered owner thereof.

## **REMEDIES OF BONDHOLDERS**

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

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

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

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## LEGAL MATTERS

### LITIGATION

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

### 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"), and
- is not a preference item for a bondholder under the federal 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 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

*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.

## **CLOSING CERTIFICATES**

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

preparation and distribution of certain annual financial information and notification of certain material events, if any.

## **APPROVAL OF LEGAL PROCEEDINGS**

Certain legal matters relating to the authorization and the validity of the Bonds are subject to the approval of Bass, Berry & Sims PLC, 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 rating may not be suspended, lowered or withdrawn entirely by S&P, if circumstances so warrant. Due to the ongoing uncertainty regarding the economy and debt of the United States of America, including, without limitation, the general economic conditions in the country, and other political and economic developments that may affect the financial condition of the United States government, the United States debt limit, and the bond ratings of the United States and its instrumentalities, obligations issued by state and local governments, such as the Bonds, could be subject to a rating downgrade. Additionally, if a significant default or other financial crisis should occur in the affairs of the United States or of any of its agencies or political subdivisions, then such event could also adversely affect the market for, and ratings, liquidity, and market value of outstanding debt obligations, including the Bonds. Any such downward change in or withdrawal of the rating may have an adverse effect on the secondary market price of the Bonds.

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

### **COMPETITIVE PUBLIC SALE**

The Bonds were offered for sale at competitive public bidding on October 31, 2019. Details concerning the public sale were provided to potential bidders and others in the *Preliminary Official Statement* that was dated October 21, 2019.

The successful bidder for the Bonds was an account led by FHN Capital Markets, Memphis, Tennessee (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 \$15,194,524.96 (consisting of the par amount of the Bonds, plus a net original issue premium of \$1,805,792.60 and less an underwriter’s discount of \$76,267.64) or 112.845% of par.

### **MUNICIPAL ADVISOR; RELATED PARTIES; OTHER**

*Municipal Advisor.* Cumberland Securities Company, Inc., has served as Municipal Advisor (the “Municipal 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 Municipal Advisor has not been engaged by the City to compile, create, or interpret any information in the PRELIMINARY OFFICIAL STATEMENT and OFFICIAL STATEMENT relating to the City, including without limitation any of the City’s financial and operating data, whether historical or projected. Any information contained in the PRELIMINARY OFFICIAL STATEMENT and OFFICIAL STATEMENT concerning the City, any of its affiliates or contractors and any outside parties has not been independently verified by the Municipal Advisor, and inclusion of such information is not, and should not be construed as, a representation by the Municipal Advisor as to

its accuracy or completeness or otherwise. The Municipal Advisor is not a public accounting firm and has not been engaged by the City to review or audit any information in the PRELIMINARY OFFICIAL STATEMENT and OFFICIAL STATEMENT in accordance with accounting standards.

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

*Official Statement.* Certain information relative to the location, economy and finances of the Issuer is found in the PRELIMINARY OFFICIAL STATEMENT, in final form and the OFFICIAL STATEMENT, in final form. Except where otherwise indicated, all information contained in this Official Statement has been provided by the Issuer. The information set forth herein has been obtained by the Issuer from sources which are believed to be reliable but is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation of, the Municipal 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. including Dissemination Agent and/or the Bank, then Cumberland Securities Company, Inc. and/or the Bank may be entitled to separate compensation for the performance of such services.

## **ADDITIONAL DEBT**

The 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.

## **DEBT LIMITATIONS**

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

## **DEBT RECORD**

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

## **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 relating to the City by not later than twelve months after the end of each fiscal year commencing with the fiscal year ending June 30, 2019 (the "Annual Report"), and to provide notice of the occurrence of certain significant events not later than ten business days after the occurrence of the events and notice of failure to provide any required financial information of the City. The issuer will provide notice in a timely manner to the MSRB of a failure by the City to provide the annual financial information on or before the date specified in the continuing disclosure agreement. The Annual Report (and audited financial statements if filed separately) and notices described above will be filed by the City with the Municipal Securities Rulemaking Board ("MSRB") at [www.emma.msrb.org](http://www.emma.msrb.org) and with any State Information Depository which may be established in Tennessee (the "SID"). The specific nature of the information to be contained in the Annual Report or the notices of events is summarized below. These covenants have been made in order to assist the Underwriters in complying with Securities Exchange Act Rule 15c2-12(b), as it may be amended from time to time (the "Rule 15c2-12").

*Five-Year History of Filing.* For the past five years there is no general obligation debt (CUSIP 503030) not payable from utility revenue, to be paid by the City, so there were no disclosure filing requirements for City-backed general obligation debt.

For the past five years, the only General Obligation debt (CUSIP 503030) with disclosure filing requirements to be paid by the W&S System consists of the General Obligation Bonds, Series 2014A, dated December 5, 2014. These requirements have been met on time every year since Fiscal Year 2015.

The General Obligation debt (CUSIP 503030) paid by the Electric System did not file its Annual Report with certain required operating statistics on the City's CUSIP of 503030 for Fiscal Year 2013. Instead, the required information was filed on the Electric System's CUSIP of 506837 for Fiscal Year 2013 on time. All debt on the Electric System CUSIP of 506837 was redeemed on March 31, 2015. The disclosure requirements for debt payable by the Electric System (CUSIP 503030) has been met on time every year since Fiscal Year 2015.

*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 accounting principles; 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 ratios 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 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 System of the end of such fiscal year as shown on page B-21;
5. Information about the Bonded Debt Service Requirements – Electric System as of the end of such fiscal year as shown on page B-22;
6. The fund balances, net assets 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 System for the fiscal year as shown on page B-25;
9. Information about the Historical Coverage of Proforma Maximum Annual Debt Service Requirements – Electric System for the fiscal year as shown on page B-26
10. 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;
11. 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
12. The ten largest taxpayers as shown on page B-33.

Any or all of the items above may be incorporated by reference from other documents, including Official Statements in final form for debt issues of the City or related public entities, which

have been submitted to the MSRB or the U.S. Securities and Exchange Commission. If the document incorporated by reference is a final Official Statement, in final form, it will be available from the Municipal Securities Rulemaking Board. The 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;

- n. Appointment of a successor or additional trustee or the change of name of a trustee, if material;
- o. Incurrence of a financial obligation (which includes a debt obligation, or a derivative instrument entered into connection with, or pledged as security or as a source of payment for, an existing or planned debt obligation, or a guarantee of debt obligation or derivative instrument) of the City, if material, or agreement as to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the City, any of which affect security holders, if material; and
- p. Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation (as described above) of the City, any of which reflect financial difficulties.

*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 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 this Official Statement in summaries of documents or laws to describe future events or continuing obligations is not intended as a representation that such event will occur or obligation will be fulfilled but only that the document or law contemplates or requires such event to occur or obligation to be fulfilled.

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

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

The PRELIMINARY OFFICIAL STATEMENT and OFFICIAL STATEMENT, in final form, and any advertisement of the Bonds, is not to be construed as a contract or agreement between the 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.

**CERTIFICATION OF THE CITY**

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/ Mike Stanfield  
Mayor

ATTEST:

/s/ Stan Foust  
City Clerk



**APPENDIX A**

**LEGAL OPINION**



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

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the City of LaFollette, Tennessee (the "Issuer") of the \$13,465,000 General Obligation Bonds, Series 2019 (the "Bonds") dated November 25, 2019. 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. That portion of the Bonds that finances or refinances improvements to the Issuer's electric system (the "Electric System") shall be additionally payable from but not secured by a pledge of the revenues to be derived from the operation of the Electric System. That portion of the Bonds that refinances improvements to the Issuer's water and sewer system (the "Water and Sewer System") shall be additionally payable from but not secured by a pledge of the revenues to be derived from the operation of the Water and Sewer System.

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. 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, 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.

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,

Bass, Berry and Sims, PLC



**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.

## EDUCATION

The *Campbell County Board of Education* operates fifteen schools, including an adult high school in the County. The school system had a fall 2017 enrollment of 5,379 with about 343 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 College of Applied Technology at Jacksboro.* The Tennessee College of Applied Technology at Jacksboro (the “TCAT-J”) is part of a statewide system of 26 vocational-technical schools. The TCAT-J 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 TCAT-J serves the northeast region of the state including Campbell and Union Counties. The TCAT-J began operations in 1967, and the main campus is located in Campbell County. Fall 2017 enrollment was 313 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 2018 enrollment was about 5,870 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) 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. LaFollette Medical Center is owned and operated by Tennova Healthcare. Tennova Healthcare was acquired by one of the largest for-profit

hospital companies in the country, Community Health Systems, Inc. (the “CHS”). CHS is one of the nation's leading operators of general acute care hospitals based in Brentwood, TN. The organization’s affiliates own, operate or lease 127 hospitals in 20 states with approximately 21,000 licensed beds. There are sixteen CHS hospitals in Tennessee.

*Source:* Community Health Systems and 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:

<b><u>Company</u></b>	<b><u>Product</u></b>	<b><u>Employment</u></b>
Campbell County School System*	Administration/teachers/services	434
WalMart	Retail	330
A & S Building Systems	Prefabricated Steel Buildings	300
Campbell County Government	County Government	290
Campos Food	Food Distribution	285
St. Mary’s Hospital (Lafollette)	Medical Center	275
Advance Food	Frozen Food Processor	225
Camel Manufacturing	Canvas	183
Jellico Community Hospital	Medical Center	175
BMT Manufacturing	Trailers	148
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, administrators and staff only

*Source:* Department of Economic Development.

## EMPLOYMENT INFORMATION

For the month of August 2019, the unemployment rate for the County stood at 4.2% with 14,547 persons employed out of a labor force of 15,189.

The Knoxville MSA's unemployment for August 2019 was at 3.2% with 422,592 persons employed out of a labor force of 436,513. As of August 2019, the unemployment rate in the Knoxville-Sevierville-Harriman CSA stood at 3.2%, representing 543,842 persons employed out of a workforce of 561,849.

	Unemployment				
	Annual Average	Annual Average	Annual Average	Annual Average	Annual Average
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
National	6.2%	5.3%	4.9%	4.4%	3.6%
Tennessee	6.6%	5.6%	4.7%	3.8%	3.5%
<b>Campbell County</b>	<b>9.3%</b>	<b>5.8%</b>	<b>4.8%</b>	<b>4.0%</b>	<b>3.8%</b>
Index vs. National	150	109	98	91	106
Index vs. State	141	104	102	105	109
<b>Knoxville MSA</b>	<b>6.1%</b>	<b>5.2%</b>	<b>4.4%</b>	<b>3.6%</b>	<b>3.3%</b>
Index vs. National	98	98	90	82	92
Index vs. State	92	93	94	95	94
<b>Knoxville-Sevierville-Harriman CSA</b>	<b>6.4%</b>	<b>5.5%</b>	<b>4.6%</b>	<b>3.7%</b>	<b>3.4%</b>
Index vs. National	103	104	94	84	94
Index vs. State	97	98	98	97	97

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

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## ECONOMIC DATA

	<b>Per Capita Personal Income</b>				
	<b><u>2013</u></b>	<b><u>2014</u></b>	<b><u>2015</u></b>	<b><u>2016</u></b>	<b><u>2017</u></b>
National	\$44,826	\$47,025	\$48,940	\$49,831	\$51,640
Tennessee	\$39,549	\$40,977	\$42,810	\$43,932	\$45,517
<b>Campbell County</b>	<b>\$29,683</b>	<b>\$29,992</b>	<b>\$31,746</b>	<b>\$32,133</b>	<b>\$33,042</b>
Index vs. National	66	64	65	64	64
Index vs. State	75	73	74	73	73
<b>Knoxville MSA</b>	<b>\$38,267</b>	<b>\$39,816</b>	<b>\$41,611</b>	<b>\$42,547</b>	<b>\$43,903</b>
Index vs. National	85	85	85	85	85
Index vs. State	97	97	97	97	96
<b>Knoxville-Sevierville-Harriman-LaFollette CSA</b>	<b>\$36,786</b>	<b>\$38,233</b>	<b>\$39,953</b>	<b>\$40,847</b>	<b>\$42,102</b>
Index vs. National	82	81	82	82	82
Index vs. State	93	93	93	93	92

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

## Social and Economic Characteristics

	<b><u>National</u></b>	<b><u>Tennessee</u></b>	<b><u>Campbell County</u></b>	<b><u>LaFollette</u></b>
Median Value Owner Occupied Housing	\$184,700	\$146,000	\$92,700	\$59,600
% High School Graduates or Higher Persons 25 Years Old and Older	87.0%	86.0%	75.3%	72.7%
% Persons with Income Below Poverty Level	12.3%	15.0%	19.2%	29.1%
Median Household Income	\$55,322	\$46,574	\$35,377	\$27,819

Source: U.S. Census Bureau State & County QuickFacts - 2017.

## 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. The park has over 500,000 visitors each year.

*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 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 (16,786 acres) 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 trail 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**

*BMT Manufacturing.* In 2018 BMT Manufacturing expanded their operations in Campbell County, investing a total of \$3.7 million and creating 148 new jobs. There are two facilities. One in Jellico and another in Jacksboro. The company located the new operations in an existing building in Jellico and created 100 jobs at the new location, which was operational in early 2019. BMT plans on expanding its current operations in Jacksboro, creating 48 new jobs at the facility. BMT manufactures trailers for short bed, motorcycle, utility and cargo trailers. The company has been in operation since 2016.

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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 22,187 electric, 9,911 water and 3,564 wastewater customers as of June 30, 2018.

## 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, 2018 was 22,187. The System employs 69 equivalent full-time people and maintains 1,671 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, 2019 are as follows:

<u>Member</u>	<u>Term Expires</u>
J.H. Willoughby – Chair	June 30, 2021
James Campbell – Vice-Chair	June 30, 2020
Janice Walker – Sec./Treasurer	June 30, 2022
David Longmire	June 30, 2023
Boyd Henegar	June 30, 2024

*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, civic, and trade organizations, including the Tennessee Valley Public Power Association (TVPPA).

## **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 22,187 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 1,544 pole line miles of overhead conductor and approximately 127 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 and line upgrades were completed throughout the System's service territory in 2018. The System completed relay panel upgrades at the Jacksboro, Speedwell and West LaFollette substations 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 2018. Plans are in development to remodel two empty buildings purchased during the previous fiscal year and use them as new office space for administration, accounting, engineering and information technology.

## **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.

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## 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 2017 (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, 2018:

### **I. Residential Rates – Schedule RS:**

<i>Customer Charge:</i>	\$20.13 per month
<i>Energy Charge:</i>	\$0.10425 per kWh

### **II. General Power Rates – Schedule GSA**

#### **Part 1**

<i>Customer Charge:</i>	\$27.65 per month
<i>Energy Charge:</i>	\$0.12561 per kWh

#### **Part 2**

<i>Customer Charge:</i>	\$104.39 per delivery point per month
<i>Demand Charge:</i>	First 50 kW - No Charge Over 50 kW - \$16.72 per kW
<i>Energy Charge:</i>	First 15,000 kWh – \$0.12620 per kWh Additional kWh – \$0.06987 per kWh

#### **Part 3**

<i>Customer Charge:</i>	\$365.36 per delivery point per month
<i>Demand Charge:</i>	First 1,000 kW - \$16.87 per kW Next 1,500 kW - \$21.80 per kW Excess over 2,500 kW - \$43.60 per kW
<i>Energy Charge:</i>	\$0.06987 per kWh

#### **Schedule GSB**

<i>Customer Charge:</i>	\$1,500.00 per delivery point per month
<i>Demand Charge:</i>	On-Peak - \$10.61 per kW

*Energy Charge:* Maximum - \$5.09 per kW  
 In Excess of Contract Demand - \$10.61 per kW  
 On-Peak – \$0.09255 per kWh  
 Off-Peak First 200 hours – \$0.06820 per kWh  
 Off-Peak Next 200 hours - \$0.02296 per kWh  
 Off-Peak Additional kWh – \$0.01962 per kWh

**Schedule GSC**

*Customer Charge:* \$1,500.00 per delivery point per month  
*Demand Charge:* On-Peak - \$10.61 per kW  
 Maximum - \$4.48 per kW  
*Energy Charge:* In Excess of Contract Demand - \$10.61 per kW  
 On-Peak – \$0.09255 per kWh  
 Off-Peak First 200 hours – \$0.06820 per kWh  
 Off-Peak Next 200 hours - \$0.02296 per kWh  
 Off-Peak Additional kWh – \$0.01962 per kWh

**Schedule GSD**

*Customer Charge:* \$1,500.00 per delivery point per month  
*Demand Charge:* On-Peak - \$10.61 per kW  
 Maximum - \$4.47 per kW  
*Energy Charge:* In Excess of Contract Demand - \$10.61 per kW  
 On-Peak – \$0.09255 per kWh  
 Off-Peak First 200 hours – \$0.06820 per kWh  
 Off-Peak Next 200 hours - \$0.02184 per kWh  
 Off-Peak Additional kWh – \$0.01962 per kWh

**Schedule TDGSA**

*Customer Charge:* \$1,500.00 per delivery point per month  
*Demand Charge:* On-Peak - \$10.66 per kW  
 Maximum - \$5.09 per kW  
*Energy Charge:* In Excess of Contract Demand - \$10.66 per kW  
 On-Peak – \$0.09584 per kWh  
 Off-Peak First 200 hours – \$0.06322 per kWh  
 Off-Peak Next 200 hours - \$0.02185 per kWh  
 Off-Peak Additional kWh – \$0.01890 per kWh

**III. OUTDOOR LIGHTING RATES – SCHEDULE LS:**

*Customer Charge:* \$27.65 per delivery point per month  
*Energy Charge:* 0.07647 per kWh per month

Source: Audited Financial Statements, LaFollette Utilities Board

## 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

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Residential	18,909	18,975	19,022	19,098	19,157
General Power – 50kW	2,602	2,622	2,643	2,668	2,694
General Power – Over 50kW	197	191	195	200	197
Street and Athletic	<u>134</u>	<u>134</u>	<u>130</u>	<u>140</u>	<u>139</u>
<b>Total</b>	<b><u>21,842</u></b>	<b><u>21,922</u></b>	<b><u>21,990</u></b>	<b><u>22,106</u></b>	<b><u>22,187</u></b>

*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.

<u>Year</u>	<u>Population</u>	<u>Number of Meters</u>	<u>Peak System Demand (kW)</u>	<u>Sales kWh</u>
2014	39,918	21,842	129,253	408,908,058
2015	39,752	21,922	123,986	403,878,251
2016	39,714	21,990	109,789	381,659,152
2017	39,648	22,106	103,145	393,049,866
2018	39,648	22,187	120,299	400,265,422

*Source:* System Officials

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## OPERATING STATISTICS

For the Fiscal Year Ended June 30,

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
<i>Power Usage – kWh</i>					
Residential	261,954,840	258,817,215	239,130,380	243,931,527	253,535,085
Small Commercial / Industrial (<50 kW)	33,227,668	33,379,828	32,185,635	32,172,660	33,247,636
Large Commercial / Industrial (>50kW)	107,304,667	105,299,619	103,989,581	110,706,447	107,295,125
Street & Athletic	<u>6,420,883</u>	<u>6,381,589</u>	<u>6,353,556</u>	<u>6,239,232</u>	<u>6,187,576</u>
<b>Total Power Usage</b>	<b><u>408,908,058</u></b>	<b><u>403,878,251</u></b>	<b><u>381,659,152</u></b>	<b><u>393,049,866</u></b>	<b><u>400,265,422</u></b>
<i>Purchased Power</i>					
kWh	435,347,627	432,980,912	409,213,408	400,549,485	418,633,185
Total Cost	\$32,948,984	\$33,274,291	\$30,938,833	\$31,342,056	\$33,539,884
Maximum kW Demand	129,253	123,986	109,789	103,145	120,299
Wholesale Power Cost as % of Sales	71%	73%	70%	68%	69%

Source: System Officials

## TEN LARGEST ELECTRIC CUSTOMERS IN 2018

The ten largest customers in the System in order of total sales are listed below. These ten top electric customers represent 11.5% of the total electric sales dollars and 12.4% of the total kWh usage.

Name	Annual Sales (Dollars)	Annual (kWh) Usage	Annual kW Demand
Campos Foods	\$1,593,761	14,428,800	2,448
Kopper Glo Fuels	873,990	7,475,148	1,940
Matix Corporation	666,163	6,256,800	1,070
Wal-Mart Supercenter	475,604	4,752,000	688
Evergreen Packaging	370,607	1,900,800	1,118
BSH Home Appliance	343,567	3,244,800	567
LaFollette Water Plant	320,961	2,671,200	663
Matix Corporation	319,477	3,252,000	453
LaFollette Medical Center	314,466	2,995,200	518
Food City	<u>280,742</u>	<u>2,793,600</u>	418
<b>TOTALS</b>	<b><u>\$5,559,338</u></b>	<b><u>49,770,348</u></b>	

Source: System Officials



**PERSONNEL**

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

2014.....	73
2015.....	72
2016.....	70
2017.....	69
2018.....	69

**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:

2018-2019 .....	\$6,812,000
2019-2020 .....	\$2,000,000
2020-2021 .....	\$2,000,000

**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)	Estimated Outstanding Debt- As of June 30, 2019 (1)
\$ 1,500,000	(6) G.O. Loan Agreement, Series 2010	Oct. 01, 2020	Fixed	337,000
1,500,000	General Obligation Capital Outlay Notes, Series 2017	2029	Fixed	1,232,000
1,060,000	(4) TLDA Loan Agreement, Series 2003	2026	Fixed	365,656
1,000,000	(4) G.O. Loan Agreement, Series 2003 (Water and Sewer System Supported)	May 25, 2023	Variable	260,000 (3)
1,434,000	(4) G.O. Loan Agreement, Series 2004 (Water and Sewer System Supported)	May 25, 2025	Variable	514,271 (3)
6,500,000	(4) TLDA Loan Agreement, Series 2006	2031	Fixed	4,589,500
1,670,500	(4) G.O. Loan Agreement, Series 2008 (Water and Sewer System Supported)	May 25, 2031	Variable	1,136,417 (3)
1,825,000	(4) TLDA Loan Agreement, Series 2012	2052	Fixed	1,649,657
8,538,600	(5) G.O. Loan Agreement, Series 2004 (Electric System Supported)	May 25, 2025	Variable	3,004,729 (3)
10,000,000	(5) G.O. Loan Agreement, Series 2006 (Electric System Supported)	May 25, 2030	Variable	6,665,000 (3)
1,829,000	(5) G.O. Loan Agreement, Series 2008 (Electric System Supported)	May 25, 2031	Variable	1,244,583 (3)
9,700,000	(6) General Obligation Bonds, Series 2014A (100% Revenue Supported)	March 1, 2035	Fixed	4,495,000 (6)
5,990,000	(5) General Obligation Refunding Bonds, Series 2015A (100% Revenue Supported)	March 1, 2022	Fixed	4,470,000
4,225,000	(5) General Obligation Refunding Bonds, Series 2015B (100% Revenue Supported)	March 1, 2030	Fixed	3,210,000
8,360,000	(5) General Obligation Bonds, Series 2017 (100% Revenue Supported)	March 1, 2037	Fixed	8,360,000
<b>\$ 65,132,100</b>	<b>BONDED INDEBTEDNESS</b>			<b>\$ 41,533,813</b>
\$ 15,100,000	(7) General Obligation Bonds, Series 2019 (100% Revenue Supported)	2029	Fixed	13,465,000
(24,472,100)	Less: Refunded Debt			(12,825,000)
(13,989,500)	Less: Water Revenue Supported Debt			(8,669,813)
(38,770,500)	Less: Electric Revenue Supported Debt			(31,935,000)
<b>\$ 3,000,000</b>	<b>NET DIRECT BONDED INDEBTEDNESS</b>			<b>\$ 1,569,000</b>

**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) \$4,155,000 of the Series 2014A Bonds are supported by the City's Electric System and \$380,000 of the Series 2014A Bonds are supported by the City's Water and Sewer System.
- (7) \$11,740,000 of the Series 2019 Bonds are supported by the City's Electric System and \$1,725,000 of the Series 2019 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.

	For the Fiscal Year Ended June 30,				After Issuance
	2015	2016	2017	2018	
<b>INDEBTEDNESS</b>					
<b>TAX SUPPORTED</b>					
General Obligation Bonds, Notes & Leases	\$ 1,189,000	\$ 926,000	\$ 2,155,000	\$ 1,866,000	\$ 1,569,000
<b>TOTAL TAX SUPPORTED</b>	\$ 1,189,000	\$ 926,000	\$ 2,155,000	\$ 1,866,000	\$ 1,569,000
<b>REVENUE SUPPORTED</b>					
Water and Sewer System	\$ 11,736,347	\$ 11,031,799	\$ 10,316,872	\$ 9,591,505	\$ 8,669,813
Electric System	33,942,773	31,233,911	36,813,189	33,993,607	31,935,000
<b>TOTAL REVENUE SUPPORTED</b>	\$ 45,679,120	\$ 42,265,710	\$ 47,130,061	\$ 43,585,112	\$ 40,604,813
<b>TOTAL DEBT</b>	\$ 46,868,120	\$ 43,191,710	\$ 49,285,061	\$ 45,451,112	\$ 42,173,813
Less: Revenue Supported Debt	\$ (45,679,120)	\$ (42,265,710)	\$ (47,130,061)	\$ (43,585,112)	\$ (40,604,813)
Less: Debt Service Funds	\$ (14,773)	\$ -	\$ -	\$ -	\$ -
<b>NET DIRECT DEBT</b>	\$ 1,174,227	\$ 926,000	\$ 2,155,000	\$ 1,866,000	\$ 1,569,000
<b>PROPERTY TAX BASE</b>					
Estimated Actual Value	\$367,431,834	\$377,738,042	\$391,904,009	\$384,528,308	\$409,961,256
Appraised Value	367,431,834	377,738,042	384,379,452	377,145,364	376,221,445
Assessed Value	119,977,215	123,234,008	125,413,374	123,062,581	122,767,056

DEBT RATIOS	For the Fiscal Year Ended June 30,				Unaudited		After Issuance	
	2015	2016	2017	2018	2019	2019	2019	
TOTAL DEBT to Estimated Actual Value	12.76%	11.43%	12.58%	11.82%	10.13%	10.13%	10.29%	
TOTAL DEBT to Appraised Value	12.76%	11.43%	12.82%	12.05%	11.04%	11.04%	11.21%	
TOTAL DEBT to Assessed Value	39.06%	35.05%	39.30%	36.93%	33.83%	33.83%	34.35%	
NET DIRECT DEBT to Estimated Actual Value	0.32%	0.25%	0.55%	0.49%	0.38%	0.38%	0.38%	
NET DIRECT DEBT to Appraised Value	0.32%	0.25%	0.56%	0.49%	0.42%	0.42%	0.42%	
NET DIRECT DEBT to Assessed Value	0.98%	0.75%	1.72%	1.52%	1.28%	1.28%	1.28%	
<b>PER CAPITA RATIOS</b>								
POPULATION (1)	7,053	6,971	6,807	6,807	6,807	6,807	6,807	
PER CAPITA PERSONAL INCOME (2)	\$31,746	\$32,133	\$33,042	\$32,042	\$32,042	\$32,042	\$32,042	
Estimated Actual Value to POPULATION	\$52,096	\$54,187	\$57,574	\$56,490	\$60,226	\$60,226	\$60,226	
Assessed Value to POPULATION	\$17,011	\$17,678	\$18,424	\$18,079	\$18,035	\$18,035	\$18,035	
Total Debt to POPULATION	\$6,645	\$6,196	\$7,240	\$6,677	\$6,102	\$6,102	\$6,196	
Net Direct Debt to POPULATION	\$166	\$133	\$317	\$274	\$230	\$230	\$230	
Total Debt Per Capita as a percent of PER CAPITA PERSONAL INCOME	0.53%	0.41%	0.96%	0.86%	0.72%	0.72%	0.72%	
Net Direct Debt Per Capita as a percent of PER CAPITA PERSONAL INCOME	0.52%	0.41%	0.96%	0.86%	0.72%	0.72%	0.72%	

(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	General Obligation Capital Outlay Notes, Series 2010		General Obligation Capital Outlay Notes, Series 2017		% 2017 Principal Repaid		Total Bonded Debt Service Requirements (1)		% All Principal Repaid
	Principal	Interest	Principal	Interest (2)	Principal	Repaid	Principal	Interest	
2020	\$ 166,000	\$ 7,468	\$ 140,000	\$ 34,619	\$ 174,619	11.36%	\$ 306,000	\$ 42,087	19.50%
2021	171,000	2,514	143,000	30,685	173,685	22.97%	314,000	33,199	39.52%
2022	-	-	147,000	26,667	173,667	34.90%	147,000	26,667	48.88%
2023	-	-	152,000	22,536	174,536	47.24%	152,000	22,536	58.57%
2024	-	-	156,000	18,265	174,265	59.90%	156,000	18,265	68.51%
2025	-	-	160,000	13,881	173,881	72.89%	160,000	13,881	78.71%
2026	-	-	165,000	9,385	174,385	86.28%	165,000	9,385	89.23%
2027	-	-	169,000	4,749	173,749	100.00%	169,000	4,749	100.00%
	<u>\$ 337,000</u>	<u>\$ 9,981</u>	<u>\$ 1,232,000</u>	<u>\$ 160,788</u>	<u>\$ 1,392,788</u>		<u>\$ 1,569,000</u>	<u>\$ 170,770</u>	<u>\$ 1,739,770</u>

**NOTES:**

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

**LAFOLLETTE WATER SYSTEM  
CITY OF LAFOLLETTE, TENNESSEE**  
BONDED DEBT SERVICE REQUIREMENTS - Water and Sewer System

F.Y. Ended 6/30	Estimated Existing Debt - Water and Sewer System (1) As of June 30, 2019		General Obligation Bonds, Series 2019		% 2019 Principal Repaid		Less: Refunded Debt		Total Bonded Debt Service Requirements		% All Principal Repaid
	Principal	Interest	Principal	Interest(2)	Principal	Interest	Principal	Interest	Principal	Interest	
2020	\$ 746,127	\$ 116,293	\$ 862,420	\$ 21,933	\$ 221,933	11.59%	\$ (220,468)	\$ (29,488)	\$ 725,659	\$ 108,739	8.37%
2021	757,319	126,544	883,863	72,250	272,250		(227,231)	(44,958)	730,088	153,837	883,925
2022	768,719	115,138	883,857	62,250	262,250		(234,141)	(38,829)	734,578	138,558	873,136
2023	780,156	103,509	883,665	52,250	252,250	55.94%	(241,051)	(32,516)	739,105	123,243	862,348
2024	726,799	91,789	818,588	42,250	207,250		(178,106)	(26,173)	713,693	107,867	821,560
2025	736,811	81,360	818,171	34,000	194,000		(183,492)	(21,369)	713,319	93,990	807,309
2026	629,737	70,820	700,557	100,000	26,000		(95,457)	(16,631)	634,280	80,189	714,469
2027	604,323	62,561	666,884	100,000	21,000		(98,798)	(14,056)	605,525	69,505	675,030
2028	567,537	54,272	621,809	100,000	16,000		(102,616)	(11,389)	564,921	58,883	623,804
2029	575,312	47,083	622,395	100,000	11,000	88.41%	(105,957)	(8,621)	569,355	49,461	618,816
2030	583,626	39,740	623,366	100,000	6,000		(109,776)	(5,763)	573,850	39,978	613,828
2031	193,692	33,540	227,232	100,000	3,000	100.00%	(113,595)	(2,801)	180,097	33,739	213,836
2032	45,344	29,634	74,978	-	-		-	-	45,344	29,634	74,978
2033	46,490	28,500	74,990	-	-		-	-	46,490	28,500	74,990
2034	47,666	27,338	75,004	-	-		-	-	47,666	27,338	75,004
2035	48,871	26,146	75,017	-	-		-	-	48,871	26,146	75,017
2036	50,107	24,924	75,031	-	-		-	-	50,107	24,924	75,031
2037	51,374	23,672	75,046	-	-		-	-	51,374	23,672	75,046
2038	52,674	22,387	75,061	-	-		-	-	52,674	22,387	75,061
2039	54,006	21,070	75,076	-	-		-	-	54,006	21,070	75,076
2040	55,371	19,720	75,091	-	-		-	-	55,371	19,720	75,091
2041	56,772	18,336	75,108	-	-		-	-	56,772	18,336	75,108
2042	58,207	16,917	75,124	-	-		-	-	58,207	16,917	75,124
2043	59,679	15,462	75,141	-	-		-	-	59,679	15,462	75,141
2044	61,188	13,970	75,158	-	-		-	-	61,188	13,970	75,158
2045	62,736	12,440	75,176	-	-		-	-	62,736	12,440	75,176
2046	64,322	10,871	75,193	-	-		-	-	64,322	10,871	75,193
2047	65,949	9,263	75,212	-	-		-	-	65,949	9,263	75,212
2048	67,617	7,615	75,232	-	-		-	-	67,617	7,615	75,232
2049	69,327	5,924	75,251	-	-		-	-	69,327	5,924	75,251
2050	71,080	4,191	75,271	-	-		-	-	71,080	4,191	75,271
2051	72,877	2,414	75,291	-	-		-	-	72,877	2,414	75,291
2052	23,686	592	24,278	-	-		-	-	23,686	592	24,278
	<u>\$ 8,855,501</u>	<u>\$ 1,284,035</u>	<u>\$ 10,139,536</u>	<u>\$ 1,725,000</u>	<u>\$ 367,933</u>		<u>\$ (1,910,688)</u>	<u>\$ (252,593)</u>	<u>\$ 8,669,813</u>	<u>\$ 1,399,376</u>	<u>\$ 10,069,189</u>

**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 2.69%.
- (2) Average Coupon of 4.47%.

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

F.Y. Ended	Estimated Existing Debt - Electric System (1) As of June 30, 2019			General Obligation Bonds, Series 2019			% 2019 Principal Repaid			Less: Refunded Debt			Debt Service Requirements (1)			% All Principal Repaid		
	Principal	Interest	TOTAL	Principal	Interest(2)	TOTAL	Principal	Interest	TOTAL	Principal	Interest	TOTAL	Principal	Interest	TOTAL	Principal	Interest	TOTAL
2020	\$ 2,995,532	\$ 686,854	\$ 3,682,386	\$ 1,050,000	\$ 145,533	\$ 1,195,533	\$ (1,025,532)	\$ (168,965)	\$ (1,194,497)	\$ 3,020,000	\$ 663,422	\$ 3,683,422	\$ 3,170,000	\$ 971,739	\$ 4,141,739			
2021	3,433,769	742,112	4,175,881	800,000	493,250	1,293,250	(1,063,769)	(263,624)	(1,327,393)	3,170,000	971,739	4,141,739	3,200,000	880,439	4,080,439			
2022	3,502,859	662,109	4,164,968	800,000	453,250	1,253,250	(1,102,859)	(234,921)	(1,337,780)	3,200,000	880,439	4,080,439	2,060,000	788,339	2,848,339			
2023	2,068,949	580,250	2,649,199	1,135,000	413,250	1,548,250	(1,143,949)	(205,161)	(1,349,110)	2,060,000	788,339	2,848,339	2,130,000	708,889	2,838,889			
2024	2,136,894	526,682	2,663,576	1,180,000	356,500	1,536,500	(1,186,894)	(174,293)	(1,361,187)	2,130,000	708,889	2,838,889	2,165,000	630,301	2,795,301			42.52%
2025	2,201,508	475,067	2,676,575	1,195,000	297,500	1,492,500	(1,231,508)	(142,266)	(1,373,774)	2,165,000	630,301	2,795,301	1,865,000	548,851	2,413,851			
2026	1,723,543	421,356	2,144,899	875,000	237,750	1,112,750	(733,543)	(110,254)	(843,797)	1,865,000	548,851	2,413,851	1,920,000	482,656	2,402,656			
2027	1,778,202	379,101	2,157,303	910,000	194,000	1,104,000	(768,202)	(90,444)	(858,646)	1,920,000	482,656	2,402,656	1,985,000	411,656	2,396,656			
2028	1,845,384	332,853	2,178,237	945,000	148,500	1,093,500	(805,384)	(69,696)	(875,080)	1,985,000	411,656	2,396,656	2,040,000	337,756	2,377,756			
2029	1,909,043	284,451	2,193,494	975,000	101,250	1,076,250	(844,043)	(47,945)	(891,988)	2,040,000	337,756	2,377,756	2,055,000	260,663	2,315,663			73.76%
2030	1,979,224	233,312	2,212,536	960,000	52,500	1,012,500	(884,224)	(25,150)	(909,374)	2,055,000	260,663	2,315,663	1,105,000	200,375	1,305,375			
2031	914,405	179,743	1,094,148	315,000	23,700	338,700	(124,405)	(3,068)	(127,473)	1,105,000	200,375	1,305,375	1,015,000	166,525	1,181,525			
2032	815,000	152,275	967,275	200,000	14,250	214,250	-	-	-	1,015,000	166,525	1,181,525	1,040,000	136,125	1,176,125			
2033	840,000	126,375	966,375	200,000	9,750	209,750	-	-	-	1,040,000	136,125	1,176,125	1,065,000	103,925	1,168,925			93.42%
2034	865,000	98,925	963,925	200,000	5,000	205,000	-	-	-	1,065,000	103,925	1,168,925	895,000	70,650	965,650			
2035	895,000	70,650	965,650	-	-	-	-	-	-	895,000	70,650	965,650	595,000	39,163	634,163			
2036	595,000	39,163	634,163	-	-	-	-	-	-	595,000	39,163	634,163	610,000	19,825	629,825			
2037	610,000	19,825	629,825	-	-	-	-	-	-	610,000	19,825	629,825	-	-	-			100.00%
	<b>\$ 31,109,312</b>	<b>\$ 6,011,102</b>	<b>\$ 37,120,414</b>	<b>\$ 11,740,000</b>	<b>\$ 2,945,983</b>	<b>\$ 14,685,983</b>	<b>\$ (10,914,312)</b>	<b>\$ (1,535,787)</b>	<b>\$ (12,450,099)</b>	<b>\$ 31,935,000</b>	<b>\$ 7,421,298</b>	<b>\$ 39,356,298</b>	<b>\$ 31,935,000</b>	<b>\$ 7,421,298</b>	<b>\$ 39,356,298</b>			

**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 Electric Revenue Supported Debt. Variable Rate Debt budgeted at 2.69%.
- (2) Average Coupon of 4.30%.



## 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:

	<b><u>For the Fiscal Year Ended June 30</u></b>				
<b><u>Fund Type</u></b>	<b><u>2014</u></b>	<b><u>2015</u></b>	<b><u>2016</u></b>	<b><u>2017</u></b>	<b><u>2018</u></b>
<i>Government Funds:</i>					
General	\$3,714,571	\$3,943,436	\$3,925,127	\$5,709,842	\$3,934,387
Other Governmental	<u>455,190</u>	<u>456,140</u>	<u>334,583</u>	<u>396,727</u>	<u>497,927</u>
<b>Total</b>	<b><u>\$4,169,761</u></b>	<b><u>\$4,399,576</u></b>	<b><u>\$4,259,710</u></b>	<b><u>\$6,106,569</u></b>	<b><u>\$4,432,314</u></b>
<i>Enterprise Net Assets:</i>					
Electric Department	\$33,129,731	\$33,250,516	\$34,904,944	\$35,710,544	\$37,688,358
Water Department	<u>22,873,446</u>	<u>23,408,788</u>	<u>24,358,591</u>	<u>25,147,365</u>	<u>25,759,281</u>
<b>Total</b>	<b><u>\$56,003,177</u></b>	<b><u>\$56,659,304</u></b>	<b><u>\$59,263,535</u></b>	<b><u>\$60,857,909</u></b>	<b><u>\$63,447,639</u></b>

*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

	<b>For the Fiscal Year Ended June 30</b>				
	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>Revenues:</b>					
Taxes	\$ 3,500,674	\$ 3,717,811	\$ 4,095,251	\$ 4,137,078	\$ 4,117,150
Intergovernmental	821,315	904,547	895,217	935,006	923,967
Charges for Services	437,010	561,716	576,075	634,669	483,816
Grant Revenue and Contributions	448,910	823,516	462,181	148,896	294,347
Rent Income	3,720	7,900	6,500	9,200	-
Miscellaneous	424,880	308,741	286,184	321,519	472,337
<b>Total Revenues</b>	<b>\$ 5,636,509</b>	<b>\$ 6,324,231</b>	<b>\$ 6,321,408</b>	<b>\$ 6,186,368</b>	<b>\$ 6,291,617</b>
<b>Expenditures:</b>					
Administration and Finance	\$ 1,962,814	\$ 1,116,686	\$ 1,169,217	\$ 1,340,228	\$ 1,347,040
Codes Administration	4,014	1,901	3,326	4,380	6,829
Police Protection	1,892,387	1,899,429	1,919,931	2,030,057	2,154,476
Fire Protection	1,130,477	1,713,819	1,328,563	1,463,006	1,676,093
Animal and Infectious Disease Contr	63,045	67,089	71,335	75,435	105,860
Streets and Highways	1,335,440	1,015,860	1,855,904	977,180	2,422,484
Fleet Maintenance	66,995	76,470	79,934	94,790	88,710
Sanitation	166,966	140,251	144,939	156,227	165,169
Engineering	-	25,000	6,500	-	28,438
Solid Waste Management	6,789	7,088	8,742	8,445	9,003
Recreation Center and Library	589,702	823,949	601,276	652,925	923,552
Debt Service	-	-	294,444	294,360	343,299
<b>Total Expenditures</b>	<b>\$ 7,218,629</b>	<b>\$ 6,887,542</b>	<b>\$ 7,484,111</b>	<b>\$ 7,097,033</b>	<b>\$ 9,270,953</b>
Excess of Revenues Over (Under) Expenditures	\$ (1,582,120)	\$ (563,311)	\$ (1,162,703)	\$ (910,665)	\$ (2,979,336)
<b>Other Financing Sources (Uses):</b>					
Transfers In	\$ -	\$ 11,000	\$ -	\$ -	\$ -
Note / Lease / Bond Proceeds	-	-	-	1,500,000	-
Transfers In Lieu of Tax-Electric Dep	1,056,325	1,105,150	1,182,650	1,237,675	1,250,850
Transfers Out	(494,171)	(338,747)	(38,256)	(42,295)	(46,969)
<b>Total</b>	<b>\$ 562,154</b>	<b>\$ 777,403</b>	<b>\$ 1,144,394</b>	<b>\$ 2,695,380</b>	<b>\$ 1,203,881</b>
Excess of Revenues Over (Under) Expenditures & Other Uses	\$ (1,019,966)	\$ 214,092	\$ (18,309)	\$ 1,784,715	\$ (1,775,455)
<b>Fund Balance July 1</b>	<b>\$ 4,734,537</b>	<b>\$ 3,714,571</b>	<b>\$ 3,928,663</b>	<b>\$ 3,925,127</b>	<b>\$ 5,709,842</b>
Prior Period Adjustment	-	-	14,773	-	-
<b>Fund Balance June 30</b>	<b>\$ 3,714,571</b>	<b>\$ 3,928,663</b>	<b>\$ 3,925,127</b>	<b>\$ 5,709,842</b>	<b>\$ 3,934,387</b>

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

	<b>For the Fiscal Year Ended June 30</b>				
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
<b><u>OPERATING REVENUES:</u></b>					
Charges for services	\$ 46,659,910	\$ 46,204,932	\$ 44,628,168	\$ 46,679,274	\$ 48,865,034
Other revenues	1,353,447	1,329,054	1,117,857	1,136,833	1,190,788
<b>TOTAL OPERATING REVENUES</b>	<b>\$ 48,013,357</b>	<b>\$ 47,533,986</b>	<b>\$ 45,746,025</b>	<b>\$ 47,816,107</b>	<b>\$ 50,055,822</b>
<b><u>OPERATING EXPENSES:</u></b>					
Purchased Power/Programming	\$ 35,944,994	\$ 33,274,291	\$ 30,648,064	\$ 32,093,015	\$ 33,539,884
General and Administrative	2,520,950	5,727,929	6,093,082	6,330,953	6,344,404
Maintenance Expenses	1,954,231	2,205,698	1,633,998	2,422,854	2,036,976
Provision for Depreciation	3,150,227	3,379,839	3,343,095	3,465,215	3,534,427
Taxes & Tax Equivalents	572,460	608,497	642,494	654,912	662,492
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 44,142,862</b>	<b>\$ 45,196,254</b>	<b>\$ 42,360,733</b>	<b>\$ 44,966,949</b>	<b>\$ 46,118,183</b>
<b>INCOME FROM OPERATIONS</b>	<b>\$ 3,870,495</b>	<b>\$ 2,337,732</b>	<b>\$ 3,385,292</b>	<b>\$ 2,849,158</b>	<b>\$ 3,937,639</b>
<b><u>OTHER INCOME AND (EXPENSE):</u></b>					
Interest Income	\$ 10,863	\$ 15,388	\$ 28,091	\$ 15,223	\$ 114,866
Interest Expense	(853,579)	(747,315)	(612,580)	(668,836)	(881,959)
Amortization	6,185	-	-	-	-
Miscellaneous	-	(379,870)	36,275	(152,270)	(2,330)
<b>OTHER INCOME (EXPENSE) – NET</b>	<b>\$ (836,531)</b>	<b>\$ (1,111,797)</b>	<b>\$ (548,214)</b>	<b>\$ (805,883)</b>	<b>\$ (769,423)</b>
<b>NET INCOME</b>	<b>\$ 3,033,964</b>	<b>\$ 1,225,935</b>	<b>\$ 2,837,078</b>	<b>\$ 2,043,275</b>	<b>\$ 3,168,216</b>
Capital contributions in aid of construction	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers out - taxes and tax equivalents	(1,056,325)	(1,105,150)	(1,182,650)	(1,237,675)	(1,250,850)
Net Assets					
at beginning of year	\$ 31,152,092	\$ 33,129,731	\$ 33,250,516	\$ 34,904,944	\$ 34,904,944
Adjustments	-	-	-	-	866,048
<b>RETAINED EARNINGS, AT END OF YEAR</b>	<b>\$ 33,129,731</b>	<b>\$ 33,250,516</b>	<b>\$ 34,904,944</b>	<b>\$ 35,710,544</b>	<b>\$ 37,688,358</b>

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

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Net Income	\$ 3,033,964	\$ 1,225,935	\$ 2,837,078	\$ 2,043,275	\$ 3,168,216
Plus:					
Amortization	(6,185)	-	-	-	-
Interest Expense	853,579	747,315	612,580	668,836	881,959
Depreciation and Amortization	<u>3,150,227</u>	<u>3,379,839</u>	<u>3,343,095</u>	<u>3,465,215</u>	<u>3,534,427</u>
Net Revenue Available for Debt Service	\$ 7,031,585	\$ 5,353,089	\$ 6,792,753	\$ 6,177,326	\$ 7,584,602
Annual Debt Service Requirement - Includes Tax Backed Debt	\$ 2,972,807	\$ 2,812,685	\$ 3,268,788	\$ 3,380,891	\$ 3,607,739
Coverage Ratio	2.37 x	1.90 x	2.08 x	1.83 x	2.10 x
<u>Proposed Maximum Annual Debt Service Requirement Including Tax Backed Debt (2021)</u>	\$ 4,141,739	\$ 4,402,264	\$ 4,141,739	\$ 4,402,264	\$ 4,141,739
Coverage Ratio	1.70 x	1.22 x	1.64 x	1.40 x	1.83 x

## **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 1 for the year for which the assessment is made. All assessment of real and personal property are required to be made annually and as of January 1 for the year to which the assessment applies. Not later than May 20 of each year, the assessor of property in each county is required to (a) make an assessment of all property in the county and (b) note upon the

assessor's records the current classification and assessed value of all taxable property within the assessor's jurisdiction.

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

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

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

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

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

### ***Periodic Reappraisal and Equalization***

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

*[balance of page left blank]*

*Assessed Valuations.* According to the Tax Aggregate Report, property in the City reflected a ratio of appraised value to true market value of 0.9177. The following table shows pertinent data for tax year 2018<sup>1</sup>.

<u>Class</u>	<u>Assessed Valuation</u>	<u>Rate</u>	<u>Appraised Value</u>
Public Utilities	\$2,725,804	55%	\$ 6,212,913
Commercial and Industrial	66,710,360	40%	181,732,490
Personal Tangible Property	13,804,767	30%	49,732,423
Residential and Farm	<u>39,526,125</u>	25%	<u>172,283,430</u>
<b>TOTAL</b>	<b><u>\$122,767,056</u></b>		<b><u>\$409,961,256</u></b>

<sup>1</sup> The tax year coincides with the calendar year, therefore, tax year 2018 is actually fiscal year 2018-2019.  
*Source:* 2018 Tax Aggregate Report of Tennessee and the City.

The estimated assessed value of property in the City for the fiscal year ending June 30, 2019 (tax year 2018) is \$122,767,056 compared to \$123,062,581 for the fiscal year ending June 30, 2018 (tax year 2017). The estimated actual value of all taxable property for tax year 2018 is \$409,961,256 compared to \$384,528,308 for tax year 2017.

*Property Tax Rates and Collections.* The following table shows the property tax rates and collections of the City for tax years 2014 through 2018 as well as the aggregate uncollected balances for each fiscal year ending June 30, 2018.

PROPERTY TAX RATES AND COLLECTIONS				Fiscal Yr Collections		Aggregate Uncollected Balance	
Tax Year <sup>2</sup>	Assessed Valuation	Tax Rates	Taxes Levied	Amount	Pct	as of June 30, 2018	
						Amount	Pct
2014	\$119,977,215	\$1.295	\$1,502,721	\$1,315,528	87.5%	\$ 2,776	0.2%
2015	123,234,008	1.295	1,543,341	1,433,242	92.9%	5,303	0.3%
2016	125,413,374	1.295	1,577,153	1,467,418	93.0%	39,217	2.5%
2017	123,062,581	1.295	1,557,538	1,433,020	92.0%	124,518	8.0%
2018	122,767,056	1.295	1,558,983*	<b>IN PROCESS</b>			

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

<sup>2</sup> The tax year coincides with the calendar year, therefore, tax year 2018 is actually fiscal year 2018-2019.

*Ten Largest Taxpayers.* For the fiscal year ending June 30, 2018 (tax year 2017), the ten largest taxpayers in the City are as follows:

	<u>Taxpayer</u>	<u>Business Type</u>	<u>Assessment</u>	<u>Taxes Paid</u>
1.	LaFollette Medical Center	Hospital	\$ 6,299,800	\$ 81,583
2.	Woodson’s Cash Stores	Shopping Centers	3,485,770	45,141
3.	Lowe’s Home Centers, Inc.	Retail	2,339,040	30,291
4.	First National Bank	Financial Institution	1,725,925	22,352
5.	OHI Asset, LLC	Nursing Home	1,659,560	21,491
6.	Ayers Real Estate	Real Estate	1,571,960	20,357
7.	Tracobi, LLC	Real Estate	1,562,975	20,238
8.	CSX Transportation, Inc.	Rail Road	1,199,494	15,533
9.	WVRLOC	Retail	1,191,120	15,425
10.	De Royal	Hospital Supplies	<u>1,313,540</u>	<u>14,650</u>
	<b>TOTAL</b>		<b><u>\$21,167,184</u></b>	<b><u>\$287,061</u></b>

*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.



**GENERAL PURPOSE FINANCIAL STATEMENTS**  
**OF**  
**CITY OF LAFOLLETTE, TENNESSEE**  
**FOR THE FISCAL YEAR ENDED**  
**JUNE 30, 2018**

The General Purpose Financial Statements are extracted from the Financial Statements with Report of Certified Public Accountants of the City of LaFollette for the fiscal year ended June 30, 2018 which is available upon request from the City.



**CITY OF LAFOLLETTE**

**LaFollette, Tennessee**

**FINANCIAL STATEMENTS, SUPPLEMENTAL  
INFORMATION AND OTHER REPORTS**

**For the Year Ended June 30, 2018**



CITY OF LAFOLLETTE

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**INTRODUCTORY SECTION**

CITY OF LAFOLLETTE

ROSTER OF PUBLICLY ELECTED OFFICIALS AND MANAGEMENT OFFICIALS

June 30, 2018

**LaFollette City Council**

Michael Stanfield, Mayor  
Joe Bolinger, Vice Mayor  
Bill Archer, Councilman  
Lonnie Wilson, 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)  
Barbara Wilson, City Treasurer

**Emergency Communications District**

Dan Marsee, Chairperson  
Ann Thompson, Vice Chairperson  
Mark Wells, Secretary/Treasurer  
Mary Stittums, Board Member  
Vinnie Stanfield, Board Member  
Bill Roehl, Police Chief, Board Member  
Charles Eldridge, Fire Chief, Board Member  
Todd Overbay, Director

**Board of Public Utilities**

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

FINANCIAL SECTION

MEMORANDUM FOR THE BOARD OF DIRECTORS

DATE: 10/15/2010

The following information is provided for your information and review. It is intended to provide a summary of the financial performance of the organization for the period ending 9/30/2010. The information is presented in a format consistent with the financial statements of the organization.

The financial statements of the organization for the period ending 9/30/2010 are presented in the attached exhibits. The information is presented in a format consistent with the financial statements of the organization.

The financial statements of the organization for the period ending 9/30/2010 are presented in the attached exhibits. The information is presented in a format consistent with the financial statements of the organization.

The financial statements of the organization for the period ending 9/30/2010 are presented in the attached exhibits. The information is presented in a format consistent with the financial statements of the organization.

FINANCIAL SECTION



PUGH & COMPANY, P.C.  
315 NORTH CEDAR BLUFF ROAD, SUITE 200  
KNOXVILLE, TENNESSEE 37923  
TELEPHONE 865-769-0660  
FAX 865-769-1660  
www.pughcpas.com

## INDEPENDENT AUDITOR'S REPORT

Mayor and City Council  
City of LaFollette  
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 comparison statement for the general fund of the City of LaFollette as of and for the year ended June 30, 2018, 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.

### Opinion

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 as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison statement of the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.



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**TSCPA**  
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Of Certified Public Accountants

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**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 14 and the schedules related to the pension plans and post-retirement plans on pages 62 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, and management's corrective action plan 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 and management's corrective action plan 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 11, 2019 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of LaFollette's internal control over financial reporting and compliance.

*Pugh & Company, P.C.*

Certified Public Accountants  
Knoxville, Tennessee  
January 11, 2019

## CITY OF LAFOLLETTE

### MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the City of LaFollette (the "City"), has provided this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2018.

#### Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$75,249,700.
- The City's total net position increased by \$1,238,643 from the results of its operations. In addition, the City adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* resulting in a restatement (increase) of beginning net position of \$34,712.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$4,432,314 a decrease of \$1,674,255. Approximately 86% of this total amount or \$3,827,983 is reported as unrestricted fund balances.
- At the end of the current fiscal year, unrestricted fund balance for the general fund was \$3,827,886, or approximately 41% of total general fund expenditures.
- The City's total debt decreased by \$3,875,284 during the current fiscal year.

#### 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.

The government-wide financial statements include not only the City of LaFollette itself (the primary government), but also the legally separate component unit the City of LaFollette Emergency Communications District.

**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 61.

**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 benefits on pages 62 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 \$75,249,700 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**  
**Condensed Statement of Net Position**  
**As of June 30, 2018 and 2017**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
<b>Assets</b>						
Current Assets	\$ 5,949,774	\$ 7,664,880	\$ 11,495,757	\$ 10,617,426	\$ 17,445,531	\$ 18,282,306
Restricted Assets	2,355,790	1,958,925	5,141,254	6,850,342	7,497,044	8,809,267
Capital Assets, Net	10,473,655	10,518,880	102,724,222	102,767,348	113,197,877	113,286,228
Total Assets	18,779,219	20,142,685	119,361,233	120,235,116	138,140,452	140,377,801
<b>Deferred Outflows of Resources</b>	656,648	765,969	155,102	246,798	811,750	1,012,767
<b>Total Assets and Deferred Outflows of Resources</b>	\$ 19,435,867	\$ 20,908,654	\$ 119,516,335	\$ 120,481,914	\$ 138,952,202	\$ 141,390,568
<b>Liabilities, Deferred Inflows and Net Position</b>						
<b>Liabilities</b>						
Current Liabilities	\$ 766,568	\$ 787,385	\$ 11,439,689	\$ 11,285,757	\$ 12,206,257	\$ 12,073,142
Long-Term Liabilities	3,051,559	3,807,066	44,611,420	48,338,248	47,662,979	52,145,314
Total Liabilities	3,818,127	4,594,451	56,051,109	59,624,005	59,869,236	64,218,456
<b>Deferred Inflows of Resources</b>	3,815,679	3,195,767	17,587	0	3,833,266	3,195,767
<b>Net Position</b>						
Net Investment in Capital Assets	8,607,655	8,363,880	63,846,259	62,012,189	72,453,914	70,376,069
Restricted	542,923	442,278	0	0	542,923	442,278
Unrestricted (Deficit)	2,651,483	4,312,278	(398,620)	(1,154,280)	2,252,863	3,157,998
Total Net Position	11,802,061	13,118,436	63,447,639	60,857,909	75,249,700	73,976,345
<b>Total Liabilities, Deferred Inflows and Net Position</b>	\$ 19,435,867	\$ 20,908,654	\$ 119,516,335	\$ 120,481,914	\$ 138,952,202	\$ 141,390,568

Net investment in capital assets increased \$2,077,845 or approximately 3.0% in 2018 as principal repayments and purchases of new assets exceeded depreciation expense. A small portion of the City's net position (0.7%) represents resources that are subject to external restrictions on how they may be used. Restricted net position increased \$100,645 in the current fiscal year. Unrestricted net position in the governmental activities decreased \$1,660,795 as expenses exceeded revenues. The deficit in unrestricted net position in the business-type activities decreased from \$1,154,280 to \$398,620.

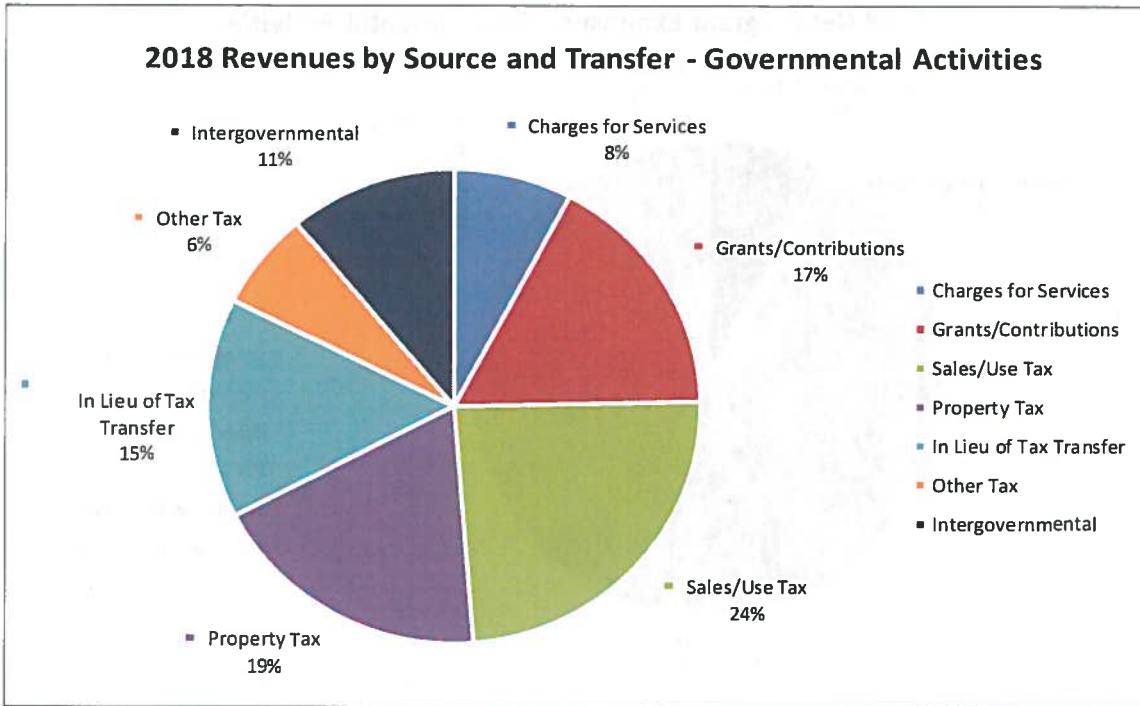
**City of LaFollette**  
**Condensed Statement of Activities**  
**For the Years Ended June 30, 2018 and 2017**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
<b>Revenues:</b>						
<b>Program Revenues:</b>						
Charges for Services	\$ 646,136	\$ 653,951	\$ 56,770,781	\$ 54,363,049	\$ 57,416,917	\$ 55,017,000
Operating Grants and Contributions	295,778	267,230	0	0	295,778	267,230
Capital Grants and Contributions	1,119,205	171,104	0	(152,270)	1,119,205	(152,270)
<b>General Revenues:</b>						
Property Taxes	1,556,388	1,635,804	0	0	1,556,388	1,635,804
Other Taxes	2,560,762	2,501,275	0	0	2,560,762	2,501,275
Intergovernmental Revenues	923,967	935,007	0	0	923,967	935,007
Interest	28,584	15,143	122,037	17,841	150,621	32,984
Miscellaneous Other Revenues	280,347	315,142	0	0	280,347	315,142
<b>Total Revenues</b>	<u>7,411,167</u>	<u>6,494,656</u>	<u>56,892,818</u>	<u>54,228,620</u>	<u>64,303,985</u>	<u>60,552,172</u>
<b>Program Expenses:</b>						
Administration and Finance	1,403,955	1,509,070	0	0	1,403,955	1,509,070
Codes Administration	6,829	4,913	0	0	6,829	4,913
Police Protection	2,146,492	1,904,459	0	0	2,146,492	1,904,459
Fire Protection	1,506,894	1,443,957	0	0	1,506,894	1,443,957
Animal and Infectious Disease Control	80,233	73,882	0	0	80,233	73,882
Streets and Highways and General Public Works	3,729,515	1,328,699	0	0	3,729,515	1,328,699
Fleet Maintenance	87,210	92,580	0	0	87,210	92,580
Sanitation	170,212	230,150	0	0	170,212	230,150
Recreation Center and Library	783,086	701,271	0	0	783,086	701,271
Interest on Long-Term Debt	56,826	31,375	0	0	56,826	31,375
Electric Department	0	0	47,002,472	45,635,785	47,002,472	45,635,785
Water Department	0	0	6,616,618	6,542,333	6,616,618	6,542,333
Emergency Communications District	0	0	0	0	0	0
<b>Total Program Expenses</b>	<u>9,971,252</u>	<u>7,320,356</u>	<u>53,619,090</u>	<u>52,178,118</u>	<u>63,590,342</u>	<u>59,498,474</u>
<b>Transfers:</b>						
In Lieu of Taxes	1,250,850	1,237,674	(1,250,850)	(1,237,674)	0	0
<b>Capital Contributions</b>	<u>0</u>	<u>0</u>	<u>525,000</u>	<u>781,546</u>	<u>525,000</u>	<u>781,546</u>
Change in Net Position	(1,309,235)	411,974	2,547,878	1,594,374	1,238,643	2,006,348
Net Position - Beginning of Year	13,118,436	12,706,462	60,857,909	59,263,535	73,976,345	71,969,997
Restatement of Beginning Net Position	(7,140)	0	41,852	0	34,712	0
<b>Net Position - End of Year</b>	<u>\$ 11,802,061</u>	<u>\$ 13,118,436</u>	<u>\$ 63,447,639</u>	<u>\$ 60,857,909</u>	<u>\$ 75,249,700</u>	<u>\$ 73,976,345</u>

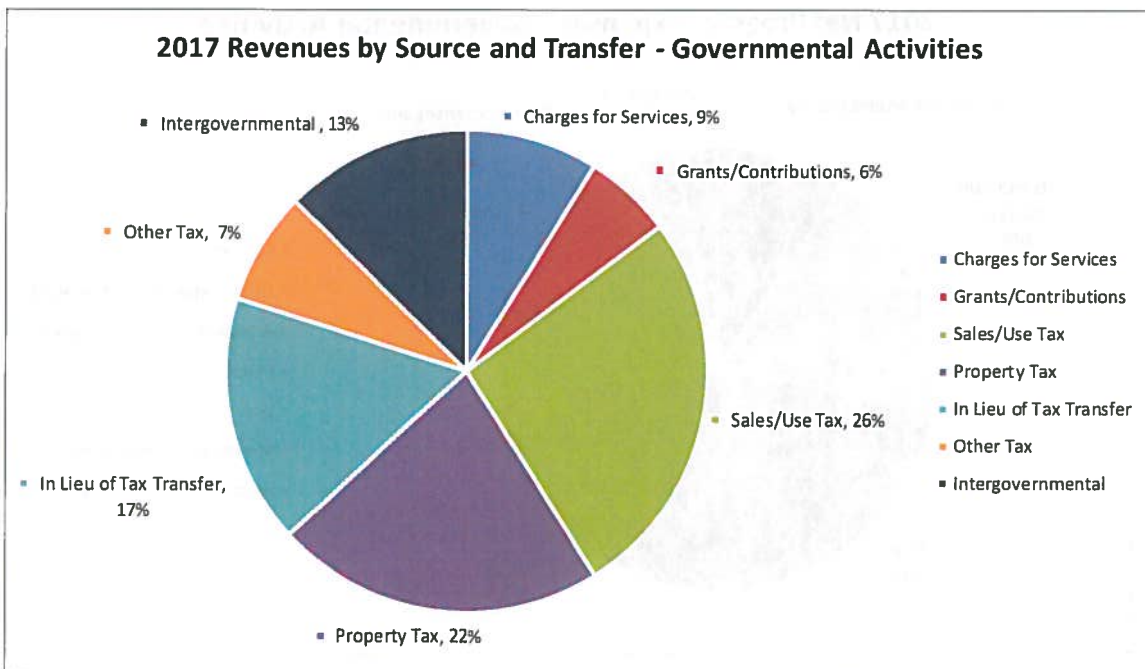
### City of LaFollette's Changes in Net Position

**Governmental Activities.** Governmental activities decreased the City's net position by \$1,309,235 in 2018. The increase in net position from governmental activities in 2017 was \$411,974.

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

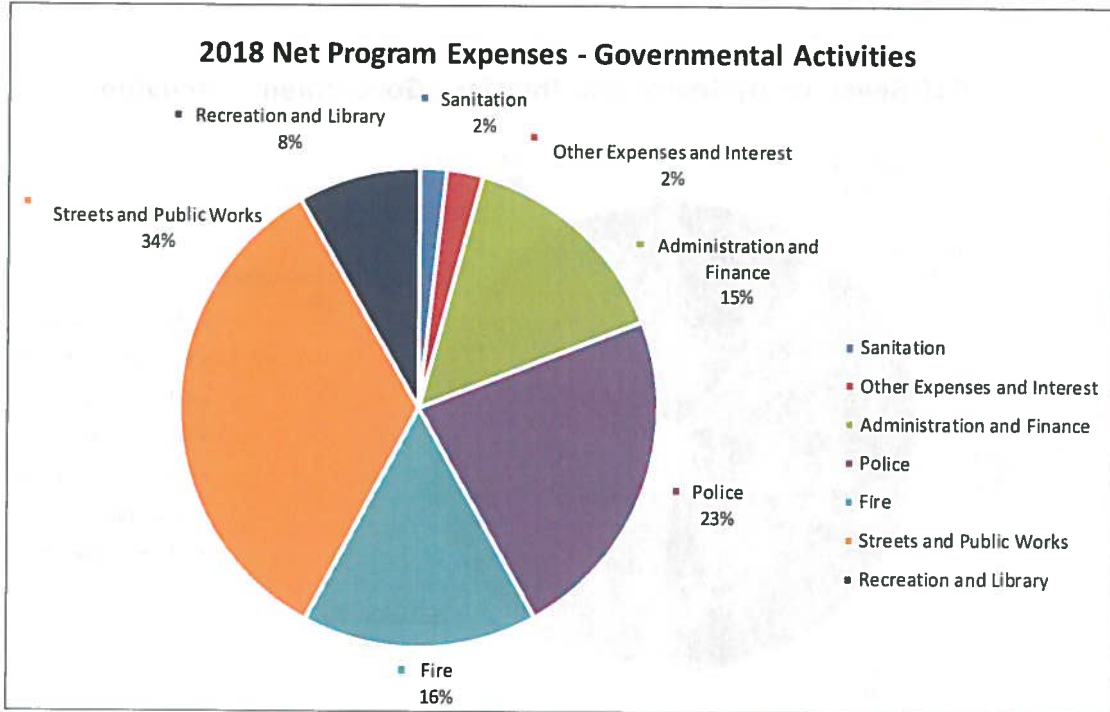


As seen in the chart above, during 2018, local sales and use taxes and property taxes (24% and 19%) represented the largest sources of revenue for the governmental activities, followed grants and contributions 17%, the in lieu of tax transfer from the Electric Department 15%, intergovernmental 11%, charges for services 8%, and other taxes 6%.

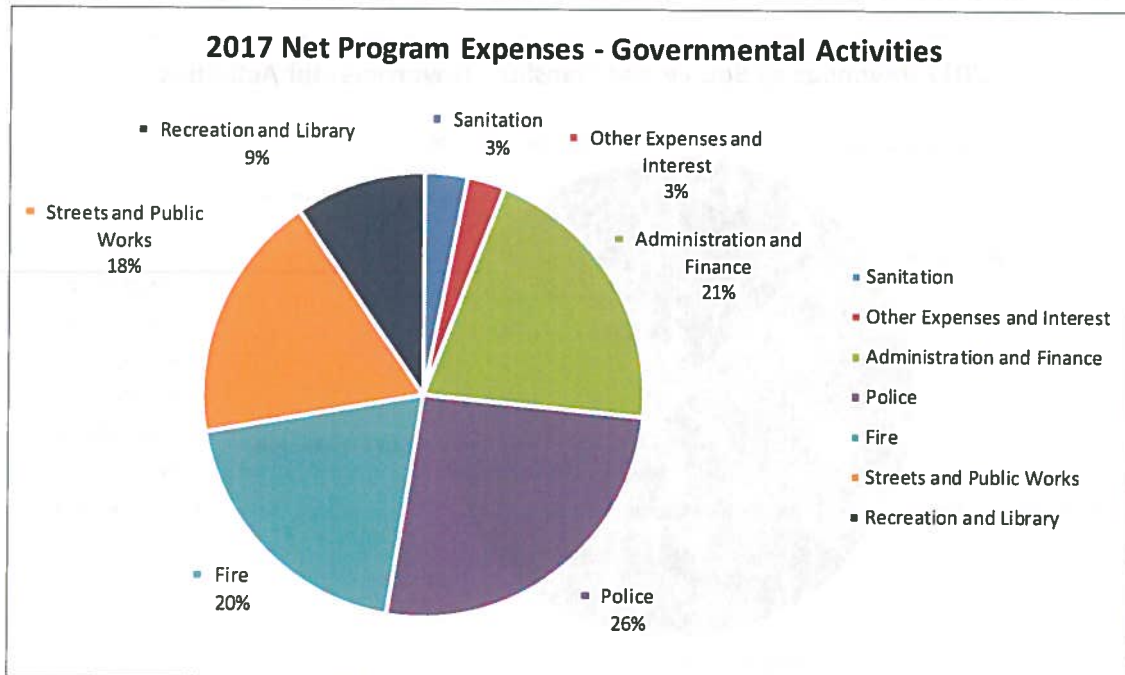


As seen in the chart above, during 2017, local sales and use taxes and property taxes (26% and 22%) represented the largest sources of revenue for the governmental activities, followed by the in lieu of tax transfer from the Electric Department 17%, intergovernmental 13%, charges for services 9%, other tax 7%, and grants and contributions 6%. The chart above excludes interest income and other miscellaneous revenues.

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



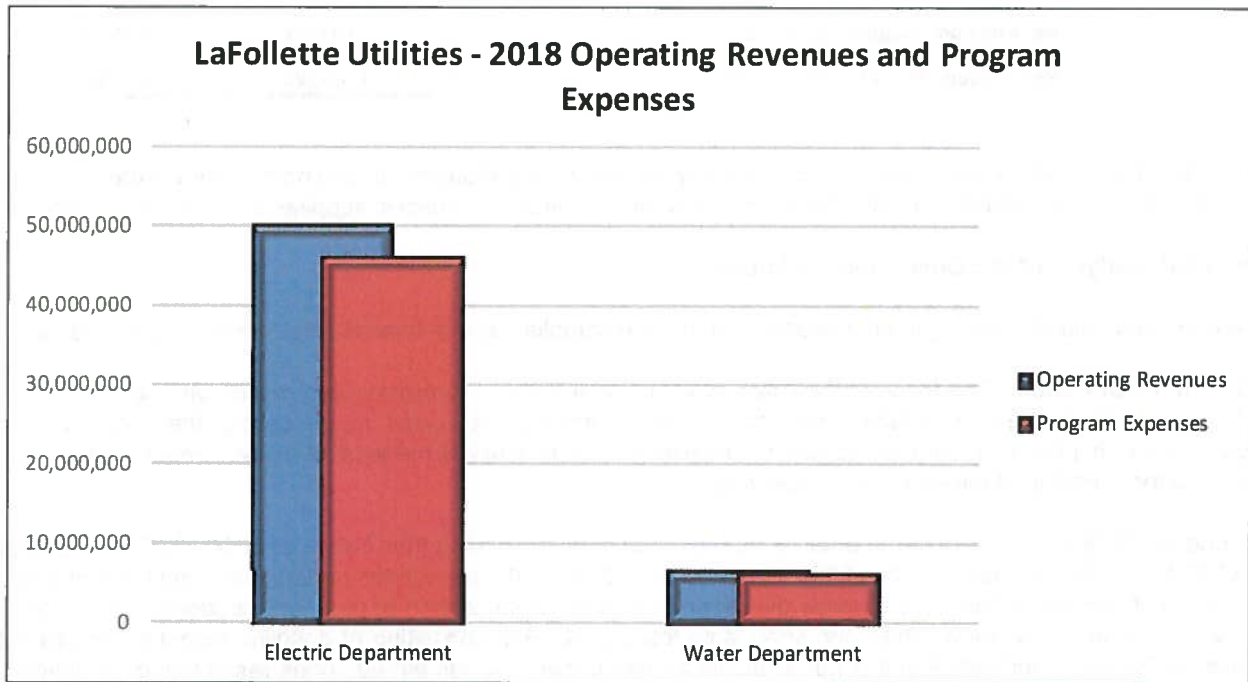
As seen in the chart above, in 2018 streets and public works net program expense comprise 34%, followed by police 23%, fire 16%, administration and finance 15%, sanitation 2%, recreation and library 8%, and other expenses and interest at 2%.



As seen in the chart above, in 2017 police protection net program expenses comprise 26%, followed by administration and finance 21%, fire protection 20%, streets and general public works 18%, recreation and library 9%, sanitation 3%, and other expenses and interest at 3%.

**Business-Type Activities.** Business-type activities increased the City's net position by \$2,547,878 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:



**Discretely Presented Component Unit.** Component units are legally separate organizations for which the primary government is financially accountable. The component unit for the City is City of LaFollette Emergency Communications District (the "District"). A summary of the City's component unit follows:

**District's Condensed Statement of Net Position as of June 30, 2018 and 2017**

	As of June 30,	
	2018	2017
<b>Assets</b>		
Current Assets	\$ 959,198	\$ 736,048
Capital Assets, Net	100,343	112,456
Total Assets	<u>1,059,541</u>	<u>848,504</u>
<b>Liabilities and Net Position</b>		
Current Liabilities	<u>2,158</u>	<u>6,604</u>
Net Position:		
Investment in Capital Assets	100,343	112,456
Restricted	0	0
Unrestricted	<u>957,040</u>	<u>729,444</u>
Total Net Position	<u>1,057,383</u>	<u>841,900</u>
Total Liabilities and Net Position	<u>\$ 1,059,541</u>	<u>\$ 848,504</u>

District's Condensed Statement of Activities for the Years Ended June 30, 2018 and 2017

	For the Years Ended June 30,	
	2018	2017
Operating Revenues	\$ 287,455	\$ 291,562
Operating Expenses	270,093	239,643
Operating Income	17,362	51,919
Nonoperating Revenues	198,121	51,973
Change in Net Position	215,483	103,892
Net Position - Beginning of Year	841,900	738,008
Net Position - End of Year	\$ 1,057,383	\$ 841,900

The District's operating revenues consist primarily of TECB distributions of surcharges and excess revenue. Operating expenses consist primarily of salaries and wages, contracted services, supplies and material, depreciation.

**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, 2018, the City's governmental funds reported combined ending fund balances of \$4,432,314, a decrease of \$1,674,255. Approximately 86% of this total amount or \$3,827,983 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 \$27,923 consisting of gasoline inventory, or restricted totaling \$576,405 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, 2018, unrestricted fund balance of the general fund was \$3,827,886. 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 \$1,775,455 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 \$398,620. 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 Department was \$1,917,366 and the total increase for the Water Department was \$630,512. 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 \$981,785 and can be briefly summarized as follows:

- Appropriated an additional \$98,654 primarily for police protection for additional capital outlay not anticipated in original budgeting.
- Appropriated an additional \$248,139 primarily for fire protection capital outlay.
- Appropriated an additional \$244,837 for streets and highways and general public works to fund additional capital outlay and personnel costs not anticipated at the beginning of the year.
- Appropriated an additional \$284,885 for recreation center and library primarily to fund capital outlay not anticipated at the beginning of the year.

Differences between the final amended budget and actual revenues totaled a net unfavorable variance of \$3,130,405 and can be briefly summarized as follows:

- Sales taxes received were more than budget by \$124,812 due to increased consumer spending.
- Grant revenue and contributions were less than budget by \$3,287,249 primarily due to delays in start-up of the Dossett Lane Bridge Project.

Differences between the final amended budget and actual expenditures totaled a net favorable variance of \$4,746,346 and can be briefly summarized as follows:

- Administration and finance expenditures were less than budget by \$546,004 due to appropriated expenditures budgeted but not spent.
- Police protection expenditures were less than budget by \$343,558 due to salaries and benefits and additional expenses budgeted but not spent.
- Fire protection expenditures were less than budget by \$125,899 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 \$3,519,775 primarily due to the Dossett Lane Bridge project being delayed.
- Recreation center and library expenditures were less than budgeted by \$131,442 due to appropriated expenditures budgeted but not spent.

### Capital Asset and Debt Administration

**Capital Assets.** The City's investment in capital assets for its governmental and business-type activities as of the current year end amounts to \$113,197,877 (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 decrease in the City's net capital assets for the current fiscal year was approximately \$88,351.

Major capital asset events for governmental activities during the current fiscal year include various equipment purchases totaling \$164,090 and vehicle purchases totaling \$377,487.

Capital assets, net of depreciation, as of June 30, 2018 and 2017 is as follows:

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Land and Land Rights	\$ 601,634	\$ 577,099	\$ 1,244,883	\$ 1,140,699	\$ 1,846,517	\$ 1,717,798
Land Improvements	951,566	951,566	0	0	951,566	951,566
Governmental Buildings and Improvements	3,590,025	3,501,945	0	0	3,590,025	3,501,945
Equipment, Furniture, and Fixtures	5,690,666	5,149,089	38,939,525	36,984,997	44,630,191	42,134,086
Infrastructure	14,693,873	14,693,873	0	0	14,693,873	14,693,873
Structures and Improvements	0	0	22,414,577	22,343,903	22,414,577	22,343,903
Poles, Towers and Transmission Assets	0	0	84,372,662	82,292,678	84,372,662	82,292,678
Street Lighting Systems	0	0	4,145,152	4,036,196	4,145,152	4,036,196
Distribution Reservoirs and Standpipes	0	0	2,390,701	2,317,140	2,390,701	2,317,140
Transmission and Distribution Mains	0	0	29,864,761	29,856,721	29,864,761	29,856,721
Service Installations	0	0	7,267,461	6,920,513	7,267,461	6,920,513
Construction in Progress	266,081	75,417	622,288	853,977	888,369	929,394
Accumulated Depreciation	(15,320,190)	(14,430,109)	(88,537,788)	(83,979,476)	(103,857,978)	(98,409,585)
	<u>\$ 10,473,655</u>	<u>\$ 10,518,880</u>	<u>\$ 102,724,222</u>	<u>\$ 102,767,348</u>	<u>\$ 113,197,877</u>	<u>\$ 113,286,228</u>

Additional information on the City's capital assets can be found in Note 4 on pages 43 through 45.

**Long-Term Debt.** At the end of the current fiscal year, the City had total debt outstanding of \$45,885,217. Of this amount, \$44,202,768 is owed on general obligation bonds and notes. The remainder of the City's debt (\$1,682,449) represents revenue and tax bonds and notes. The City's long-term debt as of June 30, 2018 and 2017 is as follows:

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
General Obligation Bonds and Notes	\$ 1,866,000	\$ 2,155,000	\$ 42,336,768	\$ 45,891,087	\$ 44,202,768	\$ 48,046,087
Revenue and Tax Bonds and Notes	0	0	1,682,449	1,714,414	1,682,449	1,714,414
Total	<u>\$ 1,866,000</u>	<u>\$ 2,155,000</u>	<u>\$ 44,019,217</u>	<u>\$ 47,605,501</u>	<u>\$ 45,885,217</u>	<u>\$ 49,760,501</u>

The City's total debt decreased by \$3,875,284 during the current fiscal year as principal payments have been made.

Additional information on the City's long-term debt can be found in Note 5 on pages 45 through 49.

**Next Year's Budgets**

The general fund revenue estimates for next year are projected basically at a growth rate of 1%. 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 2 new SUV's for the Police Department for approximately \$84,000.
- The City anticipates purchasing Fire Department equipment for approximately \$97,000 which includes new bunker gear, air packs, and an ATV with rescue bed.
- The City anticipates purchasing a new sanitation truck for approximately \$135,000.
- The City anticipates purchasing a gator vehicle for the Recreation Department and constructing Pine Park sidewalks for approximately \$16,000.



The Electric Department is not 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.

The Water Department is not expected to add very many new water and wastewater customers over the course of the next fiscal year. Charges for both services will be closely monitored, with changes in rates being recommended as circumstances may dictate.

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 2019.

**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.

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.

**CITY OF LAFOLLETTE**  
**STATEMENT OF NET POSITION**  
**June 30, 2018**

<b>ASSETS</b>	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total Primary Government</b>	<b>Component Unit Emergency Communications District</b>
<b>CURRENT ASSETS</b>				
Cash and Cash Equivalents	\$ 3,666,997	\$ 3,309,093	\$ 6,976,090	\$ 959,198
<b>Receivables:</b>				
Property Taxes, Net of Allowance of \$203,486	1,538,421	0	1,538,421	0
Utility Accounts	0	6,346,779	6,346,779	0
Other Taxes and Nonexchange Revenue	350,056	0	350,056	0
Grant Receivable	214,365	0	214,365	0
Other	152,012	0	152,012	0
Materials and Supplies Inventories	27,923	1,490,295	1,518,218	0
Prepaid Items and Other Current Assets	0	349,590	349,590	0
<b>Total Current Assets</b>	<b>5,949,774</b>	<b>11,495,757</b>	<b>17,445,531</b>	<b>959,198</b>
<b>NONCURRENT ASSETS</b>				
<b>Restricted Assets</b>				
Cash and Cash Equivalents	2,355,790	143,584	2,499,374	0
Investments	0	1,497,670	1,497,670	0
Certificates of Deposits	0	3,500,000	3,500,000	0
<b>Total Restricted Assets</b>	<b>2,355,790</b>	<b>5,141,254</b>	<b>7,497,044</b>	<b>0</b>
<b>Capital Assets</b>				
Nondepreciable Assets	867,715	1,867,171	2,734,886	4,000
Depreciable Assets, Net	9,605,940	100,857,051	110,462,991	96,343
<b>Net Capital Assets</b>	<b>10,473,655</b>	<b>102,724,222</b>	<b>113,197,877</b>	<b>100,343</b>
<b>TOTAL ASSETS</b>	<b>18,779,219</b>	<b>119,361,233</b>	<b>138,140,452</b>	<b>1,059,541</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred Pension Outflows	656,648	0	656,648	0
Deferred Amounts on Refundings	0	155,102	155,102	0
<b>Total Deferred Outflows of Resources</b>	<b>656,648</b>	<b>155,102</b>	<b>811,750</b>	<b>0</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<b>\$ 19,435,867</b>	<b>\$ 119,516,335</b>	<b>\$ 138,952,202</b>	<b>\$ 1,059,541</b>

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

**CITY OF LAFOLLETTE**  
**STATEMENT OF NET POSITION (Continued)**

**June 30, 2018**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>	<u>Component Unit Emergency Communications District</u>
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Accounts Payable	\$ 94,352	\$ 6,448,014	\$ 6,542,366	\$ 2,158
Current Maturities of Long-Term Debt	297,000	3,620,277	3,917,277	0
Accrued Payroll, Payroll Taxes, and Compensated Absences	358,742	651,811	1,010,553	0
Accrued Interest and Rent Payable	16,474	185,263	201,737	0
Current Portion of Customer Deposits	0	416,540	416,540	0
Current Portion of Accrued Retirement Plan Payable	0	117,784	117,784	0
<b>Total Current Liabilities</b>	<u>766,568</u>	<u>11,439,689</u>	<u>12,206,257</u>	<u>2,158</u>
<b>NONCURRENT LIABILITIES</b>				
Long-Term Debt, Net	1,569,000	40,398,940	41,967,940	0
Accrued Retirement Plan Payable - Long-Term	0	618,106	618,106	0
Accrued Compensated Absences - Long-Term	0	1,039,549	1,039,549	0
Customer Deposits - Long-Term	0	1,821,663	1,821,663	0
Accrued Post-Retirement Plan (OPEB) - Long-Term	1,032,520	733,162	1,765,682	0
Net Pension Liability	450,039	0	450,039	0
<b>Total Noncurrent Liabilities</b>	<u>3,051,559</u>	<u>44,611,420</u>	<u>47,662,979</u>	<u>0</u>
<b>TOTAL LIABILITIES</b>	<u>3,818,127</u>	<u>56,051,109</u>	<u>59,869,236</u>	<u>2,158</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred Property Taxes	1,519,751	0	1,519,751	0
Deferred Miscellaneous	65,050	0	65,050	0
Escrow for Hospital Facilities Lease	1,835,350	0	1,835,350	0
Deferred OPEB Inflows	26,408	17,587	43,995	0
Deferred Pension Inflows	369,120	0	369,120	0
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>3,815,679</u>	<u>17,587</u>	<u>3,833,266</u>	<u>0</u>
<b>NET POSITION</b>				
Net Investment in Capital Assets	8,607,655	63,846,259	72,453,914	100,343
Restricted	542,923	0	542,923	0
Unrestricted (Deficit)	2,651,483	(398,620)	2,252,863	957,040
<b>TOTAL NET POSITION</b>	<u>11,802,061</u>	<u>63,447,639</u>	<u>75,249,700</u>	<u>1,057,383</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION</b>	<u>\$ 19,435,867</u>	<u>\$ 119,516,335</u>	<u>\$ 138,952,202</u>	<u>\$ 1,059,541</u>

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

**CITY OF LAFOLLETTE**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2018**

Activities	Program Revenues				Net (Expense) Revenue and Changes In Net Position			Component Unit Emergency Communications District
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
<b>Governmental Activities:</b>								
Administration and Finance	\$ 1,403,955	\$ 27,441	\$ 0	\$ 0	\$ (1,376,514)	\$ 0	\$ (1,376,514)	\$ 0
Codes Administration	6,829	8,546	0	0	1,717	0	1,717	0
Police Protection	2,146,492	197,613	28,294	0	(1,920,585)	0	(1,920,585)	0
Fire Protection	1,506,894	47,020	0	0	(1,459,874)	0	(1,459,874)	0
Animal and Infectious Disease Control	80,233	0	0	0	(80,233)	0	(80,233)	0
Streets and Highways and General Public Works	3,729,515	0	259,984	1,074,478	(2,395,053)	0	(2,395,053)	0
Fleet Maintenance	87,210	0	0	0	(87,210)	0	(87,210)	0
Sanitation	170,212	284,710	0	0	114,498	0	114,498	0
Recreation Center and Library	783,086	80,806	7,500	44,727	(650,053)	0	(650,053)	0
Interest and Administrative Fees on Long-Term Debt	56,826	0	0	0	(56,826)	0	(56,826)	0
<b>Total Governmental Activities</b>	<b>9,971,252</b>	<b>646,136</b>	<b>295,778</b>	<b>1,119,205</b>	<b>(7,910,133)</b>	<b>0</b>	<b>(7,910,133)</b>	<b>0</b>
<b>Business-Type Activities:</b>								
Electric Department	47,002,472	50,055,822	0	0	0	3,053,350	3,053,350	0
Water Department	6,616,618	6,714,959	0	0	0	98,341	98,341	0
<b>Total Business-Type Activities</b>	<b>53,619,090</b>	<b>56,770,781</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3,151,691</b>	<b>3,151,691</b>	<b>0</b>
<b>Total Primary Government</b>	<b>\$ 63,590,342</b>	<b>\$ 57,416,917</b>	<b>\$ 295,778</b>	<b>\$ 1,119,205</b>	<b>(7,910,133)</b>	<b>3,151,691</b>	<b>(4,758,442)</b>	<b>0</b>
<b>Component Unit</b>								
Emergency Communications District	\$ 270,093	\$ 287,455	\$ 192,747	\$ 0	0	0	0	210,109
<b>General Revenues:</b>								
<b>Taxes</b>								
Property					1,556,388	0	1,556,388	0
Sales and Use					2,007,812	0	2,007,812	0
Wholesale Beer					268,126	0	268,126	0
Wholesale Wine					14,736	0	14,736	0
Business					181,783	0	181,783	0
Other Taxes					88,305	0	88,305	0
Intergovernmental Revenues					923,967	0	923,967	0
Interest					28,584	122,037	150,621	5,374
Miscellaneous Other Revenues					280,347	0	280,347	0
<b>Transfers:</b>								
In Lieu of Taxes					1,250,850	(1,250,850)	0	0
<b>Capital Contributions:</b>								
Contribution of Water/Wastewater Improvements					0	525,000	525,000	0
<b>Total General Revenues, Transfers and Capital Contributions</b>					<b>6,600,898</b>	<b>(603,813)</b>	<b>5,997,085</b>	<b>5,374</b>
<b>Change In Net Position</b>					<b>(1,309,235)</b>	<b>2,547,878</b>	<b>1,238,643</b>	<b>215,483</b>
<b>Net Position, Beginning of Year - as Previously Reported</b>					<b>13,118,436</b>	<b>60,857,909</b>	<b>73,976,345</b>	<b>841,900</b>
<b>Restatement of Beginning Net Position (See Note 14)</b>					<b>(7,140)</b>	<b>41,852</b>	<b>34,712</b>	<b>0</b>
<b>Net Position, Beginning of Year - as Restated</b>					<b>13,111,296</b>	<b>60,899,761</b>	<b>74,011,057</b>	<b>841,900</b>
<b>Net Position, End of Year</b>					<b>\$ 11,802,061</b>	<b>\$ 63,447,639</b>	<b>\$ 75,249,700</b>	<b>\$ 1,057,383</b>

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

**CITY OF LAFOLLETTE**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**

**June 30, 2018**

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Unrestricted Cash and Cash Equivalents	\$ 3,666,997	\$ 0	\$ 3,666,997
Restricted Cash and Cash Equivalents	1,870,109	485,681	2,355,790
Receivables			
Property Taxes, Net	1,538,421	0	1,538,421
Other Taxes and Nonexchange Revenue	323,517	26,539	350,056
Grant Receivable	214,365	0	214,365
Other Receivables	152,012	0	152,012
Materials and Supplies Inventories	27,923	0	27,923
<b>TOTAL ASSETS</b>	<b>\$ 7,793,344</b>	<b>\$ 512,220</b>	<b>\$ 8,305,564</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts Payable	\$ 80,064	\$ 14,293	\$ 94,357
Accrued Payroll, Payroll Taxes and Compensated Absences	358,742	0	358,742
<b>Total Liabilities</b>	<b>438,806</b>	<b>14,293</b>	<b>453,099</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred Property Taxes	1,519,751	0	1,519,751
Miscellaneous Deferred Revenues	65,050	0	65,050
Escrow for Hospital Facilities Lease	1,835,350	0	1,835,350
<b>Total Deferred Inflows of Resources</b>	<b>3,420,151</b>	<b>0</b>	<b>3,420,151</b>
<b>FUND BALANCES</b>			
Non-Spendable			
Inventory on Hand	27,923	0	27,923
Restricted			
General Fund	78,578	0	78,578
Special Revenue Funds			
State Street Aid Fund	0	321,048	321,048
Drug Fund	0	72,574	72,574
Special Police Fund	0	104,205	104,205
Unrestricted			
Committed	121,258	97	121,355
Unassigned	3,706,628	0	3,706,628
Capital Projects Fund	0	3	3
<b>Total Fund Balances</b>	<b>3,934,387</b>	<b>497,927</b>	<b>4,432,314</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 7,793,344</b>	<b>\$ 512,220</b>	<b>\$ 8,305,564</b>

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

**CITY OF LAFOLLETTE**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**

**June 30, 2018**

Total Fund Balances - Governmental Funds	\$ 4,432,314
Amounts reported for Governmental Activities in the Statement of Net Position 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 \$25,793,845 and the accumulated depreciation is \$15,320,190 as of year end.	10,473,655
The net pension liability of \$450,039, the deferred pension outflows of \$656,648, and the deferred pension inflows of \$369,120 do not represent current period sources or uses and, therefore, are not reported in the fund financial statements.	(162,507)
Accrued post-retirement plan (OPEB) liability of \$1,032,520 and deferred OPEB inflows of \$26,408 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.	(1,058,927)
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 \$1,866,000 and accrued interest totals \$16,474 as of year end.	<u>(1,882,474)</u>
Total Net Position - Governmental Activities	<u>\$ 11,802,061</u>

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

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

For the Year Ended June 30, 2018

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>REVENUES</b>			
Taxes:			
Property	\$ 1,556,388	\$ 0	\$ 1,556,388
Local Sales and Use	2,007,812	0	2,007,812
Wholesale Beer & Wine	282,862	0	282,862
Business	181,783	0	181,783
Cable Television Franchise	67,517	0	67,517
Interest, Penalty and Court Costs	20,788	0	20,788
Intergovernmental Revenues	923,967	0	923,967
Charges for Services	483,816	5,558	489,374
Licenses and Permits	13,221	0	13,221
Fines, Forfeitures and Penalties	152,277	0	152,277
Grant Revenue and Contributions	294,347	853,211	1,147,558
State Highway and Street Funds - State Gasoline Tax	0	264,527	264,527
Miscellaneous	306,839	798	307,637
<b>Total Revenues</b>	<b>6,291,617</b>	<b>1,124,094</b>	<b>7,415,711</b>
<b>EXPENDITURES</b>			
Current:			
Administration and Finance	1,347,040	0	1,347,040
Codes Administration	6,829	0	6,829
Police Protection	2,154,476	17,937	2,172,413
Fire Protection	1,676,093	0	1,676,093
Animal and Infectious Disease Control	105,860	0	105,860
Streets and Highways and General Public Works	2,422,484	192,348	2,614,832
Fleet Maintenance	88,710	0	88,710
Sanitation	165,169	0	165,169
Engineering	28,438	0	28,438
Solid Waste Management	9,003	0	9,003
Recreation Center and Library	923,552	0	923,552
Capital Outlay:			
Sanitation	0	859,578	859,578
Debt Service:			
Principal	289,000	0	289,000
Interest and Finance Charges	54,299	0	54,299
<b>Total Expenditures</b>	<b>9,270,953</b>	<b>1,069,863</b>	<b>10,340,816</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(2,979,336)</b>	<b>54,231</b>	<b>(2,925,105)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In	0	46,969	46,969
Transfers Out	(46,969)	0	(46,969)
Transfers In Lieu of Tax - Electric Department	1,250,850	0	1,250,850
<b>Net Other Financing Sources (Uses)</b>	<b>1,203,881</b>	<b>46,969</b>	<b>1,250,850</b>
<b>CHANGES IN FUND BALANCES</b>	<b>(1,775,455)</b>	<b>101,200</b>	<b>(1,674,255)</b>
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<b>5,709,842</b>	<b>396,727</b>	<b>6,106,569</b>
<b>FUND BALANCES - END OF YEAR</b>	<b>\$ 3,934,387</b>	<b>\$ 497,927</b>	<b>\$ 4,432,314</b>

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

CITY OF LAFOLLETTE

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, 2018

Changes in Fund Balances - Governmental Funds \$ (1,674,255)

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	844,856
Current Year Depreciation Expense on Capitalized Assets	(890,081)

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	289,000
Current Year Difference in Interest Expense Between Amounts Paid vs. Accrued	(2,527)

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.

Expense from net Other Post Retirement Employment Benefits (OPEB) of \$72,532 is recognized in the statement of activities but does not represent a current use of resources. Current year OPEB benefit payments of \$113,666 are expenditures in the governmental funds but recognized as deferred inflows of resources in the statement of net position.	<u>(41,131)</u>
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Change in Net Position - Governmental Activities \$ (1,309,235)

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



**CITY OF LAFOLLETTE**  
**BUDGETARY COMPARISON STATEMENT - GENERAL FUND**  
**For the Year Ended June 30, 2018**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>REVENUES</b>				
Taxes:				
Property	\$ 1,554,800	\$ 1,554,800	\$ 1,556,388	\$ 1,588
Local Sales and Use	1,883,000	1,883,000	2,007,812	124,812
Wholesale Beer & Wine	272,000	272,000	282,862	10,862
Business	156,000	156,000	181,783	25,783
Cable Television Franchise	66,000	66,000	67,517	1,517
Interest, Penalty and Court Costs	12,600	12,600	20,788	8,188
Intergovernmental Revenues	916,200	916,200	923,967	7,767
Charges for Services	629,850	651,556	649,314	(2,242)
Grant Revenue and Contributions	3,307,073	3,581,596	294,347	(3,287,249)
Miscellaneous and Rent	302,000	328,270	306,839	(21,431)
<b>Total Revenues</b>	<b>9,099,523</b>	<b>9,422,022</b>	<b>6,291,617</b>	<b>(3,130,405)</b>
<b>EXPENDITURES</b>				
Current:				
Administration and Finance	1,845,751	1,893,044	1,347,040	546,004
Codes Administration	7,300	8,099	6,829	1,270
Police Protection	2,399,380	2,498,034	2,154,476	343,558
Fire Protection	1,553,853	1,801,992	1,676,093	125,899
Animal and Infectious Disease Control	111,357	112,194	105,860	6,334
Streets and Highways and General Public Works	5,697,422	5,942,259	2,422,484	3,519,775
Fleet Maintenance	93,323	93,978	88,710	5,268
Sanitation	173,719	175,505	165,169	10,336
Engineering	25,000	78,900	28,438	50,462
Solid Waste Management	15,000	15,000	9,003	5,997
Recreation Center and Library	770,109	1,054,994	923,552	131,442
Debt Service	343,300	343,300	343,299	1
<b>Total Expenditures</b>	<b>13,035,514</b>	<b>14,017,299</b>	<b>9,270,953</b>	<b>4,746,346</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(3,935,991)</b>	<b>(4,595,277)</b>	<b>(2,979,336)</b>	<b>1,615,941</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	114,388	114,388	0	(114,388)
Transfers Out	(36,000)	(41,871)	(46,969)	(5,098)
Transfers In Lieu of Tax-Electric Department	1,614,000	1,614,000	1,250,850	(363,150)
<b>Total Other Financing Sources (Uses)</b>	<b>1,692,388</b>	<b>1,686,517</b>	<b>1,203,881</b>	<b>(482,636)</b>
<b>NET CHANGES IN FUND BALANCES</b>	<b>\$ (2,243,603)</b>	<b>\$ (2,908,760)</b>	<b>(1,775,455)</b>	<b>\$ 1,133,305</b>
<b>FUND BALANCES - BEGINNING OF YEAR</b>			<b>5,709,842</b>	
<b>FUND BALANCES - END OF YEAR</b>			<b>\$ 3,934,387</b>	

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

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

For the Year Ended June 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
<b>REVENUES</b>				
<b>Local Taxes</b>				
Current Year Property Taxes	\$ 1,465,000	\$ 1,465,000	\$ 1,465,654	\$ 654
Property Tax Discounts	(15,200)	(15,200)	(16,783)	(1,583)
Prior Years Property Taxes	105,000	105,000	107,517	2,517
Property Tax Penalties	12,600	12,600	20,788	8,188
Local Option Sales Taxes	1,883,000	1,883,000	2,007,812	124,812
Wholesale Beer Taxes	255,000	255,000	268,126	13,126
Wholesale Wine Taxes	17,000	17,000	14,736	(2,264)
Business Taxes	156,000	156,000	181,783	25,783
Cable TV Franchise Taxes	66,000	66,000	67,517	1,517
<b>Total Local Taxes</b>	<u>3,944,400</u>	<u>3,944,400</u>	<u>4,117,150</u>	<u>172,750</u>
<b>Intergovernmental</b>				
Housing Authority	36,000	36,000	38,931	2,931
TVA - In Lieu of Taxes	84,200	84,200	84,711	511
State Sales Tax	590,000	590,000	631,891	41,891
State Income Tax	60,000	60,000	34,179	(25,821)
State Beer Tax	8,000	8,000	12,313	4,313
State Gas Inspection	15,000	15,000	15,026	26
State - Other Revenue	53,000	53,000	41,144	(11,856)
State Corporate Excise Tax	70,000	70,000	65,772	(4,228)
<b>Total Intergovernmental</b>	<u>916,200</u>	<u>916,200</u>	<u>923,967</u>	<u>7,767</u>
<b>Charges for Services</b>				
Commissions-State	600	600	501	(99)
Fees and Commissions	24,600	24,600	24,040	(560)
Special Police Services Fees	44,400	44,400	45,244	844
Special Fire Protection Fees	46,000	46,000	47,020	1,020
Accident Report Fee	500	500	295	(205)
Sex Offenders Registration Fee	750	750	1,200	450
Other Public Safety Charges	400	400	0	(400)
Refuse Collection Fees	282,000	282,000	284,710	2,710
Facility Rentals	58,000	58,000	47,850	(10,150)
Other Culture - Recreation	25,500	34,506	32,956	(1,550)
<b>Total Charges for Services</b>	<u>482,750</u>	<u>491,756</u>	<u>483,816</u>	<u>(7,940)</u>

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

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

For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<b>Licenses and Permits</b>				
Beer Licenses	\$ 4,000	\$ 4,000	\$ 2,900	\$ (1,100)
Building Permits	7,000	7,000	7,946	946
Wine Licenses	2,000	2,000	1,000	(1,000)
Taxicab Licenses	700	700	775	75
Other Permits	200	200	600	400
<b>Total Licenses and Permits</b>	<b>13,900</b>	<b>13,900</b>	<b>13,221</b>	<b>(679)</b>
<b>Fines, Forfeitures and Penalties</b>				
City Court Fines	92,000	92,000	101,399	9,399
County Court Fines	40,000	40,000	42,616	2,616
Fines & Forfeits	0	12,700	6,960	(5,740)
City Litigation Tax	1,200	1,200	1,302	102
<b>Total Fines, Forfeitures and Penalties</b>	<b>133,200</b>	<b>145,900</b>	<b>152,277</b>	<b>6,377</b>
<b>Grant Revenue and Contributions</b>				
Grant Revenue - Other General Government	3,124,608	3,369,131	271,576	(3,097,555)
Grant Revenue - Highway & Street	173,361	203,361	195	(203,166)
Grant Revenue - Police	9,104	9,104	22,576	13,472
<b>Total Grant Revenue and Contributions</b>	<b>3,307,073</b>	<b>3,581,596</b>	<b>294,347</b>	<b>(3,287,249)</b>
<b>Miscellaneous Revenue</b>				
Interest Income	12,000	12,000	27,784	15,784
Rent Income	9,000	9,000	10,662	1,662
Sales of Surplus Items	10,000	10,000	1,430	(8,570)
Insurance Proceeds	10,000	10,000	31,478	21,478
Sale of Gas	233,000	233,000	182,033	(50,967)
Recreation Donations	9,500	9,500	10,000	500
Fire Department Donations	700	26,970	26,970	0
Library Building Donations	3,400	3,400	4,080	680
Flea Market Revenue	5,200	5,200	5,112	(88)
Miscellaneous Revenue	9,200	9,200	7,290	(1,910)
<b>Total Miscellaneous Revenue</b>	<b>302,000</b>	<b>328,270</b>	<b>306,839</b>	<b>(21,431)</b>
<b>Total Revenues</b>	<b>9,099,523</b>	<b>9,422,022</b>	<b>6,291,617</b>	<b>(3,130,405)</b>

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

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

For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<b>EXPENDITURES</b>				
<b>Administration and Finance</b>				
<b>Legislative Board</b>				
Personnel Costs	\$ 24,678	\$ 24,678	\$ 25,390	\$ (712)
Contributions	4,000	4,000	3,800	200
Utilities	800	800	600	200
Travel	9,000	9,000	6,349	2,651
<b>Total Legislative Board</b>	<b>38,478</b>	<b>38,478</b>	<b>36,139</b>	<b>2,339</b>
<b>Legislative Committee (Beer Board)</b>	<b>1,800</b>	<b>1,800</b>	<b>1,725</b>	<b>75</b>
<b>City Court</b>	<b>15,600</b>	<b>15,600</b>	<b>15,600</b>	<b>0</b>
<b>Mayor</b>				
Personnel Costs	12,573	12,573	11,597	976
Contributions	1,000	1,000	1,000	0
Utilities	1,250	1,250	1,280	(30)
Travel	4,000	4,000	2,641	1,359
<b>Total Mayor</b>	<b>18,823</b>	<b>18,823</b>	<b>16,518</b>	<b>2,305</b>
<b>City Attorney</b>	<b>16,100</b>	<b>16,100</b>	<b>15,250</b>	<b>850</b>
<b>City Administrator</b>				
Personnel Costs	75,613	75,613	73,490	2,123
Memberships and Publicity	300	300	0	300
Utilities	1,000	1,000	693	307
Repair and Maintenance	500	500	0	500
Travel	7,500	7,500	3,664	3,836
Other Contracted Services	500	500	385	115
Motor Vehicle Supplies	2,500	2,500	790	1,710
Capital Outlay	1,000	1,000	0	1,000
<b>Total City Administrator</b>	<b>88,913</b>	<b>88,913</b>	<b>79,022</b>	<b>9,891</b>
<b>Audit and Accounting</b>	<b>62,000</b>	<b>62,000</b>	<b>58,500</b>	<b>3,500</b>
<b>City Clerk</b>				
Personnel Costs	116,427	116,427	114,942	1,485
Memberships	400	400	35	365
Travel	3,500	3,500	2,204	1,296
Operating Supplies	0	0	52	(52)
Capital Outlay	1,167	1,167	1,167	0
<b>Total City Clerk</b>	<b>121,494</b>	<b>121,494</b>	<b>118,400</b>	<b>3,094</b>
<b>Financial Administration</b>				
Personnel Costs	155,511	155,511	149,953	5,558
Travel	3,000	3,000	1,672	1,328
Capital Outlay	30,000	30,000	28,604	1,396
<b>Total Financial Administration</b>	<b>188,511</b>	<b>188,511</b>	<b>180,229</b>	<b>8,282</b>
<b>Data Processing</b>	<b>33,000</b>	<b>33,000</b>	<b>28,802</b>	<b>4,198</b>

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

CITY OF LAFOLLETTE

GENERAL FUND

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

For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<b>Planning and Zoning</b>	\$ 1,800	\$ 1,800	\$ 1,250	\$ 550
<b>City Hall Buildings</b>				
Personnel Costs	17,958	17,958	18,702	(744)
Utilities	47,000	47,000	45,312	1,688
Repair and Maintenance	11,000	11,000	10,676	324
Other Contracted Services	15,000	15,000	3,194	11,806
Supplies	6,140	7,740	7,159	581
<b>Total City Hall Buildings</b>	<b>97,098</b>	<b>98,698</b>	<b>85,043</b>	<b>13,655</b>
<b>Other General Government</b>				
Workman's Compensation	142,000	142,000	135,415	6,585
Personnel Costs	152,634	158,827	102,947	55,880
Postage	4,000	4,000	3,951	49
Printing	2,000	2,000	1,180	820
Publications and Memberships	28,000	28,000	25,876	2,124
Professional Services	1,000	1,000	0	1,000
Utilities	11,500	11,500	11,355	145
Meals and Entertainment	8,100	8,100	5,952	2,148
Other Contracted Services	35,500	42,800	32,400	10,400
Motor Vehicle Supplies	206,000	206,000	156,699	49,301
Operating Supplies	9,600	9,600	8,111	1,489
Insurance	185,000	216,200	212,259	3,941
Awards	400	400	600	(200)
Contributions	372,400	373,400	10,250	363,150
Capital Outlay	4,000	4,000	3,567	433
<b>Total Other General Government</b>	<b>1,162,134</b>	<b>1,207,827</b>	<b>710,562</b>	<b>497,265</b>
<b>Total Administration and Finance</b>	<b>1,845,751</b>	<b>1,893,044</b>	<b>1,347,040</b>	<b>546,004</b>
<b>Codes Administration</b>				
Subscriptions and Memberships	1,600	2,399	1,934	465
Travel	2,000	2,000	1,968	32
Other Contractual Services	1,500	1,500	2,227	(727)
Operating Supplies	2,200	2,200	700	1,500
<b>Total Codes Administration</b>	<b>7,300</b>	<b>8,099</b>	<b>6,829</b>	<b>1,270</b>

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

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

For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<b>Police Protection</b>				
Personnel Costs	\$ 1,889,732	\$ 1,911,686	\$ 1,758,163	\$ 153,523
Vehicle Tow-In Service	750	750	0	750
Printing	4,850	4,850	2,903	1,947
Utilities	31,000	31,000	29,524	1,476
Professional Services	3,600	3,600	3,297	303
Repair and Maintenance	18,500	18,500	16,511	1,989
Travel	11,000	11,000	8,073	2,927
Other Contractual Services	37,050	55,750	37,256	18,494
Operating Supplies	41,300	41,300	41,362	(62)
Motor Vehicle Supplies	97,000	97,000	77,748	19,252
Capital Outlay	264,598	322,598	179,639	142,959
<b>Total Police Protection</b>	<b>2,399,380</b>	<b>2,498,034</b>	<b>2,154,476</b>	<b>343,558</b>
<b>Fire Protection</b>				
Personnel Costs	1,353,733	1,369,380	1,306,531	62,849
Vehicle Tow-In Service	1,000	1,000	0	1,000
Memberships	150	150	0	150
Utilities	17,000	17,000	16,690	310
Repair and Maintenance	21,500	21,500	14,247	7,253
Travel	3,000	3,000	1,540	1,460
Other Contractual Services	8,500	8,500	7,549	951
Operating Supplies	23,000	23,000	19,342	3,658
Motor Vehicle Supplies	29,000	29,000	23,522	5,478
Capital Outlay	96,970	329,462	286,672	42,790
<b>Total Fire Protection</b>	<b>1,553,853</b>	<b>1,801,992</b>	<b>1,676,093</b>	<b>125,899</b>
<b>Animal and Infectious Disease Control</b>				
Personnel Costs	68,557	69,394	69,375	19
Utilities	2,500	2,500	2,774	(274)
Repair and Maintenance	1,200	1,200	72	1,128
Travel	1,500	1,500	2,172	(672)
Other Contractual Services	1,000	1,000	760	240
Operating Supplies	3,700	3,700	1,052	2,648
Motor Vehicle Supplies	5,400	5,400	3,268	2,132
Capital Outlay	27,500	27,500	26,387	1,113
<b>Total Animal and Infectious Disease Control</b>	<b>111,357</b>	<b>112,194</b>	<b>105,860</b>	<b>6,334</b>

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

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

For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<b>Streets and Highways and General Public Works</b>				
Personnel Costs	\$ 497,826	\$ 519,540	\$ 540,965	\$ (21,425)
Postage	150	150	41	109
Operating Supplies	36,700	36,700	34,621	2,079
Motor Vehicle Supplies	31,000	31,000	28,532	2,468
Utilities	23,000	23,000	20,183	2,817
Repair and Maintenance	21,500	21,500	17,390	4,110
Capital Outlay	5,078,246	5,299,569	1,776,152	3,523,417
Miscellaneous	9,000	10,800	4,600	6,200
<b>Total Highways and Streets</b>	<u>5,697,422</u>	<u>5,942,259</u>	<u>2,422,484</u>	<u>3,519,775</u>
<b>Total Streets and Highways and General Public Works</b>	<u>5,697,422</u>	<u>5,942,259</u>	<u>2,422,484</u>	<u>3,519,775</u>
<b>Fleet Maintenance</b>				
Personnel Costs	53,473	54,128	56,876	(2,748)
Vehicle Tow-In Services	350	350	200	150
Repair and Maintenance	15,500	15,500	15,108	392
Operating Supplies	2,000	2,000	1,957	43
Motor Vehicle Supplies	22,000	22,000	14,569	7,431
<b>Total Fleet Maintenance</b>	<u>93,323</u>	<u>93,978</u>	<u>88,710</u>	<u>5,268</u>
<b>Sanitation</b>				
Personnel Costs	163,719	165,505	157,346	8,159
Motor Vehicle Supplies	10,000	10,000	7,823	2,177
<b>Total Sanitation</b>	<u>173,719</u>	<u>175,505</u>	<u>165,169</u>	<u>10,336</u>
<b>Engineering</b>				
Engineering Department				
<b>Total Engineering</b>	<u>25,000</u>	<u>78,900</u>	<u>28,438</u>	<u>50,462</u>
<b>Solid Waste Management</b>				
Repair and Maintenance - Vehicle	3,000	3,000	0	3,000
Other	12,000	12,000	9,003	2,997
<b>Total Solid Waste Management</b>	<u>15,000</u>	<u>15,000</u>	<u>9,003</u>	<u>5,997</u>

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

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

For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<b>Recreation Center and Library</b>				
<b>Recreation Center</b>				
Personnel Costs	\$ 381,845	\$ 387,430	\$ 383,209	\$ 4,221
Memberships	200	200	0	200
Utilities	86,000	86,000	85,547	453
Repair and Maintenance	39,500	39,500	34,907	4,593
Travel	300	300	445	(145)
Other Contractual Services	27,100	27,100	23,037	4,063
Operating Supplies	40,900	42,200	34,149	8,051
Motor Vehicle Supplies	10,000	10,000	7,604	2,396
Contributions	0	0	250	(250)
Capital Outlay	91,000	369,000	261,915	107,085
<b>Total Recreation Center</b>	676,845	961,730	831,063	130,667
<b>Library</b>				
Personnel Costs	64,564	64,564	64,752	(188)
Utilities	20,500	20,500	19,287	1,213
Travel	700	700	599	101
Other Contractual Services	2,300	2,300	3,435	(1,135)
Operating Supplies	4,500	4,500	4,416	84
Repairs and Maintenance	700	700	0	700
<b>Total Library</b>	93,264	93,264	92,489	775
<b>Total Recreation Center and Library</b>	770,109	1,054,994	923,552	131,442
<b>Debt Service</b>				
Principal Payments	289,000	289,000	289,000	0
Interest and Finance Charges	54,300	54,300	54,299	1
<b>Total Debt Service</b>	343,300	343,300	343,299	1
<b>Total Expenditures</b>	13,035,514	14,017,299	9,270,953	4,746,346
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	(3,935,991)	(4,595,277)	(2,979,336)	1,615,941
<b>Other Financing Sources (Uses)</b>				
Transfers In	114,388	114,388	0	(114,388)
Transfers Out	(36,000)	(41,871)	(46,969)	(5,098)
Transfers In Lieu of Tax-Electric Department	1,614,000	1,614,000	1,250,850	(363,150)
Proceeds from Issuance of Capital Outlay Notes	0	0	0	0
<b>Total Other Financing Sources (Uses)</b>	1,692,388	1,686,517	1,203,881	(482,636)
<b>Net Change in Fund Balances</b>	(2,243,603)	(2,908,760)	(1,775,455)	1,133,305
<b>Fund Balance at Beginning of Year</b>	5,709,842	5,709,842	5,709,842	0
<b>Fund Balance at End of Year</b>	\$ 3,466,239	\$ 2,801,082	\$ 3,934,387	\$ 1,133,305

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



**CITY OF LAFOLLETTE**  
**BALANCE SHEET - PROPRIETARY FUNDS**

June 30, 2018

	Enterprise Funds		Total
	Electric Department	Water Department	
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and Cash Equivalents	\$ 2,979,198	\$ 329,895	\$ 3,309,093
Utility Accounts Receivable, Net	5,259,149	1,087,630	6,346,779
Materials and Supplies Inventories	1,375,274	115,021	1,490,295
Prepaid Items and Other Current Assets	349,590	0	349,590
<b>Total Current Assets</b>	<b>9,963,211</b>	<b>1,532,546</b>	<b>11,495,757</b>
<b>NONCURRENT ASSETS</b>			
<b>Restricted Assets</b>			
Cash and Cash Equivalents	143,584	0	143,584
Investments	1,497,670	0	1,497,670
Certificates of Deposit	3,500,000	0	3,500,000
<b>Total Restricted Assets</b>	<b>5,141,254</b>	<b>0</b>	<b>5,141,254</b>
<b>Capital Assets</b>			
Nondepreciable Assets:			
Land and Land Rights	1,075,346	169,537	1,244,883
Construction Work in Progress	435,741	186,547	622,288
<b>Total Nondepreciable Assets</b>	<b>1,511,087</b>	<b>356,084</b>	<b>1,867,171</b>
Depreciable Assets:			
Structures and Improvements	5,192,648	17,221,929	22,414,577
Poles, Towers and Transmission Assets	84,372,662	0	84,372,662
Street Lighting Systems	4,145,152	0	4,145,152
Distribution Reservoir and Standpipes	0	2,390,701	2,390,701
Transmission and Distribution Mains	0	29,864,761	29,864,761
Service Installations	0	7,267,461	7,267,461
Equipment, Furniture and Fixtures	30,964,351	7,975,174	38,939,525
<b>Total Depreciable Assets</b>	<b>124,674,813</b>	<b>64,720,026</b>	<b>189,394,839</b>
Less Accumulated Depreciation	(58,650,213)	(29,887,575)	(88,537,788)
<b>Net Depreciable Assets</b>	<b>66,024,600</b>	<b>34,832,451</b>	<b>100,857,051</b>
<b>Net Capital Assets</b>	<b>67,535,687</b>	<b>35,188,535</b>	<b>102,724,222</b>
<b>Total Noncurrent Assets</b>	<b>72,676,941</b>	<b>35,188,535</b>	<b>107,865,476</b>
<b>TOTAL ASSETS</b>	<b>82,640,152</b>	<b>36,721,081</b>	<b>119,361,233</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Bond Refunding Losses	155,102	0	155,102
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<b>\$ 82,795,254</b>	<b>\$ 36,721,081</b>	<b>\$ 119,516,335</b>

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

CITY OF LAFOLLETTE

BALANCE SHEET - PROPRIETARY FUNDS (Continued)

June 30, 2018

	Enterprise Funds		Total
	Electric Department	Water Department	
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Accounts Payable	\$ 6,235,474	\$ 212,540	\$ 6,448,014
Current Maturities of Long-Term Debt	2,884,295	735,982	3,620,277
Current Portion of Accrued Compensated Absences	430,969	220,842	651,811
Accrued Interest Payable	185,263	0	185,263
Current Portion of Customer Deposits	416,540	0	416,540
Current Portion of Accrued Retirement Plan Payable	82,776	35,008	117,784
<b>Total Current Liabilities</b>	<u>10,235,317</u>	<u>1,204,372</u>	<u>11,439,689</u>
<b>NONCURRENT LIABILITIES</b>			
Long-Term Debt, Net	31,536,338	8,862,602	40,398,940
Accrued Retirement Plan Payable - Long-Term	464,919	153,187	618,106
Accrued Compensated Absences - Long-Term	553,165	486,384	1,039,549
Customer Deposits - Long-Term	1,821,663	0	1,821,663
Accrued Post-Retirement Plan (OPEB) Liability	483,887	249,275	733,162
<b>Total Noncurrent Liabilities</b>	<u>34,859,972</u>	<u>9,751,448</u>	<u>44,611,420</u>
<b>Total Liabilities</b>	<u>45,095,289</u>	<u>10,955,820</u>	<u>56,051,109</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>			
Deferred OPEB Inflows	11,607	5,980	17,587
<b>NET POSITION</b>			
Net Investment in Capital Assets	38,256,308	25,589,951	63,846,259
Unrestricted (Deficit)	(567,950)	169,330	(398,620)
<b>Total Net Position</b>	<u>37,688,358</u>	<u>25,759,281</u>	<u>63,447,639</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION</b>	<u>\$ 82,795,254</u>	<u>\$ 36,721,081</u>	<u>\$ 119,516,335</u>

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

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

For the Year Ended June 30, 2018

	Enterprise Funds		Total
	Electric Department	Water Department	
<b>OPERATING REVENUES</b>			
Charges for Services (Net of Bad Debt Expense of \$25,200 and \$29,400, Respectively)	\$ 48,865,034	\$ 6,503,453	\$ 55,368,487
Other	1,190,788	211,506	1,402,294
<b>Total Operating Revenues</b>	<b>50,055,822</b>	<b>6,714,959</b>	<b>56,770,781</b>
<b>OPERATING EXPENSES</b>			
Purchased Power	33,539,884	0	33,539,884
Water Purchased	0	1,647,170	1,647,170
Wastewater System	0	797,262	797,262
Distribution, Customer Accounts and Sales Expenses	3,429,130	578,092	4,007,222
Maintenance of Plant and Systems	2,036,976	0	2,036,976
General and Administrative	2,915,274	1,928,768	4,844,042
Depreciation	3,534,427	1,523,661	5,058,088
Taxes	662,492	0	662,492
<b>Total Operating Expenses</b>	<b>46,118,183</b>	<b>6,474,953</b>	<b>52,593,136</b>
<b>OPERATING INCOME</b>	<b>3,937,639</b>	<b>240,006</b>	<b>4,177,645</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest and Dividend Income	114,866	7,171	122,037
Loss on Investments, Net	(2,330)	0	(2,330)
Interest Expense	(881,959)	(141,665)	(1,023,624)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>(769,423)</b>	<b>(134,494)</b>	<b>(903,917)</b>
<b>INCOME BEFORE TRANSFERS &amp; CONTRIBUTIONS</b>	<b>3,168,216</b>	<b>105,512</b>	<b>3,273,728</b>
<b>CAPITAL CONTRIBUTIONS</b>	<b>0</b>	<b>525,000</b>	<b>525,000</b>
<b>TRANSFERS TO CITY OF LAFOLLETTE - IN LIEU OF TAXES</b>	<b>(1,250,850)</b>	<b>0</b>	<b>(1,250,850)</b>
<b>CHANGE IN NET POSITION</b>	<b>1,917,366</b>	<b>630,512</b>	<b>2,547,878</b>
<b>TOTAL NET POSITION, BEGINNING OF YEAR</b>	<b>35,710,544</b>	<b>25,147,365</b>	<b>60,857,909</b>
<b>RESTATEMENT OF BEGINNING NET POSITION - SEE NOTE 14</b>	<b>60,448</b>	<b>(18,596)</b>	<b>41,852</b>
<b>NET POSITION, BEGINNER OF YEAR - AS RESTATED</b>	<b>35,770,992</b>	<b>25,128,769</b>	<b>60,899,761</b>
<b>NET POSITION - END OF YEAR</b>	<b>\$ 37,688,358</b>	<b>\$ 25,759,281</b>	<b>\$ 63,447,639</b>

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

CITY OF LAFOLLETTE

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

For the Year Ended June 30, 2018

	Enterprise Funds		Total
	Electric Department	Water Department	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash Received from Customers	\$ 48,247,343	\$ 6,484,700	\$ 54,732,043
Cash Receipts from Other Operations	1,190,788	211,506	1,402,294
Cash Paid to Employees	(7,233,264)	(3,302,447)	(10,535,711)
Cash Paid to Suppliers	(34,903,613)	(1,646,513)	(36,550,126)
Cash Payments for Taxes and Other Operations	(662,492)	0	(662,492)
<b>Net Cash Provided by Operating Activities</b>	<b>6,638,762</b>	<b>1,747,246</b>	<b>8,386,008</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Transfers to City of LaFollette - In Lieu of Taxes	(1,250,850)	0	(1,250,850)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from Maturities of Certificates of Deposit	1,750,000	0	1,750,000
Purchases of Investments	(1,500,000)	0	(1,500,000)
Purchases of Certificates of Deposit	(250,000)	0	(250,000)
Interest on Cash and Cash Equivalents	114,866	7,171	122,037
<b>Net Cash Provided by Investing Activities</b>	<b>114,866</b>	<b>7,171</b>	<b>122,037</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Plant Additions and Construction	(3,170,667)	(1,388,657)	(4,559,324)
Plant and Equipment Removal Costs, Net	52,477	16,885	69,362
(Increase) in Restricted Cash	1,706,758	0	1,706,758
Repayments on Long-Term Debt	(2,819,582)	(725,367)	(3,544,949)
Cash Proceeds from Long-Term Debt Borrowing, Net	0	0	0
Interest on Long-Term Debt	(788,157)	(142,748)	(930,905)
<b>Net Cash Used in Capital and Related Financing Activities</b>	<b>(5,019,171)</b>	<b>(2,239,887)</b>	<b>(7,259,058)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>483,607</b>	<b>(485,470)</b>	<b>(1,863)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>2,495,591</b>	<b>815,365</b>	<b>3,310,956</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 2,979,198</b>	<b>\$ 329,895</b>	<b>\$ 3,309,093</b>

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

**CITY OF LAFOLLETTE**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (Continued)**

**For the Year Ended June 30, 2018**

	Enterprise Funds		Total
	Electric Department	Water Department	
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>			
Operating Income	\$ 3,937,639	\$ 240,006	\$ 4,177,645
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used In) Operating Activities:			
Depreciation (Net of Capitalized Depreciation of \$78,138 and \$68,768, Respectively)	3,534,427	1,523,661	5,058,088
Changes in Assets and Liabilities:			
Increase in Utility Accounts Receivable	(702,583)	(18,753)	(721,336)
(Increase) Decrease in Materials and Supplies Inventory	(158,878)	12,023	(146,855)
Decrease in Prepaid Items and Other Current Assets	(12,003)	0	(12,003)
Increase in Customer Deposits	84,892	0	84,892
Increase in Accounts Payable	149,665	6,137	155,802
Decrease in OPEB Liability	(30,143)	(15,529)	(45,672)
Increase (Decrease) in Accrued Compensated Absences	(93,163)	28,729	(64,434)
Increase in Deferred OPEB Inflows	11,607	5,980	17,587
Decrease in Accrued Retirement Plan Payable	(82,698)	(35,008)	(117,706)
Total Adjustments	2,701,123	1,507,240	4,208,363
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 6,638,762</b>	<b>\$ 1,747,246</b>	<b>\$ 8,386,008</b>
<b>Supplementary Schedule of Noncash Capital and Related Financing Activities</b>			
Amortization of Bond Premium	\$ 40,519	\$ 816	\$ 41,335
Contributed Capital Assets	\$ 0	\$ 525,000	\$ 525,000
Amortization of Deferred Amount on Refunding	\$ (91,696)	\$ 0	\$ (91,696)
Gain (Loss) on Investments	\$ (2,330)	\$ 0	\$ (2,330)

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

CITY OF LAFOLLETTE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018

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

**Reporting Entity** - The City of LaFollette (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. 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. A complete set of financial statements for the component unit may be obtained from the Finance Director of the City of LaFollette.

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.

**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.

The Statement of Net Position presents the City's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in three categories:

- *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.

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

**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.

**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.

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

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.

**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.

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.



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

**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.

**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%

**Deferred Property Taxes** - Property taxes for 2018 are recognized as an enforceable legal claim as of January 1, 2018. 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

**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.

**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 1 - 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 above), deferred pension inflows, deferred OPEB inflows and escrow for the hospital facilities lease (see Note 12).

**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.

**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.

**Recent Accounting Pronouncements** - During the fiscal year ended June 30, 2018, the City implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide postemployment benefits to their employees. The requirements of this new standard and their effect on the financial statements are more fully explained in Note 8 and Note 14.

**Evaluation of Subsequent Events** - Management has evaluated subsequent events through January 11, 2019, 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.

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

**Electric Department - Additional Significant Accounting Policies (Continued)**

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, 2018, balances due from the Electric Department to the Water Department were \$250,749.

**Utility Plant** - Utility plant and construction work in progress are stated at cost. Interest costs associated with long-term construction projects are capitalized. 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 \$2,500 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.

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.

As of June 30, 2018, the Electric Department has invested in certificates of deposit with various maturity dates 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. At June 30, 2018, unbilled revenue was estimated at approximately \$2,086,000.

**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.

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

**Electric Department - Additional Significant Accounting Policies**

**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).

**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.

**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, 2018, balances due from the Electric Department to the Water Department were \$250,749.

**Utility Plant** - Utility plant and construction work in progress are stated at cost. Interest costs associated with long-term construction projects are capitalized. 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 \$2,500 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 20% 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. At June 30, 2018, unbilled revenue was estimated at approximately \$284,000.

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

**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.

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

**Water Department - Additional Significant Accounting Policies (Continued)**

**Presentation of Certain Taxes** - The Water Department collects various taxes from customers and remits these amounts to applicable taxing authorities. The Water 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.

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.

**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.

**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 \$5,000 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 2 - CASH, CASH EQUIVALENTS AND CERTIFICATES OF DEPOSIT**

**Custodial Credit Risk - Deposits** - For cash and cash equivalents, this is the risk that in the event of a bank failure, the City's deposits will not be returned 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). As of June 30, 2018, the book balances of cash, cash equivalents, and certificates of deposit totaled \$12,975,464 and the bank balances totaled \$13,274,571 (\$4,770,812 of which was covered by FDIC insurance, \$2,724,327 was insured by the Tennessee Bank Collateral Pool Board of the State of Tennessee Treasury Department and \$5,779,432 which is in a financial institution not participating in the bank pool, but this institution pledges collateral held in safekeeping by a third party bank acting as an agent of the City in the City's name).

As of June 30, 2018, the book balances of the District's cash accounts were \$959,198 and the bank balances were \$980,750. Of the bank balances, \$250,000 was covered by FDIC insurance and \$730,750 was covered by collateral held by the Tennessee Bank Collateral Pool Board of the State of Tennessee Treasury Department.

**NOTE 3 - INTERFUND TRANSFERS**

<u>Transfers To:</u>	<u>Transfers From General Fund</u>
Special Police Fund	\$ 27,759
Drug Fund	19,210
Total	<u>\$ 46,969</u>

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 4 - CAPITAL ASSETS / RELATED PARTY TRANSACTION**

**Governmental Activities**

Capital asset activity for the year ended June 30, 2018 is as follows:

	<u>Balance June 30, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2018</u>
Capital Assets, Not Being Depreciated:				
Land	\$ 577,099	\$ 24,535	\$ 0	\$ 601,634
Construction In Progress	75,417	190,664	0	266,081
Total Capital Assets, Not Being Depreciated	<u>652,516</u>	<u>215,199</u>	<u>0</u>	<u>867,715</u>
Capital Assets, Being Depreciated:				
Land Improvements	951,566	0	0	951,566
Buildings and Improvements	3,501,945	88,080	0	3,590,025
Equipment, Furniture and Fixtures	1,499,583	164,090	0	1,663,673
Vehicles	3,649,506	377,487	0	4,026,993
Infrastructure	14,693,873	0	0	14,693,873
Total Capital Assets, Being Depreciated	<u>24,296,473</u>	<u>629,657</u>	<u>0</u>	<u>24,926,130</u>
Less Accumulated Depreciation for:				
Land Improvements	425,617	43,012	0	468,629
Buildings and Improvements	1,306,383	118,934	0	1,425,317
Equipment, Furniture and Fixtures	1,011,238	110,796	0	1,122,034
Vehicles	2,173,131	308,114	0	2,481,245
Infrastructure	9,513,740	309,225	0	9,822,965
Total Accumulated Depreciation	<u>14,430,109</u>	<u>890,081</u>	<u>0</u>	<u>15,320,190</u>
Total Capital Assets, Being Depreciated, Net	<u>9,866,364</u>	<u>(260,424)</u>	<u>0</u>	<u>9,605,940</u>
Governmental Activities Capital Assets, Net	<u>\$ 10,518,880</u>	<u>\$ (45,225)</u>	<u>\$ 0</u>	<u>\$ 10,473,655</u>

Depreciation was charged to governmental functions as follows:

Administration and Finance	\$ 97,923
Police Protection	159,656
Fire Protection	117,145
Animal and Infectious Disease Control	2,617
Streets and Highways and General Public Works	421,875
Recreation Center and Library	90,865
	<u>\$ 890,081</u>

**NOTE 4 - CAPITAL ASSETS / RELATED PARTY TRANSACTION (Continued)**

**Electric Department**

Capital asset activity for the year ended June 30, 2018 is as follows:

	Balance June 30, 2017	Increases	Decreases	Balance June 30, 2018
<b>Capital Assets, Not Being Depreciated:</b>				
Land and Land Rights	\$ 971,162	\$ 104,184	\$ 0	\$ 1,075,346
Construction Work in Progress	823,456	2,696,695	(3,084,410)	435,741
<b>Total Capital Assets, Not Being Depreciated</b>	<b>1,794,618</b>	<b>2,800,879</b>	<b>(3,084,410)</b>	<b>1,511,087</b>
<b>Capital Assets, Being Depreciated:</b>				
Structures and Improvements	5,178,877	13,771	0	5,192,648
Poles, Towers, and Transmission Assets	82,292,678	2,748,465	(668,481)	84,372,662
Street Lighting Systems	4,036,196	139,634	(30,678)	4,145,152
Equipment, Furniture and Fixtures	30,333,885	630,466	0	30,964,351
<b>Total Capital Assets, Being Depreciated</b>	<b>121,841,636</b>	<b>3,532,336</b>	<b>(699,159)</b>	<b>124,674,813</b>
<b>Less Accumulated Depreciation for:</b>				
Structures and Improvements	1,037,874	105,176	0	1,143,050
Poles, Towers, and Transmission Assets	34,340,347	2,454,461	(616,153)	36,178,655
Street Lighting Systems	2,827,706	171,332	(30,529)	2,968,509
Equipment, Furniture and Fixtures	17,478,403	881,596	0	18,359,999
<b>Total Accumulated Depreciation</b>	<b>55,684,330</b>	<b>3,612,565</b>	<b>(646,682)</b>	<b>58,650,213</b>
<b>Total Capital Assets, Being Depreciated, Net</b>	<b>66,157,306</b>	<b>(80,229)</b>	<b>(52,477)</b>	<b>66,024,600</b>
<b>Capital Assets, Net</b>	<b>\$ 67,951,924</b>	<b>\$ 2,720,650</b>	<b>\$ (3,136,887)</b>	<b>\$ 67,535,687</b>

**Water Department**

Capital asset activity for the year ended June 30, 2018 is as follows:

	Balance June 30, 2017	Increases	Decreases	Balance June 30, 2018
<b>Capital Assets, Not Being Depreciated:</b>				
Land and Land Rights	\$ 169,537	\$ 0	\$ 0	\$ 169,537
Construction Work in Progress	30,521	156,026	0	186,547
<b>Total Capital Assets, Not Being Depreciated</b>	<b>200,058</b>	<b>156,026</b>	<b>0</b>	<b>356,084</b>
<b>Capital Assets, Being Depreciated:</b>				
Structures and Improvements	17,165,026	56,903	0	17,221,929
Furniture, Fixtures and Equipment	6,651,112	1,335,458	(11,396)	7,975,174
Distribution Reservoir and Standpipes	2,317,140	75,686	(2,125)	2,390,701
Transmission and Distribution Mains	29,856,721	8,040	0	29,864,761
Service Installations	6,920,513	350,312	(3,364)	7,267,461
<b>Total Capital Assets, Being Depreciated</b>	<b>62,910,512</b>	<b>1,826,399</b>	<b>(16,885)</b>	<b>64,720,026</b>
<b>Less Accumulated Depreciation for:</b>				
Structures and Improvements	6,487,680	429,237	0	6,916,917
Furniture, Fixtures and Equipment	5,647,433	255,119	0	5,902,552
Distribution Reservoir and Standpipes	979,197	46,959	0	1,026,156
Transmission and Distribution Mains	11,241,158	595,134	0	11,836,292
Service Installations	3,939,678	265,980	0	4,205,658
<b>Total Accumulated Depreciation</b>	<b>28,295,146</b>	<b>1,592,429</b>	<b>0</b>	<b>29,887,575</b>
<b>Total Capital Assets, Being Depreciated, Net</b>	<b>34,615,366</b>	<b>233,970</b>	<b>(16,885)</b>	<b>34,832,451</b>
<b>Capital Assets, Net</b>	<b>\$ 34,815,424</b>	<b>\$ 389,996</b>	<b>\$ (16,885)</b>	<b>\$ 35,188,535</b>

**NOTE 4 - CAPITAL ASSETS / RELATED PARTY TRANSACTION (Continued)**

**Emergency Communications District**

Capital asset activity for the component unit for the year ended June 30, 2018 is as follows:

	Balance June 30, 2017	Increases	Decreases	Balance June 30, 2018
Capital Assets, Not Being Depreciated:				
Land and Land Rights	\$ 4,000	\$ 0	\$ 0	\$ 4,000
Capital Assets, Being Depreciated:				
Equipment, Furniture and Fixtures	611,554	21,517	0	633,071
Less Accumulated Depreciation for:				
Equipment, Furniture and Fixtures	503,098	33,630		536,728
Total Capital Assets, Being Depreciated, Net	108,456	(12,113)	0	96,343
Capital Assets, Net	<u>\$ 112,456</u>	<u>\$ (12,113)</u>	<u>\$ 0</u>	<u>\$ 100,343</u>

**NOTE 5 - LONG-TERM DEBT**

Changes in long-term debt for the year ended June 30, 2018 are as follows:

	Balance June 30, 2017	Increases	Decreases	Balance June 30, 2018	Current Portion
<b>Governmental Activities:</b>					
General Obligation:					
Capital Outlay Note	\$ 655,000	\$ 0	\$ (157,000)	\$ 498,000	\$ 161,000
Capital Outlay Note	1,500,000	0	(132,000)	1,368,000	136,000
	<u>\$ 2,155,000</u>	<u>\$ 0</u>	<u>\$ (289,000)</u>	<u>\$ 1,866,000</u>	<u>\$ 297,000</u>
<b>Business-Type Activities:</b>					
General Obligation:					
Loans Payable to PBA Clarksville, Series 2003, 2004, 2008 and 2010	\$ 7,654,000	\$ 0	\$ (737,000)	\$ 6,917,000	\$ 757,000
Loan Payable to PBA Montgomery County, Series 2006	7,538,000	0	(426,000)	7,112,000	447,000
TLDA Loans	5,848,647	0	(444,984)	5,403,663	448,504
Series 2014A	7,535,440	0	(1,311,335)	6,224,105	1,295,000
Refunding, Series 2015A	5,230,000	0	(380,000)	4,850,000	380,000
Refunding, Series 2015B	3,725,000	0	(255,000)	3,470,000	260,000
Series 2017	8,360,000	0	0	8,360,000	0
Rural Development Revenue and Tax Bonds	1,714,414	0	(31,965)	1,682,449	32,773
	<u>\$ 47,605,501</u>	<u>\$ 0</u>	<u>\$ (3,586,284)</u>	<u>\$ 44,019,217</u>	<u>\$ 3,620,277</u>

**Governmental Activities**

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, 2018
General Obligation Capital Outlay Note	2.94%	10/27/10	10/01/20	\$ 1,500,000	\$ 498,000
General Obligation Capital Outlay Note	2.81%	04/12/17	03/01/27	1,500,000	1,368,000
					<u>\$ 1,866,000</u>



**NOTE 5 - LONG-TERM DEBT (Continued)**

**Governmental Activities (Continued)**

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 297,000	\$ 50,715
2020	306,000	42,087
2021	314,000	33,199
2022	147,000	26,667
2023	152,000	22,536
2024-2027	650,000	46,280
<b>Total</b>	<b>\$ 1,866,000</b>	<b>\$ 221,484</b>

**Electric Department**

Changes in long-term obligations for the year ended June 30, 2018 are as follows:

	<u>Balance June 30, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2018</u>	<u>Amounts Due Within One Year</u>
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	\$ 3,914,087	\$ 0	\$ (449,129)	\$ 3,464,958	\$ 460,229
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	7,538,000	0	(426,000)	7,112,000	447,000
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	1,406,102	0	(79,453)	1,326,649	82,066
GO Bonds Series 2014A, 2.0% to 4.0%	6,640,000	0	(1,230,000)	5,410,000	1,255,000
GO Refunding Bonds Series 2015A, 2.0%	5,230,000	0	(380,000)	4,850,000	380,000
GO Refunding Bonds Series 2015B, 2.0% to 2.75%	3,725,000	0	(255,000)	3,470,000	260,000
GO Bonds Series 2017, 2.0% to 3.25%	8,360,000	0	0	8,360,000	0
	<u>36,813,189</u>	<u>0</u>	<u>(2,819,582)</u>	<u>33,993,607</u>	<u>2,884,295</u>
Plus Unamortized Premiums on Issuance	467,545	0	(40,519)	427,026	0
	<u>\$ 37,280,734</u>	<u>\$ 0</u>	<u>\$ (2,860,101)</u>	<u>\$ 34,420,633</u>	<u>\$ 2,884,295</u>

**NOTE 5 - LONG-TERM DEBT (Continued)**

**Electric Department (Continued)**

The bonds and loans payable outstanding as of June 30, 2018 are as follows:

	<u>Interest Rates</u>	<u>Date Issued</u>	<u>Final Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Balance June 30, 2018</u>
Loan Payable to PBA - Clarksville, Series 2004	Variable	5/24/2005	5/25/2025	\$ 8,538,600	\$ 3,464,958
Loan Payable to PBA - Montgomery County - Series 2006	Variable	3/3/2008	5/25/2030	10,000,000	7,112,000
Loan Payable to PBA - Clarksville, Series 2008	Variable	10/31/2008	5/25/2031	1,829,500	1,326,649
Electric System General Obligation Bonds, Series 2014A	2.00% - 4.00%	12/5/2014	3/1/2035	9,075,000	5,410,000
Electric System General Obligation Refunding Bonds, Series 2015A	2.00%	2/27/2015	3/1/2022	5,990,000	4,850,000
Electric System General Obligation Refunding Bonds, Series 2015B	2.00% - 2.75%	3/31/2015	3/1/2030	4,225,000	3,470,000
Electric System General Obligation Bonds, Series 2017	2.00% to 3.25%	5/25/2017	3/1/2037	8,360,000	8,360,000
					<u>\$ 33,993,607</u>

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

	<u>Principal</u>	<u>Interest</u>
2019	\$ 2,884,295	\$ 767,399
2020	2,995,532	733,149
2021	3,433,769	673,529
2022	3,502,859	601,255
2023	2,068,949	527,410
2024-2028	9,685,531	1,986,396
2029-2033	6,457,672	958,959
2034-2037	2,965,000	228,563
Total	<u>\$ 33,993,607</u>	<u>\$ 6,476,660</u>

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.

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.

On May 25, 2017, the Electric Department issued \$8,360,000 in General Obligation Bonds (Series 2017) to provide funds for the acquisition of land and construction, renovation, extension and equipping of site improvements, facilities and equipment for the City's electric system. The bonds are 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 5 - LONG-TERM DEBT (Continued)**

**Water Department**

Changes in long-term obligations for the year ended June 30, 2018 are as follows:

	Balances June 30, 2017	Increases	Decreases	Balances June 30, 2018	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)	\$ 380,000	\$ 0	\$ (59,000)	\$ 321,000	\$ 61,000
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)	669,913	0	(76,871)	593,042	78,771
State Revolving Fund Loan Payable to the Tennessee Local Development Authority - Series 2003 (TLDA, Series 2003)	473,399	0	(53,676)	419,723	54,064
State Revolving Fund Loan Payable to the Tennessee Local Development Authority Series 2006 (TLDA, Series 2006)	5,375,248	0	(391,308)	4,983,940	394,440
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)	1,283,898	0	(72,547)	1,211,351	74,934
Rural Development Water and Sewer Revenue and Tax Bonds - Series 2012 - Fixed Rate of 2.5%	1,714,414	0	(31,965)	1,682,449	32,773
Water System General Obligation Bonds, Series 2014A, 2.00% to 2.75%	420,000	0	(40,000)	380,000	40,000
	<u>10,316,872</u>	<u>0</u>	<u>(725,367)</u>	<u>9,591,505</u>	<u>735,982</u>
Plus: Unamortized Premiums on Issuance	7,895	0	(816)	7,079	0
	<u>\$ 10,324,767</u>	<u>\$ 0</u>	<u>\$ (726,183)</u>	<u>\$ 9,598,584</u>	<u>\$ 735,982</u>

The bonds, loans and notes payable outstanding as of June 30, 2018 are as follows:

	Interest Rates	Date Issued	Final Maturity Date	Amount of Original Issue	Balance June 30, 2018
Loan Payable to PBA - Clarksville, Series 2003	Variable	12/29/2003	5/25/2023	\$ 1,000,000	\$ 321,000
Loan Payable to PBA - Clarksville, Series 2004	Variable	5/24/2005	5/25/2025	1,461,400	593,042
Loan Payable to TLDA, Series 2003	0.71%	6/23/2003	6/30/2026	1,060,000	419,723
Loan Payable to TLDA, Series 2006	0.80%	6/25/2007	2/20/2030	7,997,945	4,983,940
Loan Payable to PBA - Clarksville, Series 2008	Variable	10/31/2008	5/25/2031	1,670,500	1,211,351
Rural Development Water and Sewer Revenue and Tax Bonds, Series 2012	2.50%	12/4/2012	6/30/2051	1,825,000	1,682,449
Water System General Obligation Bonds, Series 2014A	2.00% to 2.75%	12/5/2014	3/1/2027	500,000	380,000
				<u>\$ 9,591,505</u>	

**NOTE 5 - 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
2019	\$ 735,982	\$ 129,965
2020	746,127	124,633
2021	757,319	114,921
2022	768,719	105,010
2023	780,156	94,922
2024-2028	3,265,210	335,771
2029-2033	1,444,464	172,047
2034-2038	250,692	121,608
2039-2043	284,035	88,265
2044-2048	321,812	50,488
2049-2052	236,989	10,219
Total	<u>\$ 9,591,505</u>	<u>\$ 1,347,849</u>

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 \$8,142,640 based on rates in effect as of June 30, 2018. Principal and interest paid for the current year and total net revenues of the Water Department were \$564,204 and \$6,714,959, 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 6 - OTHER LONG-TERM LIABILITIES**

	Balance June 30, 2017	Increases	Decreases	Balance June 30, 2018	Amounts Due Within One Year
<b>Governmental Activities:</b>					
Accrued Compensated Absences	\$ 278,918	\$ 298,331	\$ (278,918)	\$ 298,331	\$ 298,331
Accrued Post-Retirement Plan (OPEB)	1,017,793	117,334	(102,607)	1,032,520	0
	<u>\$ 1,296,711</u>	<u>\$ 415,665</u>	<u>\$ (381,525)</u>	<u>\$ 1,330,851</u>	<u>\$ 298,331</u>
<b>Business-Type Activities:</b>					
Customer Deposits	\$ 2,153,311	\$ 478,382	\$ (393,490)	\$ 2,238,203	\$ 416,540
Accrued Compensated Absences	1,755,794	436,583	(704,054)	1,488,323	651,811
Accrued Retirement Plan	853,596	0	(117,706)	735,890	117,784
Accrued Post-Retirement Plan (OPEB)	778,834	245,987	(88,622)	936,199	0
	<u>\$ 5,541,535</u>	<u>\$ 1,160,952</u>	<u>\$ (1,303,872)</u>	<u>\$ 5,398,615</u>	<u>\$ 1,186,135</u>

The June 30, 2017 Accrued Post-Retirement Plan (OPEB) balances have been adjusted to reflect the restatement discussed in Note 14.

**NOTE 7 - RETIREMENT PLANS**

**Governmental Activities 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.state.tn.us/tcrs](http://www.treasury.state.tn.us/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, 2017, the following numbers of employees were covered by the benefit terms:

Inactive Employees or Beneficiaries Currently Receiving Benefits	62
Inactive Employees Entitled to but not yet Receiving Benefits	99
Active Employees	88
Total	<u>249</u>

*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, 2018, the employer contributions for the City were \$295,629 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, 2017, 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, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary Increases	Graded salary ranges from 8.75% to 3.45% based on age, including inflation, averaging 4.00%
Investment Rate of Return	7.25%, net of pension plan investment expenses, including inflation
Cost-of-Living Adjustment	2.25%

**NOTE 7 - RETIREMENT PLANS (Continued)**

**Governmental Activities Pension Plan (Continued)**

**Net Pension Liability (Continued)**

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

The actuarial assumptions used in the June 30, 2017 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012 through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

*Changes of Assumptions* - In 2017, the following assumptions were changed: decreased inflation rate from 3.00% to 2.50%; decreased the investment rate of return from 7.50% to 7.25%; decreased the cost-of-living adjustment from 2.50% to 2.25%; decreased salary growth graded ranges from an average of 4.25% to an average of 4.00%; and modified mortality assumptions.

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

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

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

*Discount Rate* -The discount rate used to measure the total pension liability was 7.25%. 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.

**NOTE 7 - RETIREMENT PLANS (Continued)**

**Governmental Activities Pension Plan (Continued)**

**Changes in the Net Pension Liability**

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
<b>Balance at June 30, 2016</b>	\$ 12,558,027	\$ 11,597,294	\$ 960,733
<b>Changes for the Year</b>			
Service Cost	265,629	0	265,629
Interest	934,465	0	934,465
Difference between Expected and Actual Experience	(307,711)	0	(307,711)
Changes in Assumptions	313,514	0	313,514
Contribution - Employer	0	282,489	(282,489)
Contribution - Employee	0	144,569	(144,569)
Net Investment Income	0	1,296,720	(1,296,720)
Benefit Payments, including Refunds of Employee Contributions	(728,233)	(728,233)	0
Administrative Expense	0	(7,187)	7,187
<b>Net Changes</b>	<u>477,664</u>	<u>988,358</u>	<u>(510,694)</u>
<b>Balance at June 30, 2017</b>	<u>\$ 13,035,691</u>	<u>\$ 12,585,652</u>	<u>\$ 450,039</u>

*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 7.25%, 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 (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
City's Net Pension Liability	\$ 1,978,877	\$ 450,039	\$ (821,605)

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

*Pensions Expense* - For the year ended June 30, 2018, the City recognized pension expense of \$138,118.

*Deferred Outflows of Resources and Deferred Inflows of Resources* - For the year ended June 30, 2018, 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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 89,484	\$ 369,120
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	2,809	0
Changes in Assumptions	268,726	0
Contributions Subsequent to the Measurement Date of June 30, 2017	295,629	0
<b>Total</b>	<u>\$ 656,648</u>	<u>\$ 369,120</u>

\*The amount show above for "Contributions subsequent to the measurement date of June 30, 2017", will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period.

**NOTE 7 - RETIREMENT PLANS (Continued)**

**Governmental Activities Pension Plan (Continued)**

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)**

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

Year Ended June 30,	
2019	\$ (66,366)
2020	116,154
2021	15,046
2022	(92,490)
2023	18,726
Thereafter	829

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, 2018, 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**

The Electric and Water Department participate in the Retirement Security Plan (RS Plan) sponsored and administered by the National Rural Electric Cooperative Association (NRECA) which is a cost-sharing pension plan that has the characteristics described in paragraph 2 of GASB Statement No. 78. The RS Plan must file annual reports with the U.S. Department of Labor (Form 5500) that include a copy of the RS Plan annual financial statements. An electronic copy of Form 5500, and the plan's annual financial statements, can be obtained by going to [www.efast.dol.gov](http://www.efast.dol.gov) and using the search tool (EIN 530116145: PN 333). Copies of the RS Plan's annual financial statements are also available to participating employers by calling NRECA's Member Contact Center at 866-673-2299.

The Plan provides defined benefit pension retirement benefits to covered employees. Members are eligible to retire at age 62 or after 30 years of service, beginning in 1970. Benefits are determined by a formula using the member's final average effective salary for each of their years of benefit service. Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. As of June 30, 2018, 70 of the Electric Department's employees and 17 of the Water Department's employees were covered under the RS Plan. The Electric Department and Water Department may amend certain terms of the Plan, including benefit levels provided for each year of service, normal retirement age, cost-of-living (COLA) adjustments to retiree annuity payments, eligibility for participation, and required employee contributions to the plan. Other plan terms, such as vesting periods, forms of payment, and factors used to reduce benefits for early retirement and conversion of benefits to optional forms of payment, are governed at the overall plan level and cannot be adjusted by individual employers (such provisions require approval by the NRECA board of directors). Each employer elects to participate in the Plan.

Plan participants do not contribute to the Plan, and the Electric Department and Water Department are required to contribute annually in accordance with the terms of the RS Plan. The total annual contribution is determined actuarially to be sufficient in funding the benefits of the RS Plan as a level percentage of covered payroll over the average expected remaining working lifetime of its participants. The amount is determined annually. This total annual contribution is allocated based on each employer's RS Plan provisions and participant demographics (in particular, the average age of participants and each participant's pay level). The Electric Department and Water Department may amend certain benefit provisions, changing the corresponding contribution level after the effective date of the amendment. For the year ended June 30, 2018, required employer contributions for the Electric Department were \$859,172 based on a rate of 27.27% of covered payroll and required employer contributions for the Water Department were \$442,604 based on a rate of 27.27% of covered payroll. These amounts represent all of the required contributions for the year, and no amounts are included in accounts payable at year end. The RS Plan must meet minimum funding requirements under ERISA, as determined by Internal Revenue Service regulations. The Electric Department and Water Department can choose to withdraw from the RS Plan, subject to plan provisions that require the departments to fully fund its share of RS Plan liabilities before withdrawing.



**NOTE 7 - RETIREMENT PLANS (Continued)**

**Electric and Water Department Pension Plan (Continued)**

The Electric Department and Water Department have recorded a payable to NRECA related to contractual agreements for contributions to the RS Plan related to past service upon the Department's entrance into the Plan. This liability is to be repaid in annual installments, with final payment due in 2047. The Electric and Water Department's contractual liability for past service costs as of June 30, 2018 is as follows:

	<u>Electric Department</u>	<u>Water Department</u>
Contractual Liability - Beginning of Year	\$ 630,393	\$ 223,203
Amounts Remitted to the NRECA	<u>(82,698)</u>	<u>(35,008)</u>
Contractual Liability - End of Year	547,695	188,195
Less Current Portion of Accrued Liability	<u>(82,776)</u>	<u>(35,008)</u>
Long-Term Portion of Accrued Liability	<u>\$ 464,919</u>	<u>\$ 153,187</u>

**Electric and Water Department Defined Contribution 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 \$234,658 for the Electric Department and \$120,884 for the Water Department for the year ended June 30, 2018. Contributions by the Electric Department totaled \$140,772 and contributions by the Water Department totaled \$72,519 for the year ended June 30, 2018.

**NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

**Governmental Activities**

**General Information About the OPEB Plan**

*Plan Description* – The City provides certain post-employment benefits to certain retirees. The City will allow the retirees and their dependents to participate in the City's health insurance plan (including former council members). Former employees that have attained the age of 60 and have at least 20 years of service or 30 years of service under TCRS and age 60 may obtain health insurance coverage. The City pays the premiums for these retirees (premiums for dependent coverage is paid for by the retiree). The City also provides an early retirement benefit whereas the City will pay half of the retiree's health insurance premiums after obtaining 20 years of service and age 55 or 30 years of service under TCRS. Coverage for both options are available until the earlier of age 65, Medicare eligibility, or covered by another health insurance plan, but in no event longer than 5 years.

*Benefits Provided* – The City's healthcare plan is insured and serviced by Humana. A premium is paid for medical coverage which is not age related. However, the underlying cost of the medical coverage does vary by age, as medical costs tend to increase with age. As the premium paid for retirees is the same as for active employees, a more valuable benefit is received by retirees as compared to younger, active employees. GASB 75 defines this benefit as an implicit rate subsidy and it is to be valued under the standards.

*Employees Covered by Benefit Terms* – At July 1, 2017, the following employees of the City were covered by the benefit terms of the Plan:

Retired Employees	8
Disabled Employees	0
Beneficiaries	0
Active Employees	<u>89</u>
Total Participants	<u>97</u>

**NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)**

**Governmental Activities (Continued)**

**General Information About the OPEB Plan (Continued)**

The contribution requirements are established and may be amended by the City. The Plan is currently being funded on a pay-as-you-go basis. There are no assets accumulating in a trust that meets that criteria of paragraph 4 of GASB Statement No. 75. For the fiscal year ended June 30, 2018, the City paid \$72,531 to the Plan for OPEB benefits as they came due.

**Total OPEB Liability**

*Actuarial Assumptions* - The total OPEB liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.00%
Healthcare Cost Trend Rates:	5.00% for 2018, remaining stagnant over the course of the next several periods.
Retiree's Share of Benefit-Related Costs	Members opting to receive full retirement benefits are not required to make monthly contributions to maintain their individual coverage. Members are required to make monthly contributions for dependents to maintain coverage. Members opting for early benefits are required to make monthly contributions of half their premiums to maintain coverage and full contributions to maintain dependent coverage.

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.

The actuarial demographic assumptions used in the July 1, 2017 actuarial valuation were based on the results of past experience. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. The mortality rates employed in this valuation are taken from the Group Annuity 1983 Mortality Table.

*Discount Rate* - The discount rate used to measure the total OPEB liability as of June 30, 2018 was 3.87% (3.58% as of June 30, 2017). This rate reflects the interest rate derived from yields on 20-year, tax-exempt general obligation municipal bonds, prevailing on the measurement date, with an average rating of AA/Aa as shown on the Bond Buyer's 20-Year Municipal GO index.

**NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)**

**Governmental Activities (Continued)**

**General Information About the OPEB Plan (Continued)**

**Changes in the Total OPEB Liability**

	<u>Total OPEB Liability</u>
<b>Balances at July 1, 2017 - as Restated - See Note 14</b>	<b>\$ 1,017,793</b>
Changes for the Year	
Service Cost	78,101
Interest	39,233
Change in Assumptions	(30,076)
Benefit Payments	<u>(72,531)</u>
Net Changes	<u>14,727</u>
<b>Balances at June 30, 2018</b>	<b>\$ <u>1,032,520</u></b>

*Changes in Assumptions* - The discount rate was changed from 3.58% as of the beginning of the measurement period to 3.87% as of June 30, 2018. This change in assumption increased the total OPEB liability.

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

<u>Total OPEB Liability</u>	<u>1% Decrease (2.87%)</u>	<u>Discount Rate (3.87%)</u>	<u>1% Increase (4.87%)</u>
2018	<u>\$ 1,141,133</u>	<u>\$ 1,032,520</u>	<u>\$ 937,060</u>

*Sensitivity of Total OPEB Liability to Changes in the Healthcare Cost Trend Rate* - The following presents the total OPEB liability related to The Plan, as well as what the total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower (4.00%) or 1-percentage-point higher (6.00%) than the current healthcare cost trend rate.

<u>Total OPEB Liability</u>	<u>1% Decrease (4.00%)</u>	<u>Healthcare Cost Trend Rates (5.00%)</u>	<u>1% Increase (6.00%)</u>
2018	<u>\$ 905,247</u>	<u>\$ 1,032,520</u>	<u>\$ 1,187,318</u>

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

*OPEB Expense* - For the fiscal year ended June 30, 2018, the City recognized OPEB expense of \$117,334.

*Deferred Outflows of Resources and Deferred Inflows of Resources* - For the fiscal year ended June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB benefits from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Change in Assumptions	<u>\$ 0</u>	<u>\$ 26,408</u>

**NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)**

**Governmental Activities (Continued)**

**General Information About the OPEB Plan (Continued)**

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)**

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

<u>For the Years ended June 30:</u>	
2019	\$ (3,301)
2020	(3,301)
2021	(3,301)
2022	(3,301)
2023	(3,301)
Thereafter	<u>(9,903)</u>
Total	<u>\$ (26,408)</u>

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

**Electric Department and Water Department**

*Plan Description* - In addition to the retirement benefits described in Note 7, 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.

*Benefits Provided* - The Water and Electric Department's healthcare plan is insured and serviced by Blue Cross Blue Shield of Tennessee. A premium is paid for medical coverage which is not age related. However, the underlying cost of the medical coverage does vary by age as medical costs tend to increase with age. As a result, older employees receive a more valuable benefit than younger employees. As the premium paid for retirees is the same as for active employees, a more valuable benefit is received by retirees as compared to younger, active employees. GASB 75 defines this benefit as an implicit rate subsidy and it is to be valued under the standards. An adjustment from active employee health costs to retiree medical health costs is made to properly account for this subsidy.

*Employees Covered by Benefit Terms* - At July 1, 2017, the following employees of the Electric Department were covered by the benefit terms of The Plan:

	<u>Electric Department</u>	<u>Water Department</u>
Retired Employees	5	2
Disabled Employees	1	0
Beneficiaries	1	1
Active Employees	<u>60</u>	<u>31</u>
Total Participants	<u>67</u>	<u>34</u>

**NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)**

**Electric Department and Water Department (Continued)**

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. There are no assets accumulating in a trust that meet the criteria of paragraph 4 of GASB Statement No. 75. For the fiscal year ended June 30, 2018, the Electric Department paid \$45,432 and the Water Department paid \$23,405 to the Plan for OPEB benefits as they came due.

**Total OPEB Liability**

*Actuarial Assumptions* - The total OPEB liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.00%
Healthcare Cost Trend Rates	5.00% for 2018, remaining stagnant over the course of the next several periods.
Retiree's Share of Benefit-Related Costs	Members are required to make monthly contributions in order to maintain their coverage. The Electric Department pays a portion of eligible retirees' and their dependents' medical premiums, for a total of five years. The portion paid amounts to 2% for each year of service, up to 50% of premiums for retirees and 1% for each year of service up to 25% of premiums for their dependents.

Actuarial valuations of an ongoing plan involve estimates of value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. 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 value of assets, consistent with the long-term perspective of the calculations.

The actuarial demographic assumptions used in the July 1, 2017 actuarial valuation were based on the results of past experience. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. The mortality rates employed in this valuation are taken from the Group Annuity 1983 Mortality Table.

*Discount Rate* - The discount rate used to measure the total OPEB liability as of June 30, 2018 was 3.87%. This rate reflects the interest rate derived from yields on 20-year, tax-exempt general obligation municipal bonds, prevailing on the measurement date, with an average rating of AA/Aa as shown on the Bond Buyer's 20-Year Municipal GO index.

**NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)**

**Electric Department and Water Department (Continued)**

**Changes in the Total OPEB Liability**

	<u>Electric Department</u>	<u>Water Department</u>
<b>Balances at July 1, 2017 - as Restated - See Note 14</b>	\$ 514,030	\$ 264,804
Changes for the Year		
Service Cost	9,601	4,946
Interest	18,746	9,657
Change in Assumptions	(13,058)	(6,727)
Benefit Payments	(45,432)	(23,405)
Net Changes	<u>(30,143)</u>	<u>(15,529)</u>
<b>Balances at June 30, 2018</b>	<u>\$ 483,887</u>	<u>\$ 249,275</u>

*Changes in Assumptions* - The discount rate was changed from 3.58% as of the beginning of the measurement period to 3.87% as of June 30, 2018. This change in assumption increased the total OPEB liability.

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

	<u>1% Decrease (2.87%)</u>	<u>Discount Rate (3.87%)</u>	<u>1% Increase (4.87%)</u>
2018 Total OPEB Liability			
Electric	\$ 529,851	\$ 483,887	\$ 443,043
Water	\$ 272,953	\$ 249,275	\$ 228,235

*Sensitivity of Total OPEB Liability to Changes in the Healthcare Cost Trend Rate* - The following presents the total OPEB liability related to The Plan, as well as what the total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower (4.00%) or 1-percentage-point higher (6.00%) than the current healthcare cost trend rate.

	<u>1% Decrease (4.00%)</u>	<u>Healthcare Cost Trend Rates (5.00%)</u>	<u>1% Increase (6.00%)</u>
2018 Total OPEB Liability			
Electric	\$ 432,703	\$ 483,887	\$ 544,647
Water	\$ 222,907	\$ 249,275	\$ 280,575

**NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)**

**Electric Department and Water Department (Continued)**

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

*OPEB Expense* - For the fiscal year ended June 30, 2018, the Electric and Water Department recognized OPEB expense of \$28,347 and \$13,856, respectively.

*Deferred Outflows of Resources and Deferred Inflows of Resources* - For the fiscal year ended June 30, 2018, the Electric and Water Department reported deferred outflows of resources and deferred inflows of resources related to OPEB benefits from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Change in Assumptions		
Electric	\$ <u>0</u>	\$ <u>11,607</u>
Water	\$ <u>0</u>	\$ <u>5,980</u>

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

<u>For the Years Ended June 30:</u>	<u>Electric</u>	<u>Water</u>
2019	\$ (1,451)	\$ (747)
2020	(1,451)	(747)
2021	(1,451)	(747)
2022	(1,451)	(747)
2023	(1,451)	(747)
Thereafter	(4,352)	(2,245)
Total	\$ <u>(11,607)</u>	\$ <u>(5,980)</u>

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

**NOTE 9 - 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 10 - 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 11 - COMMITMENTS**

The Electric Department and the Water Department periodically enter into work plans for various system improvements. As of June 30, 2018, the Electric Department and the Water Department have approximately \$898,000 and \$0, respectively in contractual construction commitments.

**NOTE 12 - LEASE OF HOSPITAL FACILITIES**

In 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, 2018, the City held \$1,835,350 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 13 - CAPITAL CONTRIBUTIONS**

**Water Department**

In 2018, capital contributions in the Water Department consist of contributions from Campbell County totaling \$525,000 for a sewer system improvement project.

**NOTE 14 - RESTATEMENT FOR NEW ACCOUNTING STANDARD**

Effective July 1, 2017, the City adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide postemployment benefits to their employees. See Note 8 for additional information about the City's OPEB plan. No beginning balances for deferred outflows or inflows of resources related to OPEB were reported for the adoption of this standard, as it was not practical for the City to determine these amounts.

As a result of adopting GASB Statement No. 75, the City has recorded a prior period adjustment to the unrestricted net position as of July 1, 2017:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>
Net Position, Beginning of Year, July 1, 2017, as Originally Reported	\$ 13,118,436	\$ 60,857,909	\$ 73,976,345
Net OPEB Liability, Beginning of Year, July 1, 2017, as calculated and reported under GASB Statements No. 75.	<u>(7,140)</u>	<u>41,852</u>	<u>34,712</u>
Net Position, Beginning of Year, July 1, 2017, as Restated	<u>\$ 13,111,296</u>	<u>\$ 60,899,761</u>	<u>\$ 74,011,057</u>



**REQUIRED SUPPLEMENTARY INFORMATION SECTION**

**CITY OF LAFOLLETTE**  
**SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY**  
**AND RELATED RATIOS**

**Last Four Fiscal Years Ending June 30,**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Total Pension Liability</b>				
Service Cost	\$ 265,629	\$ 215,302	\$ 213,215	\$ 189,730
Interest	934,465	894,840	878,279	850,331
Changes of Benefit Terms	0	0	0	0
Differences between Actual and Expected Experience	(307,711)	125,278	(164,633)	(26,344)
Changes of Assumptions	313,514	0	0	0
Benefits Payment, Including Refunds of Employee Contributions	<u>(728,233)</u>	<u>(786,582)</u>	<u>(629,674)</u>	<u>(699,454)</u>
<b>Net Change in Total Pension Liability</b>	477,664	448,838	297,187	314,263
<b>Total Pension Liability - Beginning</b>	<u>12,558,027</u>	<u>12,109,189</u>	<u>11,812,002</u>	<u>11,497,739</u>
<b>Total Pension Liability - Ending (a)</b>	<u>\$ 13,035,691</u>	<u>\$ 12,558,027</u>	<u>\$ 12,109,189</u>	<u>\$ 11,812,002</u>
<b>Plan Fiduciary Net Position</b>				
Contributions - Employer	\$ 282,489	\$ 277,044	\$ 257,236	\$ 242,516
Contributions - Employee	144,569	141,783	131,646	121,017
Net Investment Income	1,296,720	304,499	352,257	1,667,229
Benefit Payments, Including Refunds of Employee Contributions	<u>(728,233)</u>	<u>(786,582)</u>	<u>(629,674)</u>	<u>(699,454)</u>
Administrative Expense	<u>(7,187)</u>	<u>(6,438)</u>	<u>(4,284)</u>	<u>(3,360)</u>
<b>Net Change in Plan Fiduciary Net Position</b>	988,358	(69,694)	107,181	1,327,948
<b>Plan Fiduciary Net Position - Beginning</b>	<u>11,597,294</u>	<u>11,666,988</u>	<u>11,559,807</u>	<u>10,231,859</u>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<u>\$ 12,585,652</u>	<u>\$ 11,597,294</u>	<u>\$ 11,666,988</u>	<u>\$ 11,559,807</u>
<b>Net Pension Liability - Ending (a) - (b)</b>	<u>\$ 450,039</u>	<u>\$ 960,733</u>	<u>\$ 442,201</u>	<u>\$ 252,195</u>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	97%	92%	96%	98%
<b>Covered Payroll</b>	\$ 2,891,388	\$ 2,835,663	\$ 2,631,594	\$ 2,420,330
<b>Net Pension Liability as a Percentage of Covered Payroll</b>	16%	34%	17%	10%

Notes: Changes of assumptions - In 2017, amounts reported as changes of assumptions resulted from changes to the inflation rate, investment rate of return, cost-of-living adjustment, salary growth and mortality improvements.

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.

See Independent Auditor's Report.

**CITY OF LAFOLLETTE**  
**SCHEDULE OF CONTRIBUTIONS BASED ON PARTICIPATION IN**  
**THE PUBLIC EMPLOYEE PENSION PLAN OF TCRS**

**Last Five Fiscal Years Ending June 30,**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially Determined Contribution	\$ 295,629	\$ 282,489	\$ 277,044	\$ 257,236	\$ 242,516
Contributions in Relation to the Actuarially Determined Contribution	<u>295,629</u>	<u>282,489</u>	<u>277,044</u>	<u>257,236</u>	<u>242,516</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered Payroll	\$ 3,025,881	\$ 2,891,388	\$ 2,835,663	\$ 2,631,594	\$ 2,420,330
Contributions as a Percentage of Covered Payroll	10%	10%	10%	10%	10%

Note: 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 2018 were calculated based on the June 30, 2017 actuarial valuation.

**Methods and Assumptions used to Determine Contribution Rates:**

Actuarial Cost Method:	Entry Age Normal
Amortization Method:	Level dollar, closed (not to exceed 20 years)
Remaining Amortization Period:	Varies by Year
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, averaging 4.25%
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%

See Independent Auditor's Report.

**CITY OF LAFOLLETTE**  
**SCHEDULE OF CHANGES IN THE OPEB LIABILITY AND**  
**RELATED RATIOS - GOVERNMENTAL ACTIVITIES**

**Fiscal Year Ended June 30, 2018**

<b>Total OPEB Liability</b>	
Service Cost	\$ 78,101
Interest	39,233
Change in Assumptions	(30,076)
Benefit Payments	<u>(72,531)</u>
<b>Net Change in Total OPEB Liability</b>	14,727
<b>Total OPEB Liability - Beginning</b>	<u>1,017,793</u>
<b>Total OPEB Liability - Ending</b>	<u>\$ 1,032,520</u>
<b>Covered Payroll</b>	\$ 3,244,669
<b>Total OPEB Liability as a Percentage of Covered Payroll</b>	31.82%

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

See Independent Auditor's Report.

CITY OF LAFOLLETTE

SCHEDULE OF CHANGES IN THE OPEB LIABILITY AND  
RELATED RATIOS - ELECTRIC DEPARTMENT

Fiscal Year Ended June 30, 2018

<b>Total OPEB Liability</b>	
Service Cost	\$ 9,601
Interest	18,746
Change in Assumptions	(13,058)
Benefit Payments	<u>(45,432)</u>
<b>Net Change in Total OPEB Liability</b>	(30,143)
<b>Total OPEB Liability - Beginning</b>	<u>514,030</u>
<b>Total OPEB Liability - Ending</b>	<u>\$ 483,887</u>
<b>Covered Payroll</b>	\$ 4,545,881
<b>Total OPEB Liability as a Percentage of Covered Payroll</b>	10.64%

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

See Independent Auditor's Report.

**CITY OF LAFOLLETTE**  
**SCHEDULE OF CHANGES IN THE OPEB LIABILITY AND**  
**RELATED RATIOS - WATER DEPARTMENT**

**Fiscal Year Ended June 30, 2018**

<b>Total OPEB Liability</b>	
Service Cost	\$ 4,945
Interest	9,657
Change in Assumptions	(6,726)
Benefit Payments	<u>(23,405)</u>
<b>Net Change in Total OPEB Liability</b>	(15,529)
<b>Total OPEB Liability - Beginning</b>	<u>264,804</u>
<b>Total OPEB Liability - Ending</b>	<u>\$ 249,275</u>
<b>Covered Payroll</b>	\$ 2,341,817
<b>Total OPEB Liability as a Percentage of</b>	
<b>Covered Payroll</b>	10.64%

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

See Independent Auditor's Report.

**CITY OF LAFOLLETTE**  
**SCHEDULE OF REQUIRED PENSION CONTRIBUTIONS**  
**BOARD OF PUBLIC UTILITIES - ELECTRIC AND WATER DEPARTMENTS**

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:

<u>Fiscal Year Ended June 30,</u>	<u>Required Contributions Made</u>	<u>Repayment of Contractual Liability</u>	<u>Total</u>
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
2017	838,903	81,685	920,588
2018	859,172	82,698	941,870

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:

<u>Fiscal Year Ended June 30,</u>	<u>Required Contributions Made</u>	<u>Repayment of Contractual Liability</u>	<u>Total</u>
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
2017	432,162	35,008	467,170
2018	442,604	35,008	477,612

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

See Independent Auditor's Report.





**CITY OF LAFOLLETTE**  
**COMBINING BALANCE SHEETS- NONMAJOR GOVERNMENTAL FUNDS**

**June 30, 2018**

	Special Revenue Funds				
	Drug Fund	State Street Aid Fund	Special Police Fund	Capital Projects Fund	Total
<b>ASSETS</b>					
Restricted Cash and Cash Equivalents	\$ 71,330	\$ 312,369	\$ 101,882	\$ 100	\$ 485,681
Accounts Receivable Other	1,678	0	0	0	1,678
Other Taxes and Nonexchange Revenue	0	22,538	2,323	0	24,861
<b>TOTAL ASSETS</b>	<b>\$ 73,008</b>	<b>\$ 334,907</b>	<b>\$ 104,205</b>	<b>\$ 100</b>	<b>\$ 512,220</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts Payable	\$ 434	\$ 13,859	\$ 0	\$ 0	\$ 14,293
<b>Fund Balances:</b>					
Restricted	72,574	321,048	104,205	3	497,830
Unrestricted:					
Committed	0	0	0	97	97
<b>Total Fund Balances</b>	<b>72,574</b>	<b>321,048</b>	<b>104,205</b>	<b>100</b>	<b>497,927</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 73,008</b>	<b>\$ 334,907</b>	<b>\$ 104,205</b>	<b>\$ 100</b>	<b>\$ 512,220</b>

See Independent Auditor's Report.

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

For the Year Ended June 30, 2018

	Special Revenue Funds				Total
	Drug Fund	State Street Aid Fund	Special Police Fund	Capital Projects Fund	
<b>REVENUES</b>					
Charges for Services	\$ 5,558	\$ 0	\$ 0	\$ 0	\$ 5,558
Grant Revenue and Local Allocations	0	0	0	853,211	853,211
State Highway and Street Funds - State Gasoline Tax	0	264,527	0	0	264,527
Interest Income and Other	119	509	170	0	798
<b>Total Revenues</b>	<u>5,677</u>	<u>265,036</u>	<u>170</u>	<u>853,211</u>	<u>1,124,094</u>
<b>EXPENDITURES</b>					
Current:					
Police Protection	8,550	0	9,387	0	17,937
Streets and Highways and General Public Works	0	192,348	0	0	192,348
Capital Outlay:					
Sanitation	0	0	0	859,578	859,578
<b>Total Expenditures</b>	<u>8,550</u>	<u>192,348</u>	<u>9,387</u>	<u>859,578</u>	<u>1,069,863</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(2,873)</u>	<u>72,688</u>	<u>(9,217)</u>	<u>(6,367)</u>	<u>54,231</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers In	19,210	0	27,759	0	46,969
<b>CHANGES IN FUND BALANCES</b>	16,337	72,688	18,542	(6,367)	101,200
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>56,237</u>	<u>248,360</u>	<u>85,663</u>	<u>6,467</u>	<u>396,727</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 72,574</u>	<u>\$ 321,048</u>	<u>\$ 104,205</u>	<u>\$ 100</u>	<u>\$ 497,927</u>

See Independent Auditor's Report.

CITY OF LAFOLLETTE

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

For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<b>REVENUES</b>				
Charges for Services - Drug Fines and Seizures	\$ 12,000	\$ 12,000	\$ 5,558	\$ (6,442)
Interest Income	0	0	119	119
<b>Total Revenues</b>	<u>12,000</u>	<u>12,000</u>	<u>5,677</u>	<u>(6,323)</u>
<b>EXPENDITURES</b>				
Current:				
Police Protection:				
General Purpose Equipment	13,000	13,000	1,746	11,254
Employee Education	2,000	2,000	1,492	508
Office Supplies	1,000	1,000	0	1,000
Informant Payments and Other	11,000	11,000	5,312	5,688
<b>Total Police Protection Expenditures</b>	<u>27,000</u>	<u>27,000</u>	<u>8,550</u>	<u>18,450</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	(15,000)	(15,000)	(2,873)	12,127
<b>OTHER FINANCING SOURCES</b>				
Transfers In	12,000	12,000	19,210	7,210
<b>CHANGES IN FUND BALANCES</b>	(3,000)	(3,000)	16,337	19,337
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<u>56,237</u>	<u>56,237</u>	<u>56,237</u>	<u>0</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 53,237</u>	<u>\$ 53,237</u>	<u>\$ 72,574</u>	<u>\$ 19,337</u>

See Independent Auditor's Report.

CITY OF LAFOLLETTE

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

For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<b>REVENUES</b>				
State Highway and Street Funds - State Gasoline Tax	\$ 206,000	\$ 206,000	\$ 264,527	\$ 58,527
Interest Income	0	0	509	509
<b>Total Revenues</b>	<u>206,000</u>	<u>206,000</u>	<u>265,036</u>	<u>59,036</u>
<b>EXPENDITURES</b>				
Current:				
Streets and Highways and General Public Works:				
Paving	25,000	25,000	12,964	12,036
Electricity	125,000	125,000	115,629	9,371
Crushed Stone	14,000	14,000	15,672	(1,672)
Sodium Chloride	10,000	10,000	0	10,000
Other	59,700	59,700	48,083	11,617
<b>Total Expenditures</b>	<u>233,700</u>	<u>233,700</u>	<u>192,348</u>	<u>41,352</u>
<b>CHANGES IN FUND BALANCE</b>	(27,700)	(27,700)	72,688	100,388
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<u>248,360</u>	<u>248,360</u>	<u>248,360</u>	<u>0</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 220,660</u>	<u>\$ 220,660</u>	<u>\$ 321,048</u>	<u>\$ 100,388</u>

See Independent Auditor's Report.

CITY OF LAFOLLETTE

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

For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<b>REVENUES</b>				
Interest Income	\$ 0	\$ 0	\$ 170	\$ 170
<b>EXPENDITURES</b>				
Current:				
Police Protection:				
Repair and Maintenance - Other	1,000	1,000	700	300
Equipment	14,500	14,500	6,559	7,941
Operating Supplies	2,000	2,000	0	2,000
Other	6,500	6,500	2,128	4,372
<b>Total Police Protection Expenditures</b>	<u>24,000</u>	<u>24,000</u>	<u>9,387</u>	<u>14,613</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(24,000)</u>	<u>(24,000)</u>	<u>(9,217)</u>	<u>14,783</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer from General Fund	24,000	24,000	27,759	3,759
Transfer to General Fund	0	0	0	0
<b>Net Other Financing Sources (Uses)</b>	<u>24,000</u>	<u>24,000</u>	<u>27,759</u>	<u>3,759</u>
<b>CHANGES IN FUND BALANCE</b>	0	0	18,542	18,542
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<u>85,663</u>	<u>85,663</u>	<u>85,663</u>	<u>0</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 85,663</u>	<u>\$ 85,663</u>	<u>\$ 104,205</u>	<u>\$ 18,542</u>

See Independent Auditor's Report.

CITY OF LAFOLLETTE

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

For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<b>REVENUES</b>				
Grant Revenues and Local Allocations	\$ 874,525	\$ 874,525	\$ 853,211	\$ 21,314
<b>EXPENDITURES</b>				
Capital Outlay:				
Sanitation - Sewer System Rehabilitation:				
Construction	745,500	973,257	805,681	167,576
Construction Inspection	45,000	0	0	0
Environmental Review	2,500	2,500	0	2,500
Engineering Design	12,000	12,000	9,700	2,300
Grant Administration	38,750	41,250	31,522	9,728
Engineering Services	10,375	12,675	12,675	0
Other Costs	20,400	0	0	0
<b>Total Expenditures</b>	<u>874,525</u>	<u>1,041,682</u>	<u>859,578</u>	<u>182,104</u>
<b>CHANGES IN FUND BALANCE</b>	0	(167,157)	(6,367)	160,790
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<u>6,467</u>	<u>6,467</u>	<u>6,467</u>	<u>0</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 6,467</u>	<u>\$ (160,690)</u>	<u>\$ 100</u>	<u>\$ 160,790</u>

See Independent Auditor's Report.

**CITY OF LAFOLLETTE**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE**  
**For the Year Ended June 30, 2018**

Federal Grantor/Pass-Through Grantor	CFDA Number	State / Pass-through Entity Identifying Number	Passed Through to Subrecipients	Expenditures
<b>Federal Awards</b>				
U.S. Department of Justice				
U.S. Department of Justice Direct Assistance:				
Bulletproof Vest Partnership Program	16.607	N/A	\$ 0	\$ 830
Total U.S. Department of Justice				<u>830</u>
U.S. Department of Housing and Urban Development				
Passed-through Tennessee Department of Economic and Community Development:				
Community Development Block Grants	14.228	33004-86217	0	453,855
Passed-through Tennessee Housing Development Agency: Home Investment Partnerships Program				
	14.239	HM-1516-12	0	213,203
Total U.S. Department of Housing and Urban Development				<u>667,058</u>
U.S. Department of Transportation				
Passed-through Tennessee Department of Safety and Homeland Security:				
Alcohol Open Container Requirements	20.607	Z17THS209	0	4,750
Passed-through Tennessee Department of Transportation:				
Highway Planning and Construction	20.205	160033	0	49,200
Highway Planning and Construction	20.205	150163	0	20,778
Highway Planning and Construction	20.205	160182	0	6,863
Highway Planning and Construction	20.205	160136	0	31,218
Total CFDA Number 20.205			<u>0</u>	<u>108,059</u>
Total U.S. Department of Transportation				<u>112,809</u>
Institute of Museum and Library Services				
Passed-through Tennessee Office of the Secretary of State:				
Grants to States	45.310	(1)	0	550
Total Institute of Museum and Library Services				<u>550</u>
<b>Total Federal Awards</b>			<u>\$ 0</u>	<u>\$ 781,247</u>
<b>State Financial Assistance</b>				
Tennessee Department of Environment and Conservation				
Local Park and Recreation Fund Grant	N/A	32701-02333	\$	44,727
Clean Tennessee Energy Grant	N/A	32701-03188		90,301
Total Tennessee Department of Environment and Conservation				<u>135,028</u>
Tennessee Department of Transportation				
Asset Enhancement Grant	N/A	160033		12,300
Total Tennessee Department of Transportation				<u>12,300</u>
<b>Total State Financial Assistance</b>			<u>\$</u>	<u>147,328</u>
<b>Total Federal Awards and State Financial Assistance</b>			<u>\$</u>	<u>928,575</u>

(1) Information not available

The accompanying notes are an integral part of this schedule.  
See Independent Auditor's Report.

CITY OF LAFOLLETTE

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

For the Year Ended June 30, 2018

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards and state financial assistance (the Schedule) includes the federal and state grant activity of the City of LaFollette (the "City") and is presented on modified accrual basis of accounting. 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, it is not intended to and does not present the financial position, changes in net position or cash flows of the City.

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

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

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

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

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

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Any negative amounts shown 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 has elected not to use the 10% de minimis rate as allowed under Uniform Guidance.

**NOTE 4 - CONTINGENCIES**

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

See Independent Auditor's Report.



CITY OF LAFOLLETTE

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
BY DIVISION - WATER AND WASTEWATER DIVISION

For the Year Ended June 30, 2018

	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
<b>OPERATING REVENUES:</b>			
Charges for Services	\$ 4,515,037	\$ 1,988,416	\$ 6,503,453
Other Revenue	114,914	96,592	211,506
<b>Total Operating Revenues</b>	<u>4,629,951</u>	<u>2,085,008</u>	<u>6,714,959</u>
<b>OPERATING EXPENSES:</b>			
Water System	1,647,170	0	1,647,170
Wastewater System	0	797,262	797,262
Customer Accounting and Collection	424,366	153,726	578,092
General and Administrative	1,368,981	559,787	1,928,768
Depreciation	920,409	603,252	1,523,661
<b>Total Operating Expenses</b>	<u>4,360,926</u>	<u>2,114,027</u>	<u>6,474,953</u>
<b>OPERATING INCOME (LOSS)</b>	<u>269,025</u>	<u>(29,019)</u>	<u>240,006</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Interest Income	5,235	1,936	7,171
Interest Expense	(73,934)	(67,731)	(141,665)
<b>Total Nonoperating Revenues (Expenses)</b>	<u>(68,699)</u>	<u>(65,795)</u>	<u>(134,494)</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS</b>	200,326	(94,814)	105,512
<b>CAPITAL CONTRIBUTIONS</b>	<u>0</u>	<u>525,000</u>	<u>525,000</u>
<b>CHANGE IN NET POSITION</b>	<u>\$ 200,326</u>	<u>\$ 430,186</u>	<u>630,512</u>
<b>NET POSITION, BEGINNING OF YEAR</b>			25,147,365
<b>RESTATEMENT OF BEGINNING NET POSITION</b>			<u>(18,596)</u>
<b>NET POSITION, BEGINNING OF YEAR - AS RESTATED</b>			<u>25,128,769</u>
<b>NET POSITION - END OF YEAR</b>			<u>\$ 25,759,281</u>

See Independent Auditor's Report.

2023 ANNUAL REPORT

CHANGING THE WAY WE LIVE AND WORK TOGETHER

Financial Report 2023

Item	2023	2022
Revenue	1,234,567	1,123,456
Operating Profit	234,567	212,345
Net Profit	123,456	112,345
Dividends	45,678	43,210
Share Repurchases	12,345	10,987
Other	1,234	1,098

**OTHER INFORMATION SECTION**

This section provides additional information regarding the company's financial performance, including details on revenue breakdown, operating expenses, and capital expenditures. It also discusses the company's financial strategy and the impact of market conditions on its performance.

The company's revenue for 2023 was primarily driven by its core business segments, which saw a steady increase in sales volume. Operating profit improved due to cost optimization measures and higher margins in key markets. Net profit also showed a positive trend, reflecting the company's strong operational performance.

Dividends were paid to shareholders, and share repurchases were used to return value to investors. The company remains committed to its financial strategy, focusing on sustainable growth and shareholder value creation.

**CITY OF LAFOLLETTE**  
**SCHEDULE OF LOANS AND CAPITAL LEASES**  
**GOVERNMENTAL ACTIVITIES**

**June 30, 2018**

	Tennessee Municipal Bond Fund Series 2010		Tennessee Municipal Bond Fund Series 2017		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 161,000	\$ 12,274	\$ 136,000	\$ 38,441	\$ 297,000	\$ 50,715
2020	166,000	7,468	140,000	34,619	306,000	42,087
2021	171,000	2,514	143,000	30,685	314,000	33,199
2022	0	0	147,000	26,667	147,000	26,667
2023	0	0	152,000	22,536	152,000	22,536
2024	0	0	156,000	18,265	156,000	18,265
2025	0	0	160,000	13,881	160,000	13,881
2026	0	0	165,000	9,385	165,000	9,385
2027	0	0	169,000	4,749	169,000	4,749
	<u>\$ 498,000</u>	<u>\$ 22,256</u>	<u>\$ 1,368,000</u>	<u>\$ 199,228</u>	<u>\$ 1,866,000</u>	<u>\$ 221,484</u>

See Independent Auditor's Report.

CITY OF LAFOLLETTE - BOARD OF PUBLIC UTILITIES - ELECTRIC DEPARTMENT

SCHEDULE OF DEBT SERVICE REQUIREMENTS

June 30, 2018

	Series 2004 Loan Payable to PBA - Clarksville Based on Rate as of 6/30/18 of 1.97%		Series 2006 Loan Payable to PBA - Montgomery County Based on Rate as of 6/30/18 of 1.97%		Series 2008 Loan Payable to PBA - Clarksville Based on Rate as of 6/30/18 of 1.99%		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%		Series 2017 General Obligation Bonds 2.00% to 3.25%		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 460,229	\$ 61,527	\$ 447,000	\$ 126,288	\$ 82,066	\$ 23,798	\$ 1,255,000	\$ 146,050	\$ 380,000	\$ 97,000	\$ 260,000	\$ 76,776	\$ 0	\$ 235,992	\$ 2,884,295	\$ 767,399
2020	471,330	59,193	469,000	131,301	85,202	24,767	215,000	120,950	1,490,000	89,400	265,000	71,576	0	235,962	2,995,532	733,149
2021	482,430	49,908	493,000	122,061	88,339	23,072	220,000	116,850	1,490,000	59,600	270,000	66,276	390,000	235,962	3,433,769	673,529
2022	494,384	40,404	517,000	112,349	91,475	21,314	225,000	112,250	1,490,000	29,800	275,000	60,876	410,000	224,262	3,502,859	601,255
2023	506,338	30,685	543,000	102,164	94,611	19,493	225,000	107,750	0	0	280,000	55,376	420,000	211,962	2,068,849	527,410
2024	519,146	20,690	570,000	91,467	97,748	17,611	235,000	103,250	0	0	285,000	49,776	430,000	199,362	2,136,894	482,156
2025	531,101	10,463	599,000	80,238	101,407	15,665	240,000	97,963	0	0	290,000	44,076	440,000	190,762	2,201,508	439,167
2026	0	0	629,000	68,438	104,543	13,647	245,000	81,963	0	0	295,000	38,278	450,000	180,862	1,723,543	393,196
2027	0	0	660,000	56,047	108,202	11,567	250,000	85,838	0	0	300,000	32,081	460,000	170,738	1,778,202	358,271
2028	0	0	693,000	43,045	112,384	9,414	260,000	78,963	0	0	310,000	24,958	470,000	159,238	1,845,384	315,616
2029	0	0	728,000	29,392	116,043	7,177	265,000	71,813	0	0	315,000	17,206	485,000	147,488	1,909,043	273,078
2030	0	0	764,000	15,051	120,224	4,868	275,000	63,863	0	0	325,000	8,938	495,000	135,362	1,979,224	228,082
2031	0	0	0	0	124,405	2,476	280,000	54,825	0	0	0	0	510,000	121,750	914,405	179,151
2032	0	0	0	0	0	0	290,000	45,825	0	0	0	0	525,000	108,450	815,000	152,275
2033	0	0	0	0	0	0	300,000	35,675	0	0	0	0	540,000	90,700	840,000	128,375
2034	0	0	0	0	0	0	310,000	24,425	0	0	0	0	555,000	74,500	865,000	98,925
2035	0	0	0	0	0	0	320,000	12,800	0	0	0	0	575,000	57,850	895,000	70,650
2036	0	0	0	0	0	0	0	0	0	0	0	0	595,000	39,162	595,000	39,162
2037	0	0	0	0	0	0	0	0	0	0	0	0	610,000	19,826	610,000	19,826
	\$ 3,464,958	\$ 272,850	\$ 7,112,000	\$ 977,841	\$ 1,326,649	\$ 194,867	\$ 5,410,000	\$ 1,370,953	\$ 4,850,000	\$ 275,800	\$ 3,470,000	\$ 546,188	\$ 8,380,000	\$ 2,838,160	\$ 33,993,607	\$ 6,476,660

See Independent Auditor's Report.

CITY OF LAFOLLETTE - BOARD OF PUBLIC UTILITIES - WATER DEPARTMENT

SCHEDULE OF DEBT SERVICE REQUIREMENTS

June 30, 2018

	2003 Series Loan Payable to PBA - Clarksville Based on Rate as of 6/30/18 of 2.170%		2003 Series State Revolving Fund Loan Payable to TLDA at 0.71%		2004 Series Loan Payable to PBA - Clarksville Based on Rate as of 6/30/18 of 1.970%		2006 Series State Revolving Fund Loan Payable to TLDA at 0.80%		2008 Series Loan Payable to PBA - Clarksville Based on Rate as of 6/30/18 of 1.990%		2012 Series Rural Development Water & Sewer Revenue & Tax Bonds at 2.50%		2014A Series General Obligation Bonds 2.0% to 2.75%		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 61,000	\$ 6,279	\$ 54,064	\$ 2,804	\$ 78,771	\$ 10,531	\$ 394,440	\$ 38,436	\$ 74,934	\$ 21,728	\$ 32,773	\$ 41,887	\$ 40,000	\$ 8,500	\$ 735,982	\$ 129,965
2020	62,000	5,642	54,449	2,419	80,670	10,131	397,608	35,268	77,798	22,615	33,602	40,858	40,000	7,700	746,127	124,633
2021	64,000	4,297	54,836	2,031	82,570	8,542	400,800	32,076	80,661	21,067	34,452	40,008	40,000	6,900	757,319	114,921
2022	66,000	2,908	55,227	1,641	84,616	8,915	404,028	28,848	83,525	19,461	35,323	39,137	40,000	6,100	768,719	105,010
2023	68,000	1,476	55,621	1,247	86,662	5,248	407,268	25,608	86,389	17,799	36,216	38,244	40,000	5,300	780,156	94,922
2024	0	0	56,017	851	88,854	3,541	410,544	22,332	89,252	16,080	37,132	37,328	45,000	4,500	726,799	84,832
2025	0	0	56,416	452	90,899	1,791	413,832	19,044	92,593	14,304	38,071	36,389	45,000	3,488	736,811	75,488
2026	0	0	33,093	80	0	0	417,156	15,720	95,457	12,461	39,034	35,428	45,000	2,362	629,740	66,049
2027	0	0	0	0	0	0	420,504	12,372	98,798	10,562	40,021	34,439	45,000	1,238	604,323	58,811
2028	0	0	0	0	0	0	423,888	8,988	102,616	8,596	41,033	33,427	0	0	567,537	51,011
2029	0	0	0	0	0	0	427,284	5,592	105,957	6,554	42,071	32,388	0	0	575,312	44,535
2030	0	0	0	0	0	0	430,716	2,160	109,776	4,445	43,134	31,326	0	0	583,626	37,931
2031	0	0	0	0	0	0	35,872	0	113,595	2,260	44,225	30,235	0	0	193,692	32,495
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	65,948	8,511	0	0	65,948	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	23,705	122	0	0	23,705	122
	\$ 321,000	\$ 20,802	\$ 419,723	\$ 11,525	\$ 593,042	\$ 46,699	\$ 4,983,940	\$ 246,444	\$ 1,211,351	\$ 177,932	\$ 1,682,449	\$ 798,559	\$ 380,000	\$ 46,088	\$ 9,591,505	\$ 1,347,849

See Independent Auditor's Report.

**CITY OF LAFOLLETTE**  
**SCHEDULE OF PROPERTY TAX INFORMATION**  
**For the Year Ended June 30, 2018**

	Current Year	Prior Years	Total
<b>CHANGES IN TAXES RECEIVABLE</b>			
Balance at Beginning of Year	\$ 0	\$ 1,730,371	\$ 1,730,371
Add: Fiscal Year 2018 Taxes Levied	1,555,909	0	1,555,909
Less: Taxes Collected	0	(1,544,373)	(1,544,373)
	1,555,909	185,998	1,741,907
Allowance for Uncollectible Accounts	(36,158)	(167,328)	(203,486)
<b>Balance at End of Year</b>	<b>\$ 1,519,751</b>	<b>\$ 18,670</b>	<b>\$ 1,538,421</b>

**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
2018	\$ 120,147,413	\$ 1.295	\$ 1,555,909	\$ 0	\$ 0	\$ 1,555,909
2017	120,273,205	1.295	1,557,538	0	1,433,020	124,518
2016	121,787,876	1.295	1,577,153	1,467,418	70,518	39,217
2015	119,176,911	1.295	1,543,341	1,498,673	39,365	5,303
2014	116,040,232	1.295	1,502,721	1,499,111	834	2,776
2013	114,700,541	1.295	1,485,372	1,480,644	152	4,576
2012	125,174,623	1.194	1,494,585	1,494,585	0	0
2011	119,397,990	1.194	1,425,612	1,425,612	0	0
2010	118,492,295	1.194	1,414,798	1,414,798	0	0
2009	101,320,360	1.390	1,408,353	1,399,356	0	8,997
2008	100,142,158	1.390	1,391,976	1,391,365	0	611
						<b>\$ 1,741,907</b>

Property taxes unpaid for periods prior to 2008 have been filed with the Campbell County Circuit Court Clerk.

See Independent Auditor's Report.

CITY OF LAFOLLETTE

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

For the Year Ended June 30, 2018

	Final Budget *	Actual	Variance- Favorable (Unfavorable)
<b>REVENUES</b>			
Interest Income	\$ 0	\$ 59	\$ 59
<b>Total Revenues</b>	<u>0</u>	<u>59</u>	<u>59</u>
<b>EXPENDITURES</b>			
Sanitation:			
Repair and Maintenance - Vehicle	3,000	0	3,000
Vehicle Parts and Supplies	12,000	9,003	2,997
<b>Total Sanitation Expenditures</b>	<u>15,000</u>	<u>9,003</u>	<u>5,997</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(15,000)</u>	<u>(8,944)</u>	<u>6,056</u>
<b>OTHER FINANCING SOURCES</b>			
Transfer from General Fund	15,000	15,000	0
<b>Net Other Financing Sources</b>	<u>15,000</u>	<u>15,000</u>	<u>0</u>
<b>CHANGES IN FUND BALANCE</b>	0	6,056	6,056
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<u>35,803</u>	<u>35,803</u>	<u>0</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 35,803</u>	<u>\$ 41,859</u>	<u>\$ 6,056</u>

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

See Independent Auditor's Report.

CITY OF LAFOLLETTE

SCHEDULES OF UTILITY RATES AND NUMBER OF CUSTOMERS

June 30, 2018

**ELECTRIC DEPARTMENT**

Residential - Schedule RS	
Customer Charge	\$ 20.13
Energy Charge Per kWh	0.10425
General Power - Schedule GSA	
Part 1	
Customer Charge	27.65
Energy Charge Per kWh	0.12561
Part 2	
Customer Charge	104.39
Demand Charges:	
First 50 kW	0.00
Excess Over 50 kW	16.72
Energy Charges:	
First 15,000 kWh	0.12620
Additional kWh	0.06987
Part 3	
Customer Charge	365.36
Demand Charges:	
First 1,000 kW	16.87
Next 1,500 kW	21.80
Excess of Higher of 2,500 kW or Contract Demand	43.60
Energy Charge Per kWh	0.06987
Outdoor Lighting - Schedule LS	
Customer Charge	27.65
Energy Charge Per kWh	0.07647
General Power - Schedule GSB	
Customer Charge	1,500.00
Demand Charges:	
Onpeak	10.61
Excess Offpeak	5.09
Excess Over Contract	10.61
Energy Charge	
Onpeak	0.09255
Offpeak First 200 hours	0.06820
Offpeak Next 200 hours	0.02296
Offpeak Additional kWh	0.01962
General Power - Schedule GSC	
Customer Charge	1,500.00
Demand Charges:	
Onpeak	10.61
Excess Offpeak	4.48
Excess Over Contract	10.61

See Independent Auditor's Report.



CITY OF LAFOLLETTE

SCHEDULES OF UTILITY RATES AND NUMBER OF CUSTOMERS (Continued)

June 30, 2018

**ELECTRIC DEPARTMENT (Continued)**

Energy Charge	
Onpeak	0.09255
Offpeak First 200 hours	0.06820
Offpeak Next 200 hours	0.02296
Offpeak Additional kWh	0.01962
General Power - Schedule GSD	
Customer Charge	1,500.00
Demand Charges:	
Onpeak	10.61
Excess Offpeak	4.47
Excess Over Contract	10.61
Energy Charge	
Onpeak	0.09255
Offpeak First 200 hours	0.06820
Offpeak Next 200 hours	0.02184
Offpeak Additional kWh	0.01962
General Power - Schedule TDGSA	
Customer Charge	1,500.00
Demand Charges:	
Onpeak	10.66
Excess Offpeak	5.09
Excess Over Contract	10.66
Energy Charge	
Onpeak	0.09584
Offpeak First 200 hours	0.06322
Offpeak Next 200 hours	0.02185
Offpeak Additional kWh	0.01890

Customers - As of June 30, 2018, the total number of customers was 22,187.

See Independent Auditor's Report.

CITY OF LAFOLLETTE

SCHEDULES OF UTILITY RATES AND NUMBER OF CUSTOMERS (Continued)

June 30, 2018

WATER DEPARTMENT

WATER CHARGES - WITHIN CITY LIMITS

First	1,500 Gallons	\$15.90 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	\$24.58 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, 2018, the number of customers was as follows:

Water	9,911
Wastewater	3,564

See Independent Auditor's Report.

**CITY OF LAFOLLETTE - BOARD OF PUBLIC UTILITIES  
WATER DEPARTMENT**

AWWA

Free Water Audit Software:  
**Reporting Worksheet**

WAS v5.0  
American Water Works Association  
Copyright © 2014. All Rights Reserved.

Water Audit Report for: **LaFollette Utilities Board (0000374)**

Reporting Year: **2018**    7/2017 - 6/2018

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

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

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

**WATER SUPPLIED**

	Grade	Value	Unit
Volume from own sources	9	683,283	MG/Yr
Water imported	9	0,000	MG/Yr
Water exported	10	0,000	MG/Yr
<b>WATER SUPPLIED:</b>		<b>676,518</b>	MG/Yr

**Master Meter and Supply Error Adjustments**

Pcnt	Value	Unit
1.00%		MG/Yr
		MG/Yr
		MG/Yr

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

---

**AUTHORIZED CONSUMPTION**

Billed metered	10	413,389	MG/Yr
Billed unmetered	10	0,130	MG/Yr
Unbilled metered	9	98,330	MG/Yr
Unbilled unmetered	7	8,456	MG/Yr
<b>AUTHORIZED CONSUMPTION:</b>		<b>520,305</b>	MG/Yr

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

Click here for help using option buttons below

Pcnt	Value	Unit
1.25%		MG/Yr
		MG/Yr

Use buttons to select percentage of water supplied OR value

---

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

**156,213** MG/Yr

**Apparent Losses**

Unauthorized consumption	7	1,691	MG/Yr
Customer metering inaccuracies	9	0,000	MG/Yr
Systematic data handling errors	7	1,033	MG/Yr
<b>Apparent Losses:</b>		<b>2,725</b>	MG/Yr

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

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

Pcnt	Value	Unit
0.25%		MG/Yr
		MG/Yr

---

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

Real Losses = Water Losses - Apparent Losses: **153,488** MG/Yr

**WATER LOSSES:** **156,213** MG/Yr

---

**NON-REVENUE WATER**

NON-REVENUE WATER: **262,999** MG/Yr

= Water Losses + Unbilled Metered + Unbilled Unmetered

---

**SYSTEM DATA**

Length of mains	9	700.0	miles
Number of active AND inactive service connections	9	10,063	
Service connection density	7	14	conn/mile main
Are customer meters typically located at the curbside or property line?		Yes	<small>(length of service line, beyond the property boundary, that is the responsibility of the utility)</small>
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	\$4,373,630	\$/Year
Customer retail unit cost (applied to Apparent Losses)	10	\$13.04	\$/1000 gallons (US)
Variable production cost (applied to Real Losses)	10	\$566.04	\$/Million gallons <input type="checkbox"/> 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

See Independent Auditor's Report.

**CITY OF LAFOLLETTE - BOARD OF PUBLIC UTILITIES  
WATER DEPARTMENT**

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

WAS v5.0  
American Water Works Association

Water Audit Report for: **LaFollette Utilities Board (0000374)**

Reporting Year: **2018** | **7/2017 - 6/2018**

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

**System Attributes:**

Apparent Losses:	2.725	MG/Yr	
+	Real Losses:	153.488	MG/Yr
=	<b>Water Losses:</b>	<b>156.213</b>	<b>MG/Yr</b>
Unavoidable Annual Real Losses (UARL):	241.65	MG/Yr	
Annual cost of Apparent Losses:	\$35,531		
Annual cost of Real Losses:	\$86,880		Valued at <b>Variable Production Cost</b>

Return to Reporting Worksheet to change this assumption

**Performance Indicators:**

Financial:	{	Non-revenue water as percent by volume of Water Supplied:	38.9%
		Non-revenue water as percent by cost of operating system:	4.2%
Real Losses valued at Variable Production Cost			
Operational Efficiency:	{	Apparent Losses per service connection per day:	0.74 gallons/connection/day
		Real Losses per service connection per day:	N/A gallons/connection/day
		Real Losses per length of main per day*:	600.74 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):	153.49 million gallons/year
		Infrastructure Leakage Index (ILI) [CARL/UARL]:	0.64

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

See Independent Auditor's Report.

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**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  
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, and the budgetary comparison statement for the general fund of the City of LaFollette as of and for the year ended June 30, 2018, 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 11, 2018.

**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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2018-001 that we consider to be significant deficiencies.



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**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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2018-001.

**City of LaFollette's Response to Findings**

The City of LaFollette's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs and the management's corrective action plan. The City of LaFollette's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

**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 City'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 City'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 11, 2019



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**REPORT FOR EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE**

Mayor and City Council  
City of LaFollette  
LaFollette, Tennessee

**Report on Compliance for Each Major Federal Program**

We have audited City of LaFollette's (the "City") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2018. The City's major federal programs are 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 federal statutes, regulations, contracts, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the City's major federal programs 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'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's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.



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### Report on Internal Control Over Compliance

Management of the City 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'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'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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Pugh & Company, P.C.*

Certified Public Accountants  
Knoxville, Tennessee  
January 11, 2019

**CITY OF LAFOLLETTE**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For the Year Ended June 30, 2018**

**Section I - Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_ Yes   X   No
- Significant deficiency(ies) identified?   X   Yes \_\_\_ None reported

Noncompliance material to financial statements noted? \_\_\_ Yes   X   No

**Federal Awards**

Internal control over major federal programs:

- Material weakness(es) identified? \_\_\_ Yes   X   No
- Significant deficiency(ies) identified? \_\_\_ Yes   X   None reported

Type of auditors' 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

Major federal programs for the City of LaFollette for the fiscal year ended June 30, 2018 are as follows:

Program Name	CFDA#
Community Development Block Grants	14.228
Home Investment Partnerships Program	14.239

Dollar threshold used to distinguish between Type A & Type B programs: \$750,000

Auditee qualified as low-risk auditee?   X   Yes \_\_\_ No

**CITY OF LAFOLLETTE**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**  
**For the Year Ended June 30, 2018**

**Section II - Financial Statement Findings**

**Current Year Audit Findings:**

**2018 - 001 Library Deposits and Purchasing**

**Criteria or Specific Requirement** – The Library was awarded a \$550 grant requiring a local match to be used for the purchase of new desktop computers to replace aging public workstations.

**Condition** - During our testing, we noted that the monies received were deposited into the bank account of a local organization that supports the library by making local match contributions and not deposited into a City owned bank account. In addition, we also noted that the City's purchasing policies were not followed and no purchase order was issued to acquire the new desktop computers. Alternatively, the desktop computers were purchased using the monies in the local organization's bank account.

**Cause and Effect** – Because the monies were not deposited in or disbursed from a City owned bank account and the City's purchasing policies not followed, the transaction was not correctly recorded in the City's accounting records.

**Recommendation** - We recommend that all monies awarded and received by the library be properly deposited into a City owned bank account. In addition, we recommend that employees be reminded of the importance of following City purchasing policies and the use of purchase orders.

**Management's Response** - We concur with the facts of the finding and have already implemented the recommendations made by the auditor.

**Section III – Federal Award Findings**

**Current Year Audit Findings: None**

CITY OF LAFOLLETTE

SCHEDULE OF PRIOR YEAR FINDINGS

For the Year Ended June 30, 2018

Financial Statement Findings:

Prior Year Finding Number	Finding Title	Status/ Current Year Finding Number
2017-001	Timely Bank Deposits	Corrected

Federal Award Findings and Questioned Costs:

There were no prior year Federal Award Findings and Questioned Costs reported.



# CITY OF LA FOLLETTE

207 South Tennessee Ave.  
La Follette, Tennessee 37766  
Phone (423) 562-4961 • Fax: (423) 562-6565

## MANAGEMENT'S CORRECTIVE ACTION PLAN

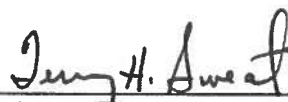
For the Year Ended June 30, 2018

### 2018 - 001 Library Deposits and Purchasing

**Contact Person Responsible for Corrective Action:** Terry Sweat, Finance Director

**Corrective Action Taken or Planned:** We concur with the facts of the finding and have already implemented the recommendations made by the auditor.

**Anticipated Completion Date:** Completed as of December 2018.

Signature:   
Terry Sweat, Finance Director



**GENERAL PURPOSE FINANCIAL STATEMENTS**

**OF**

**CITY OF LAFOLLETTE, TENNESSEE  
BOARD OF PUBLIC UTILITIES  
ELECTRIC DEPARTMENT**

**FOR THE FISCAL YEAR ENDED**

**JUNE 30, 2018**





**CITY OF LAFOLLETTE - BOARD OF PUBLIC UTILITIES  
ELECTRIC DEPARTMENT  
(An Enterprise Fund of the City of LaFollette, Tennessee)**

**LaFollette, Tennessee**

**FINANCIAL STATEMENTS**

**June 30, 2018 and 2017**



**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, 2018**

David R. Longmire	Board of Directors – Chairman
C. Boyd Henegar	Board of Directors – Vice Chairman
James B. Campbell	Board of Directors – Secretary/Treasurer
Joseph H. (J.H.) Willoughby	Board of Directors – Member
Janice S. Walker	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, 2018 and 2017, 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 comprise 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.



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## 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, 2018 and 2017, 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, 2018 and 2017, 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 32 and schedule of changes in total OPEB liability and related ratios on page 33 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 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 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 29, 2018 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of LaFollette - Board of Public Utilities - Electric Department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the 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 29, 2018

**CITY OF LAFOLLETTE – BOARD OF PUBLIC UTILITIES  
ELECTRIC DEPARTMENT**

**Fiscal Years Ending June 30, 2018 and 2017**

**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, 2018 and 2017 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 \$1,917,366 or 5% in fiscal year 2018.
- During 2018, operating revenue increased \$2,239,715 or 5%. Purchased power expense increased \$1,446,869 or 5%. Margin on power sales (operating revenue less purchased power expense) increased \$792,846 or 5%.
- Operating expenses (excluding purchased power expense) decreased \$295,635 or 2%.
- Interest and dividend income increased \$99,643 or 655%.
- Interest expense increased \$213,123 or 32%.
- Capital assets, net of depreciation, decreased \$416,237 or 1%.
- 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 \$4,107,298 (fiscal year 2021).

**Electric Department Highlights**

- Electric customers increased by 81 during fiscal year 2018 representing a customer increase rate of 0.37%.
- Completed distribution system improvements and line upgrades throughout the Electric Department’s service territory. Completed relay panel upgrades at the Jacksboro, Speedwell and West LaFollette substations. 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. Plans are in development to remodel two (2) empty buildings purchased during the previous fiscal year and use them as new office space for administration, accounting, engineering, and information technology.

## **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 is 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:

<b>Balance Sheets</b>		<b>As of June 30</b>		
		<b>(\$ in thousands)</b>		
		<b>As Restated</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>	
Current and Other Assets	\$ 15,104	\$ 15,456	\$ 10,707	
Capital Assets, Net	<u>67,536</u>	<u>67,952</u>	<u>66,358</u>	
Total Assets	82,640	83,408	77,065	
Deferred Outflows of Resources	<u>155</u>	<u>247</u>	<u>338</u>	
Total Assets and Deferred Outflows of Resources	<u>82,795</u>	<u>83,655</u>	<u>77,403</u>	
Current and Other Liabilities	13,559	13,424	13,683	
Long-Term Debt, Net	<u>31,536</u>	<u>34,461</u>	<u>28,815</u>	
Total Liabilities	45,095	47,885	42,498	
Deferred Inflows of Resources	<u>12</u>	<u>0</u>	<u>0</u>	
Total Liabilities and Deferred Inflows of Resources	<u>45,107</u>	<u>47,885</u>	<u>42,498</u>	
Net Position:				
Net Investment in Capital Assets	38,256	37,521	35,771	
Unrestricted	<u>(568)</u>	<u>(1,751)</u>	<u>(866)</u>	
Total Net Position	<u>\$ 37,688</u>	<u>\$ 35,770</u>	<u>\$ 34,905</u>	

### 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 2018, current and other assets decreased \$352,017 or 2%. The Electric Department's cash and cash equivalents increased \$483,607 or 19%. During 2017, current and other assets increased \$4,749,190 or 44%.
- Capital assets decreased \$416,237 or 1% in 2018 and increased \$1,594,378 or 2% in 2017. Capital asset additions during the current year included various distribution system improvements, substation upgrade projects, and vehicle and equipment purchases.
- Deferred outflows of resources decreased \$91,696 or 37% in 2018 and decreased \$78,058 or 23% in 2017 due to amortization of the deferred amount on refunding of bonds.
- Deferred inflows of resources increased \$11,607 in 2018 as a result of implementing GASB 75 for Other Post Retirement Benefits (OPEB).
- Current and other liabilities increased \$135,891 or 1% in 2018 compared to an decrease of \$260,264 or 1% in 2017.
- Long-term debt decreased \$2,924,814 or 8% in 2018. Long-term debt retired this fiscal year was \$2,819,582. In 2017, long-term debt increased \$5,646,088 or 20%, and long-term debt retired in the prior fiscal year was \$2,780,722.
- During 2018, net investment in capital assets increased \$734,776 or 2%. Net position restricted for debt service was \$0 in 2018. Unrestricted net position increased \$1,182,590 or 68%. During 2017, net investment in capital assets increased \$1,750,680 or 5%. Net position restricted for debt service was \$0 in 2017. Unrestricted net position decreased \$870,994 or 101%.

## 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)		
	2018	As Restated 2017	2016
Operating Revenue	\$ 50,056	\$ 47,816	\$ 45,746
Less: Purchased Power Expense	33,540	32,093	30,648
Margin from Sales	<u>16,516</u>	<u>15,723</u>	<u>15,098</u>
Operating Expenses:			
Distribution, Customer Accounts and Sales Expenses	3,429	3,300	3,259
General and Administrative	2,916	3,030	2,834
Maintenance of Distribution Plant	1,859	2,213	1,485
Maintenance of General Plant	178	210	149
Depreciation	3,534	3,465	3,343
Taxes	663	655	642
Total Operating Expenses	<u>12,579</u>	<u>12,873</u>	<u>11,712</u>
Operating Income	3,937	2,850	3,386
Interest and Dividend Income	115	15	28
Gain (Loss) on Investments, Net	(2)	0	0
FEMA Reimbursement	0	0	36
Interest Expense	(882)	(669)	(613)
Debt Issuance Costs	0	(152)	0
Transfers to City of LaFollette - In-Lieu-of-Taxes	<u>(1,251)</u>	<u>(1,238)</u>	<u>(1,183)</u>
Change in Net Position	\$ <u>1,917</u>	\$ <u>806</u>	\$ <u>1,654</u>

### 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 increased \$2,239,715 or 5% for the fiscal year ending June 30, 2018, the result of higher power sales. Operating revenue increased \$2,070,082 or 5% for the fiscal year ending June 30, 2017.
- Purchased power expense increased \$1,446,869 or 5% in 2018 and increased \$1,444,951 or 5% in 2017. Current year change is a result of higher power sales.
- Margin on power sales (operating revenue less purchased power expense) increased \$792,846 or 5% compared to 2017. Change in prior year was an increase of \$625,131 or 4%.
- Operating expenses (excluding purchase power expense) decreased \$295,635 or 2% from last fiscal year, compared to an increase of \$1,161,265 or 10% in 2017.
  - Distribution, customer accounts and sales expenses increased \$127,855 or 4% in 2018 and increased \$42,396 or 1% in 2017. Change from prior year is due to a general increase in costs for the fiscal year.
  - General and administrative expenses decreased \$114,404 or 4% in 2018 and increased \$195,475 or 7% in 2017. Change from prior year is due to a general decrease in costs for the fiscal year, including higher health insurance costs than in the previous fiscal year.
  - Maintenance of distribution plant decreased \$354,643 or 16% in 2018 and increased \$728,636 or 49% in 2017. Change from prior year is due to less funding being dedicated to right-of-way clearing costs. This fluctuation is caused by the timing of the contracts and when billing takes place based on the percentage of completion of each contract.
  - Maintenance of general plant decreased \$31,235 or 15% in 2018 and increased \$60,220 or 40% in 2017. Change from prior year is due to a general decrease in costs for the fiscal year, including several smaller building maintenance projects worked during the prior year.
  - Depreciation expense increased \$69,212 or 2% in 2018 and increased \$122,120 or 4% in 2017. Change in 2018 is due to more items being moved from construction in progress and closed to plant than in the prior year. The Ershell Collins road widening and Royal Blue Substation relay modifications are some examples.
  - Taxes increased \$7,580 or 1% in 2018 and increased \$12,418 or 2% in 2017. Current year change is due to a general increase in payments to local governments for in-lieu-of- taxes.
- Interest and dividend income increased \$99,643 or 655% in 2018 and decreased \$12,868 or 46% in 2017. Change from prior year is due to LUB investing the May 2017 bond proceeds into interest-bearing and brokerage accounts.
- Interest expense increased \$213,123 or 32% in 2018 and increased \$56,256 or 9% in 2017. Current year change is due to recognizing a full year's interest on the \$8 million issuance of general obligation bonds from prior year to fund several construction projects over the next few fiscal years, including a headquarters facility addition and an upgrade to the LaFollette Primary Substation. Interest rates on the Electric Department's variable rate debt with the Tennessee Municipal Bond Fund also increased throughout the year.
- There were no debt issuance costs in 2018 and the costs increased \$152,270 in 2017, due to additional debt issues during the fiscal year 2017.
- Net loss on investments was \$2,330 in 2018. Current year change is the result of market conditions.
- Transfers to the City of LaFollette for in-lieu-of-taxes increased \$13,175 or 1% in 2018 and increased \$55,025 or 5% in 2017. 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, 2018, the Electric Department had \$67,535,687 invested in a variety of capital assets, as reflected in the schedule below, which represents a net decrease (including additions, retirements, and depreciation) of \$416,237 or 1% over the end of 2017. As of June 30, 2017, investment in capital assets was \$67,951,924 which represented a net increase (including additions, retirements, and depreciation) of \$1,594,378 or 2% over the end of 2016.

**Capital Assets  
As of June 30  
(Net of Depreciation)**

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Land and Land Rights	\$ 1,075,346	\$ 971,162	\$ 928,770
Structures and Improvements	4,049,597	4,141,003	2,168,703
Poles, Towers and Transmission Assets	48,194,008	47,952,331	46,783,002
Street Lighting Systems	1,176,643	1,208,490	1,226,137
Equipment, Furniture and Fixtures	12,604,352	12,855,482	12,340,993
Construction Work in Progress	435,741	823,456	2,909,941
Total Net Capital Assets	<u>\$ 67,535,687</u>	<u>\$ 67,951,924</u>	<u>\$ 66,357,546</u>

Major capital asset additions during the year were as follows:

Completed distribution system improvements and line upgrades throughout the Electric Department's service territory. Completed the interstate tie lane project. Completed relay panel upgrades at the Jacksboro substation. Completed the Shelby Motel parking lot renovations. Completed the Speedwell Substation relay panel upgrades.

**Debt Outstanding**

As of June 30, 2018 and 2017, the Electric Department had \$33,993,607 and \$36,813,189 in debt outstanding, a decrease of \$2,819,582 or 8% in 2018 and an increase of \$5,579,278 or 18% in 2017. The Series 2017 General Obligation Bonds were issued during 2017 resulting in \$8.3 million in new money to the Electric Department, while no new debt was issued in 2018.

The following is a schedule of the Electric Department's outstanding debt as of June 30, 2018, 2017 and 2016:

**Outstanding Debt  
As of June 30**

	<u>2018</u>	<u>2017</u>	<u>2016</u>
General Obligation Bonds	\$ 22,090,000	\$ 23,955,000	\$ 17,455,000
Tennessee Municipal Bond Fund Loans	11,903,607	12,858,189	13,778,911
Total Outstanding Debt	<u>\$ 33,993,607</u>	<u>\$ 36,813,189</u>	<u>\$ 31,233,911</u>

## **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 2019.

## **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, 2018 and June 30, 2017. 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,	<u>2018</u>	As Restated	<u>2017</u>
<b>ASSETS AND DEFERRED OUTFLOWS</b>				
<b>CURRENT ASSETS:</b>				
Cash and Cash Equivalents	\$	2,979,198	\$	2,495,591
Accounts Receivable - Customers, Net		5,259,149		4,556,566
Materials and Supplies		1,375,274		1,216,396
Prepaid Items and Other Current Assets		<u>349,590</u>		<u>337,587</u>
<b>Total Current Assets</b>		<u>9,963,211</u>		<u>8,606,140</u>
<b>NONCURRENT ASSETS:</b>				
Restricted Assets:				
Restricted Cash		143,584		1,850,342
Certificates of Deposit		3,500,000		5,000,000
Investments		1,497,670		0
Capital Assets, Net		<u>67,535,687</u>		<u>67,951,924</u>
<b>Total Noncurrent Assets</b>		<u>72,676,941</u>		<u>74,802,266</u>
<b>TOTAL ASSETS</b>		<u>82,640,152</u>		<u>83,408,406</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred Bond Refunding Losses		<u>155,102</u>		<u>246,798</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<b>\$</b>	<u><u>82,795,254</u></u>	<b>\$</b>	<u><u>83,655,204</u></u>

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,	<u>2018</u>	As Restated <u>2017</u>
<b>LIABILITIES, DEFERRED INFLOWS AND NET POSITION</b>			
<b>CURRENT LIABILITIES:</b>			
Accounts Payable	\$	6,235,474	\$ 6,085,809
Accrued Interest Payable		185,263	142,638
Current Portion of Customer Deposits		416,540	424,693
Current Portion of Accrued Compensated Absences		430,969	559,778
Current Portion of Accrued Retirement Plan Payable		82,776	85,338
Current Maturities of Long-Term Debt		<u>2,884,295</u>	<u>2,819,582</u>
<b>Total Current Liabilities</b>		<u>10,235,317</u>	<u>10,117,838</u>
<b>NONCURRENT LIABILITIES:</b>			
Customer Deposits - Long-Term		1,821,663	1,728,618
Accrued Compensated Absences - Long-Term		553,165	517,519
Accrued Retirement Plan Payable - Long-Term		464,919	545,055
Accrued Post-Retirement Plan (OPEB) Liability		483,887	514,030
Long-Term Debt, Net		<u>31,536,338</u>	<u>34,461,152</u>
<b>Total Noncurrent Liabilities</b>		<u>34,859,972</u>	<u>37,766,374</u>
<b>TOTAL LIABILITIES</b>		<u>45,095,289</u>	<u>47,884,212</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred OPEB Inflows		<u>11,607</u>	<u>0</u>
<b>NET POSITION:</b>			
Net Investment in Capital Assets		38,256,308	37,521,532
Unrestricted		<u>(567,950)</u>	<u>(1,750,540)</u>
<b>Total Net Position</b>		<u>37,688,358</u>	<u>35,770,992</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION</b>	<b>\$</b>	<u><u>82,795,254</u></u>	<b>\$</b> <u><u>83,655,204</u></u>

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,	2018	As Restated 2017
		<u>          </u>	<u>          </u>
<b>OPERATING REVENUES:</b>			
Electricity (Net of Bad Debts of \$25,200 in 2018 and \$54,000 in 2017)	\$	48,865,034	\$ 46,679,274
Rents and Other Services		<u>1,190,788</u>	<u>1,136,833</u>
<b>Total Operating Revenues</b>		<u>50,055,822</u>	<u>47,816,107</u>
<b>OPERATING EXPENSES:</b>			
Cost of Sales - Purchased Power		33,539,884	32,093,015
Distribution, Customer Accounts and Sales Expenses		3,429,130	3,301,275
General and Administrative		2,915,274	3,029,678
Maintenance of Distribution Plant		1,858,641	2,213,284
Maintenance of General Plant		178,335	209,570
Depreciation		3,534,427	3,465,215
Taxes		<u>662,492</u>	<u>654,912</u>
<b>Total Operating Expenses</b>		<u>46,118,183</u>	<u>44,966,949</u>
<b>OPERATING INCOME</b>		<u>3,937,639</u>	<u>2,849,158</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Interest and Dividend Income		114,866	15,223
Gain (Loss) on Investments, Net		(2,330)	0
Interest Expense		(881,959)	(668,836)
Debt Issuance Costs		<u>0</u>	<u>(152,270)</u>
<b>Net Nonoperating Expenses</b>		<u>(769,423)</u>	<u>(805,883)</u>
<b>INCOME BEFORE TRANSFERS</b>		3,168,216	2,043,275
<b>TRANSFERS TO CITY OF LAFOLLETTE - IN LIEU OF TAXES</b>		<u>(1,250,850)</u>	<u>(1,237,675)</u>
<b>CHANGE IN NET POSITION</b>		<u>1,917,366</u>	<u>805,600</u>
<b>NET POSITION - BEGINNING OF YEAR, AS RESTATED - SEE NOTE 15</b>		<u>35,770,992</u>	<u>34,965,392</u>
<b>NET POSITION - END OF YEAR</b>	\$	<u>37,688,358</u>	\$ <u>35,770,992</u>

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,	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Cash Received From Customers	\$	48,247,343	\$ 47,091,444
Cash Receipts From Other Operations		1,190,788	1,136,833
Cash Paid to Employees		(7,233,264)	(7,201,608)
Cash Paid to Suppliers		(34,903,613)	(34,101,105)
Cash Payments For Taxes and Other Operations		<u>(662,492)</u>	<u>(654,912)</u>
<b>Net Cash Provided by Operating Activities</b>		<u>6,638,762</u>	<u>6,270,652</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Transfers to City of LaFollette - In Lieu of Taxes		<u>(1,250,850)</u>	<u>(1,237,675)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Plant Additions and Construction		(3,170,667)	(5,067,242)
Plant and Equipment Removal Costs, Net		52,477	7,649
(Increase) Decrease in Restricted Cash		1,706,758	(1,754,633)
Cash Proceeds From Long-Term Debt Borrowing		0	8,347,625
Repayment On Long-Term Debt		(2,819,582)	(2,780,722)
Interest On Long-Term Debt		<u>(788,157)</u>	<u>(600,169)</u>
<b>Net Cash Provided by Capital and Related Financing Activities</b>		<u>(5,019,171)</u>	<u>(1,847,492)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchases of Investments		(1,500,000)	0
Proceeds from Sales and Maturities of Investments		0	1,000,990
Purchases of Certificates of Deposit		(250,000)	(5,000,000)
Proceeds from Maturities of Certificates of Deposit		1,750,000	0
Interest on Cash and Cash Equivalents		<u>114,866</u>	<u>14,434</u>
<b>Net Cash Provided by (Used in) Investing Activities</b>		<u>114,866</u>	<u>(3,984,576)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		483,607	(799,091)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>		<u>2,495,591</u>	<u>3,294,682</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$</b>	<u><u>2,979,198</u></u>	<b>\$</b> <u><u>2,495,591</u></u>

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,	<u>2018</u>	<u>2017</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>			
Operating Income		\$ 3,937,639	\$ 2,849,158
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation (Net of Capitalized Depreciation of \$78,138 in 2018 and \$357,469 in 2017)		3,534,427	3,465,215
(Increase) Decrease in Assets:			
Accounts Receivable - Customers		(702,583)	264,750
Materials and Supplies		(158,878)	(56,230)
Prepaid Items and Other Current Assets		(12,003)	(2,369)
Deferred OPEB Outflows		0	0
Increase (Decrease) in Liabilities:			
Customer Deposits		84,892	147,420
Accounts Payable		149,665	(422,676)
Accrued Compensated Absences		(93,163)	(2,517)
Retirement Plan Liability		(82,698)	27,901
OPEB Liability		(30,143)	0
Deferred OPEB Inflows		11,607	0
<b>Total Adjustments</b>		<u>2,701,123</u>	<u>3,421,494</u>
<b>Net Cash Provided by Operating Activities</b>		<u>\$ 6,638,762</u>	<u>\$ 6,270,652</u>
<b>Supplementary Schedule of Noncash Capital and Related Financing Activities:</b>			
Debt Issuance Costs on Bonds Issued		\$ 0	\$ 152,270
Amortization of Deferred Amount on Refunding		\$ (91,696)	\$ (91,696)
Amortization of Bond Premium		\$ 40,519	\$ 34,225
Gain (Loss) on Investments		\$ (2,330)	\$ 789

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

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2018 and 2017**

**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, 2018 and 2017, balances due from the Electric Department to the Water Department were \$250,749 and \$286,133, 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. 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 \$2,500 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.

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. As of June 30, 2018, the Electric Department has invested in United States Treasury Obligations with maturity dates between less than 12 months and not more than 24 months.

As of June 30, 2018 and 2017, the Electric Department has invested in certificates of deposit with various maturity dates 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's deferred inflows of resources consist of deferred inflows related to other postemployment benefits (see Note 10).

**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. 75** - During the fiscal year ended June 30, 2018, the Electric Department implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide postemployment benefits to their employees. The requirements of this new standard and their effect on the financial statements are more fully explained in Notes 10 and 15.

**Evaluation of Subsequent Events** - Management has evaluated subsequent events through October 29, 2018, 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, 2018, the book balances of the Electric Department's deposits were \$6,622,782 and the bank balances were \$6,665,244. Of the bank balances, \$4,020,812 was covered by FDIC insurance and \$2,644,432 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, 2018 and 2017, estimated unbilled revenue of approximately \$2,086,000 and \$1,756,000, respectively, is included in accounts receivable.

**NOTE 4 - RESTRICTED ASSETS**

The restricted cash, certificates of deposit, and investments consist 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, 2018 is as follows:

	Balances, July 01, 2017	Additions	Reductions	Balances, June 30, 2018
Capital Assets, Not Being Depreciated:				
Land and Land Rights	\$ 971,162	\$ 104,184	\$ 0	\$ 1,075,346
Construction Work in Progress	<u>823,456</u>	<u>2,696,695</u>	<u>3,084,410</u>	<u>435,741</u>
Total Capital Assets, Not Being Depreciated	<u>1,794,618</u>	<u>2,800,879</u>	<u>3,084,410</u>	<u>1,511,087</u>
Capital Assets, Being Depreciated:				
Structures and Improvements	5,178,877	13,771	0	5,192,648
Poles, Towers, and Transmission Assets	82,292,678	2,748,465	668,481	84,372,662
Street Lighting Systems	4,036,196	139,634	30,678	4,145,152
Equipment, Furniture and Fixtures	<u>30,333,885</u>	<u>630,466</u>	<u>0</u>	<u>30,964,351</u>
Total Capital Assets, Being Depreciated	<u>121,841,636</u>	<u>3,532,336</u>	<u>699,159</u>	<u>124,674,813</u>
Less Accumulated Depreciation for:				
Structures and Improvements	1,037,874	105,176	0	1,143,050
Poles, Towers, and Transmission Assets	34,340,347	2,454,461	616,153	36,178,655
Street Lighting Systems	2,827,706	171,332	30,529	2,968,509
Equipment, Furniture and Fixtures	<u>17,478,403</u>	<u>881,596</u>	<u>0</u>	<u>18,359,999</u>
Total Accumulated Depreciation	<u>55,684,330</u>	<u>3,612,565</u>	<u>646,682</u>	<u>58,650,213</u>
Total Capital Assets, Being Depreciated, Net	<u>66,157,306</u>	<u>(80,229)</u>	<u>52,477</u>	<u>66,024,600</u>
Capital Assets, Net	<u>\$ 67,951,924</u>	<u>\$ 2,720,650</u>	<u>\$ 3,136,887</u>	<u>\$ 67,535,687</u>



**NOTE 5 - CAPITAL ASSETS (Continued)**

Capital asset activity for the year ended June 30, 2017 is as follows:

	Balances, July 01, 2016	Additions	Reductions	Balances, June 30, 2017
Capital Assets, Not Being Depreciated:				
Land and Land Rights	\$ 928,770	\$ 42,392	\$ 0	\$ 971,162
Construction Work in Progress	2,909,941	4,362,723	6,449,208	823,456
Total Capital Assets, Not Being Depreciated	<u>3,838,711</u>	<u>4,405,115</u>	<u>6,449,208</u>	<u>1,794,618</u>
Capital Assets, Being Depreciated:				
Structures and Improvements	3,136,301	2,042,576	0	5,178,877
Poles, Towers, and Transmission Assets	79,368,872	3,553,000	629,194	82,292,678
Street Lighting Systems	3,913,677	152,308	29,789	4,036,196
Equipment, Furniture and Fixtures	28,612,965	1,720,920	0	30,333,885
Total Capital Assets, Being Depreciated	<u>115,031,815</u>	<u>7,468,804</u>	<u>658,983</u>	<u>121,841,636</u>
Less Accumulated Depreciation for:				
Structures and Improvements	967,598	70,276	0	1,037,874
Poles, Towers, and Transmission Assets	32,585,870	2,375,775	621,298	34,340,347
Street Lighting Systems	2,687,540	170,202	30,036	2,827,706
Equipment, Furniture and Fixtures	16,271,972	1,206,431	0	17,478,403
Total Accumulated Depreciation	<u>52,512,980</u>	<u>3,822,684</u>	<u>651,334</u>	<u>55,684,330</u>
Total Capital Assets, Being Depreciated, Net	<u>62,518,835</u>	<u>3,646,120</u>	<u>7,649</u>	<u>66,157,306</u>
Capital Assets, Net	<u>\$ 66,357,546</u>	<u>\$ 8,051,235</u>	<u>\$ 6,456,857</u>	<u>\$ 67,951,924</u>

**NOTE 6 - COMMITMENTS**

The Electric Department periodically enters into work plans for various system improvements. As of June 30, 2018, the Department has approximately \$898,000 in contractual construction commitments.

**NOTE 7 - LONG-TERM DEBT**

Changes in long-term debt for the year ended June 30, 2018 are as follows:

	Balances July 01, 2017	Increases	Decreases	Balances June 30, 2018	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	\$ 3,914,087	\$ 0	\$ (449,129)	\$ 3,464,958	\$ 460,229
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	7,538,000	0	(426,000)	7,112,000	447,000
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	1,406,102	0	(79,453)	1,326,649	82,066
Electric System General Obligation Bonds, Series 2014A, 2.0% to 4.0%	6,640,000	0	(1,230,000)	5,410,000	1,255,000
Electric System General Obligation Refunding Bonds, Series 2015A, 2.0%	5,230,000	0	(380,000)	4,850,000	380,000
Electric System General Obligation Refunding Bonds, Series 2015B, 2.0% to 2.75%	3,725,000	0	(255,000)	3,470,000	260,000
Electric System General Obligation Bonds, Series 2017, 2.0% to 3.25%	8,360,000	0	0	8,360,000	0
	<u>36,813,189</u>	<u>0</u>	<u>(2,819,582)</u>	<u>33,993,607</u>	<u>2,884,295</u>
Plus Unamortized Premiums on Issuance	467,545	0	(40,519)	427,026	0
	<u>\$ 37,280,734</u>	<u>\$ 0</u>	<u>\$ (2,860,101)</u>	<u>\$ 34,420,633</u>	<u>\$ 2,884,295</u>

Changes in long-term debt for the year ended June 30, 2017 are as follows:

	Balances July 01, 2016	Increases	Decreases	Balances June 30, 2017	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	\$ 4,352,970	\$ 0	\$ (438,883)	\$ 3,914,087	\$ 449,129
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	7,943,000	0	(405,000)	7,538,000	426,000
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	1,482,941	0	(76,839)	1,406,102	79,453
Electric System General Obligation Bonds, Series 2014A, 2.0% to 4.0%	7,870,000	0	(1,230,000)	6,640,000	1,230,000
Electric System General Obligation Refunding Bonds, Series 2015A, 2.0%	5,610,000	0	(380,000)	5,230,000	380,000
Electric System General Obligation Refunding Bonds, Series 2015B, 2.0% to 2.75%	3,975,000	0	(250,000)	3,725,000	255,000
Electric System General Obligation Bonds, Series 2017, 2.0% to 3.25%	0	8,360,000	0	8,360,000	0
	<u>31,233,911</u>	<u>8,360,000</u>	<u>(2,780,722)</u>	<u>36,813,189</u>	<u>2,819,582</u>
Plus Unamortized Premiums on Issuance	361,875	139,895	(34,225)	467,545	0
	<u>\$ 31,595,786</u>	<u>\$ 8,499,895</u>	<u>\$ (2,814,947)</u>	<u>\$ 37,280,734</u>	<u>\$ 2,819,582</u>

**NOTE 7 - LONG-TERM DEBT (Continued)**

The bonds and loans payable outstanding as of June 30, 2018 are as follows:

	Interest Rates	Date Issued	Final Maturity Date	Amount of Original Issue	Balance June 30, 2018
Loan Payable to PBA - Clarksville, Series 2004	Variable	5/24/2005	5/25/2025	\$ 8,538,600	\$ 3,464,958
Loan Payable to PBA - Montgomery County, Series 2006	Variable	3/3/2008	5/25/2030	10,000,000	7,112,000
Loan Payable to PBA - Clarksville, Series 2008	Variable	10/31/2008	5/25/2031	1,829,500	1,326,649
Electric System General Obligation Bonds, Series 2014A	2.00% to 4.00%	12/5/2014	3/1/2035	9,075,000	5,410,000
Electric System General Obligation Refunding Bonds, Series 2015A	2.00%	2/27/2015	3/1/2022	5,990,000	4,850,000
Electric System General Obligation Refunding Bonds, Series 2015B	2.00% to 2.75%	3/31/2015	3/1/2030	4,225,000	3,470,000
Electric System General Obligation Bonds, Series 2017	2.00% to 3.25%	5/25/2017	3/1/2037	8,360,000	8,360,000
					<u>\$ 33,993,607</u>

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

	Principal	Interest
2019	\$ 2,884,295	\$ 767,399
2020	2,995,532	733,149
2021	3,433,769	673,529
2022	3,502,859	601,255
2023	2,068,949	527,410
2024-2028	9,685,531	1,986,396
2029-2033	6,457,672	958,959
2034 - 2037	2,965,000	228,563
Total	<u>\$ 33,993,607</u>	<u>\$ 6,476,660</u>

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 of debt included a partial defeasance of the 2005 Series bonds for \$2,095,000. The bond principal and accrued interest will be called and redeemed on March 1, 2018 and March 1, 2019. 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 bonds of \$31,323 for the years ended June 30, 2018 and 2017 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 of debt included a partial defeasance of the 2006 Series bonds for \$5,365,000. The bond principal and accrued interest will be called and redeemed on March 1, 2018 - March 1, 2022. 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 of \$60,373 for the years ended June 30, 2018 and 2017 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 of debt included a partial defeasance of the 2010 Series bonds for \$3,727,000. The bond principal and accrued interest will be called and redeemed on June 30, 2018 – June 30, 2030. The advance refunding did not result in an accounting loss.

**NOTE 7 - LONG-TERM DEBT (Continued)**

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.

On May 25, 2017, the Electric Department issued \$8,360,000 in General Obligation Bonds (Series 2017) to provide funds for the acquisition of land and the construction, renovation, extension and equipping of site improvements, facilities and equipment for the City's electric system. The bonds are 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, 2018 are as follows:

	Balance July 01, 2017	Increases	Decreases	Balance June 30, 2018	Amounts Due Within One Year
Customer Deposits	\$ 2,153,311	\$ 478,382	\$ (393,490)	\$ 2,238,203	\$ 416,540
Accrued Compensated Absences	1,077,297	436,583	(529,746)	984,134	430,969
Accrued Retirement Plan Liability (see Note 9)	630,393	0	(82,698)	547,695	82,776
OPEB Liability (see Note 10)	514,030	28,347	(58,490)	483,887	0
	<u>\$ 4,375,031</u>	<u>\$ 943,312</u>	<u>\$ (1,064,424)</u>	<u>\$ 4,253,919</u>	<u>\$ 930,285</u>

Changes in other long-term liabilities for the year ended June 30, 2017 are as follows:

	Balance July 01, 2016	Increases	Decreases	Balance June 30, 2017	Amounts Due Within One Year
Customer Deposits	\$ 2,005,891	\$ 582,444	\$ (435,024)	\$ 2,153,311	\$ 424,693
Accrued Compensated Absences	1,079,814	553,872	(556,389)	1,077,297	559,778
Accrued Retirement Plan Liability (see Note 9)	602,492	109,586	(81,685)	630,393	85,338
OPEB Liability (see Note 10)	574,478	8,274	(68,722)	514,030	0
	<u>\$ 4,262,675</u>	<u>\$ 1,254,176</u>	<u>\$ (1,141,820)</u>	<u>\$ 4,375,031</u>	<u>\$ 1,069,809</u>

**NOTE 9 - RETIREMENT PLANS**

**Pension Plan**

The Electric Department participates in the Retirement Security Plan (RS Plan) sponsored and administered by the National Rural Electric Cooperative Association (NRECA), which is a cost-sharing pension plan that has the characteristics described in paragraph 2 of GASB Statement No. 78. The RS Plan must file annual reports with the U.S. Department of Labor (Form 5500) that include a copy of the RS Plan annual financial statements. An electronic copy of Form 5500, and the plan's annual financial statements, can be obtained by going to [www.efast.dol.gov](http://www.efast.dol.gov) and using the search tool (EIN 530116145; PN 333). Copies of the RS Plan's annual financial statements are also available to participating employers by calling NRECA's Member Contact Center at 866-673-2299.

The Plan provides defined benefit pension retirement benefits to covered employees. Members are eligible to retire at age 62 or after 30 years of service, beginning in 1970. Benefits are determined by a formula using the member's final average effective salary for each of their years of benefit service. Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. As of June 30, 2018, 70 of the Electric Department's employees were covered under the RS Plan (70 as of June 30, 2017). The Electric Department may amend certain terms of the Plan, including benefit levels provided for each year of service, normal retirement age, cost-of-living (COLA) adjustments to retiree annuity payments, eligibility for participation, and required employee contributions to the plan. Other plan terms, such as vesting periods, forms of payment, and factors used to reduce benefits for early retirement and conversion of benefits to optional forms of payment, are governed at the overall plan level and cannot be adjusted by individual employers (such provisions require approval by the NRECA board of directors). Each employer elects to participate in the Plan.

**NOTE 9 - RETIREMENT PLANS (Continued)**

**Pension Plan (Continued)**

Plan participants do not contribute to the Plan, and the Electric Department is required to contribute annually in accordance with the terms of the RS Plan. The total annual contribution is determined actuarially to be sufficient in funding the benefits of the RS Plan as a level percentage of covered payroll over the average expected remaining working lifetime of its participants. The amount is determined annually. This total annual contribution is allocated based on each employer's RS Plan provisions and participant demographics (in particular, the average age of participants and each participant's pay level). The Electric Department may amend certain benefit provisions, changing the corresponding contribution level after the effective date of the amendment. For the year ended June 30, 2018, required employer contributions for the Electric Department were \$859,172 based on a rate of 27.27% of covered payroll (\$838,903 based on a rate of 25.80% for the year ended June 30, 2017). These amounts represent all of the required contributions for each year, and no amounts are included in accounts payable at either year end. The RS Plan must meet minimum funding requirements under ERISA, as determined by Internal Revenue Service regulations. The Electric Department can choose to withdraw from the RS Plan, subject to plan provisions that require the Department to fully fund its share of RS Plan liabilities before withdrawing.

The Electric Department has recorded a payable to NRECA related to contractual agreements for contributions to the RS Plan related to past service upon the Department's entrance into the Plan. This liability is to be repaid in annual installments, with final payment due in 2047. The Electric Department's contractual liability for past service costs as of June 30, 2018 and 2017 is as follows:

	2018	2017
Contractual Liability - Beginning of Year	\$ 630,393	\$ 602,492
Past Service Adjustment Cost	0	109,586
Amounts Remitted to the NRECA	(82,698)	(81,685)
Contractual Liability - End of Year	547,695	630,393
Less Current Portion of Accrued Liability	82,776	85,338
Long-Term Portion of Accrued Liability	\$ 464,919	\$ 545,055

**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 \$234,658 and \$230,051 for the years ended June 30, 2018 and 2017, respectively. Contributions by the Electric Department for the years ended June 30, 2018 and 2017 were \$140,772 and \$138,514, respectively.

**NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

**General Information About the OPEB 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.

*Benefits Provided* - The Electric Department's healthcare plan is insured and serviced by Blue Cross Blue Shield of Tennessee. A premium is paid for medical coverage which is not age related. However, the underlying cost of the medical coverage does vary by age, as medical costs tend to increase with age. As a result, older employees receive a more valuable benefit than younger employees. As the premium paid for retirees is the same as for active employees, a more valuable benefit is received by retirees as compared to younger, active employees. GASB 75 defines this benefit as an implicit rate subsidy and it is to be valued under the standards. An adjustment from active employee health costs to retiree medical health costs is made to properly account for this subsidy.

**NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)**

**General Information About the OPEB Plan (Continued)**

*Employees Covered by Benefit Terms* - At July 1, 2017, the following employees of the Electric Department were covered by the benefit terms of The Plan:

	2017
Retired Employees	5
Disabled Employees	1
Beneficiaries	1
Active Employees	60
Total Participants	67

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. There are no assets accumulating in a trust that meets the criteria of paragraph 4 of GASB Statement No. 75. For the fiscal year ended June 30, 2018, the Electric Department paid \$45,432 to the Plan for OPEB benefits as they came due.

**Total OPEB Liability**

*Actuarial Assumptions* - The total OPEB liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.00%
Healthcare Cost Trend Rates	5.00% for 2018, remaining stagnant over the course of the next several periods.
Retiree's Share of Benefit-Related Costs	Members are required to make monthly contributions in order to maintain their coverage. The Electric Department pays a portion of eligible retirees' and their dependents' medical premiums, for a total of five years. The portion paid amounts to 2% for each year of service, up to 50% of premiums for retirees and 1% for each year of service up to 25% of premiums for their dependents.

Actuarial valuations of an ongoing plan involve estimates of value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. 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 value of assets, consistent with the long-term perspective of the calculations.

The actuarial demographic assumptions used in the July 1, 2017 actuarial valuation were based on the results of past experience. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. The mortality rates employed in this valuation are taken from the Group Annuity 1983 Mortality Table.

*Discount Rate* - The discount rate used to measure the total OPEB liability as of June 30, 2018 was 3.87% (3.58% as of June 30, 2017). This rate reflects the interest rate derived from yields on 20-year, tax-exempt general obligation municipal bonds, prevailing on the measurement date, with an average rating of AA/Aa as shown on the Bond Buyer's 20-Year Municipal GO index.

**NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)**

**General Information About the OPEB Plan (Continued)**

***Changes in the Total OPEB Liability***

	<u>Total OPEB Liability</u>
<b><u>Balances at June 30, 2017</u></b>	\$ <u>514,030</u>
Changes for the Year	
Service Cost	9,601
Interest	18,746
Change in Assumptions	(13,058)
Benefit Payments	<u>(45,432)</u>
Net Changes	<u>(30,143)</u>
<b><u>Balances at June 30, 2018</u></b>	\$ <u>483,887</u>

*Changes in Assumptions* - The discount rate was changed from 3.58% as of the beginning of the measurement period to 3.87% as of June 30, 2018. This change in assumption increased the total OPEB liability.

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

<u>Total OPEB Liability</u>	<u>1% Decrease (2.87%)</u>	<u>Discount Rate (3.87%)</u>	<u>1% Increase (4.87%)</u>
2018	\$ <u>529,851</u>	\$ <u>483,887</u>	\$ <u>443,043</u>
	<u>1% Decrease (2.58%)</u>	<u>Discount Rate (3.58%)</u>	<u>1% Increase (4.58%)</u>
2017	\$ <u>562,353</u>	\$ <u>514,030</u>	\$ <u>471,114</u>

*Sensitivity of Total OPEB Liability to Changes in the Healthcare Cost Trend Rate* - The following presents the total OPEB liability related to The Plan, as well as what the total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower (4.00%) or 1-percentage-point higher (6.00%) than the current healthcare cost trend rate.

<u>Total OPEB Liability</u>	<u>1% Decrease (4.00%)</u>	<u>Healthcare Cost Trend Rates (5.00%)</u>	<u>1% Increase (6.00%)</u>
2018	\$ <u>432,703</u>	\$ <u>483,887</u>	\$ <u>544,647</u>
2017	\$ <u>465,017</u>	\$ <u>514,030</u>	\$ <u>572,097</u>

**NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)**

**General Information About the OPEB Plan (Continued)**

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

*OPEB Expense* - For the fiscal year ended June 30, 2018, the Electric Department recognized OPEB expense of \$26,896.

*Deferred Outflows of Resources and Deferred Inflows of Resources* - For the fiscal year ended June 30, 2018, the Electric Department reported deferred outflows of resources and deferred inflows of resources related to OPEB benefits from the following sources:

<u>2018</u>	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in Assumptions	\$ <u>0</u>	\$ <u>11,607</u>

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

For the Years ended June 30:

2019	\$ (1,451)
2020	(1,451)
2021	(1,451)
2022	(1,451)
2023	(1,451)
Thereafter	<u>(4,352)</u>
Total	\$ <u>(11,607)</u>

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

**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 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Net Investment in Capital Assets:		
Net Capital Assets	\$ 67,535,687	\$ 67,951,924
Less: Long-Term Debt - Net of Discounts & Premiums	(34,420,633)	(37,280,734)
Add: Unspent Debt Proceeds to be Used for Capital Assets	<u>5,141,254</u>	<u>6,850,342</u>
	<u>38,256,308</u>	<u>37,521,532</u>
Restricted for Capital Assets Activity:		
Restricted Cash, Certificates of Deposit and Investments	5,141,254	6,850,342
Less: Unspent Debt Proceeds to be Used for Capital Assets	<u>(5,141,254)</u>	<u>(6,850,342)</u>
	<u>0</u>	<u>0</u>
Unrestricted	<u>(567,950)</u>	<u>(1,750,540)</u>
Total	\$ <u>37,688,358</u>	\$ <u>35,770,992</u>



## 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.

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.

**NOTE 12 - FAIR VALUE OF INVESTMENTS (Continued)**

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, 2018:

Investments by Fair Value Level	Fair Value Measurements Using			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>As of June 30, 2018</b>				
Debt Securities:				
U.S. Treasury	\$ 1,497,670	\$	\$	\$ 1,497,670

**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.

**NOTE 15 - PRIOR PERIOD ADJUSTMENT AND ADOPTION OF NEW ACCOUNTING STANDARDS**

During 2018, the Electric Department adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide postemployment benefits to their employees. See Note 10 for additional information about the Electric Department's OPEB plan. As a result of adopting GASB Statement No. 75, the Electric Department has recorded a prior period adjustment to report an OPEB liability as of June 30, 2017. No beginning balances for deferred outflows or inflows of resources related to OPEB were reported, as it was not practical for the Electric Department to determine these amounts. The cumulative effect of applying this standard has been reported as a restatement of beginning net position for the year ending June 30, 2017.

**NOTE 15 - PRIOR PERIOD ADJUSTMENT AND ADOPTION OF NEW ACCOUNTING STANDARDS (Continued)**

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

	As Originally Reported 2017	As Restated 2017	Effect of Change
<b>BALANCE SHEET</b>			
Current Assets	\$ 8,606,140	\$ 8,606,140	\$ 0
Noncurrent Assets	74,802,266	74,802,266	0
Deferred Outflows of Resources	246,798	246,798	0
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 83,655,204</b>	<b>\$ 83,655,204</b>	<b>\$ 0</b>
Current Liabilities	\$ 10,117,838	\$ 10,117,838	\$ 0
Noncurrent Liabilities	37,826,822	37,766,374	(60,448)
Net Position	35,710,544	35,770,992	60,448
<b>Total Liabilities, Deferred Inflows, and Net Position</b>	<b>\$ 83,655,204</b>	<b>\$ 83,655,204</b>	<b>\$ 0</b>
<b>STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION</b>			
Operating Revenues	\$ 47,816,107	\$ 47,816,107	\$ 0
Operating Expenses	(44,966,949)	(44,966,949)	0
<b>Operating Income</b>	<b>2,849,158</b>	<b>2,849,158</b>	<b>0</b>
Nonoperating Revenues (Expenses)	(805,883)	(805,883)	0
Transfers to City of Lafollette - In Lieu of Taxes	(1,237,675)	(1,237,675)	0
<b>Change in Net Position</b>	<b>805,600</b>	<b>805,600</b>	<b>0</b>
<b>Net Position - Beginning of Year</b>	<b>34,904,944</b>	<b>34,965,392</b>	<b>60,448</b>
<b>Net Position - End of Year</b>	<b>\$ 35,710,544</b>	<b>\$ 35,770,992</b>	<b>\$ 60,448</b>

**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:

<u>Fiscal Year Ended June 30,</u>	<u>Required Contributions Made</u>	<u>Repayment of Contractual Liability</u>	<u>Total</u>
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
2017	838,903	81,685	920,588
2018	859,172	82,698	941,870

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 CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS**

**Last Fiscal Year Ended June 30**

	<u>2018</u>
<b>Total OPEB Liability</b>	
Service Cost	\$ 9,601
Interest	18,746
Change in Assumptions	(13,058)
Benefit Payments	<u>(45,432)</u>
<b>Net Change in Total OPEB Liability</b>	(30,143)
<b>Total OPEB Liability - Beginning</b>	<u>514,030</u>
<b>Total OPEB Liability - Ending</b>	<u>\$ 483,887</u>
<b>Covered Payroll</b>	\$ 4,545,881
<b>Total OPEB Liability (Asset) as a Percentage of Covered Payroll</b>	10.64%

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

**OTHER INFORMATION SECTION**

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

**SCHEDULE OF DEBT SERVICE REQUIREMENTS**

**For the Year Ended June 30, 2018**

	Series 2004 Loan Payable to PBA - Clarksville Based on Rate as of 6/30/18 of 1.97%		Series 2006 Loan Payable to PBA - Montgomery County Based on Rate as of 6/30/18 of 1.97%		Series 2008 Loan Payable to PBA - Clarksville Based on Rate as of 6/30/18 of 1.99%		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%		Series 2017 General Obligation Bonds 2.00% to 3.25%		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
	2019	\$ 460,229	\$ 61,527	\$ 447,000	\$ 126,288	\$ 82,066	\$ 23,796	\$ 1,255,000	\$ 146,050	\$ 380,000	\$ 97,000	\$ 260,000	\$ 76,776	\$ 0	\$ 235,962	\$ 2,884,295
2020	471,330	59,193	469,000	131,301	85,202	24,767	215,000	120,950	1,490,000	89,400	265,000	71,576	0	235,962	2,995,532	733,149
2021	482,430	49,908	493,000	122,061	88,339	23,072	220,000	116,650	1,490,000	59,600	270,000	66,276	390,000	235,962	3,433,769	673,529
2022	494,384	40,404	517,000	112,349	91,475	21,314	225,000	112,250	1,490,000	29,800	275,000	60,876	410,000	224,262	3,502,859	601,255
2023	506,338	30,665	543,000	102,164	94,611	19,493	225,000	107,750	0	0	280,000	55,376	420,000	211,962	2,068,949	527,410
2024	519,146	20,690	570,000	91,467	97,748	17,611	235,000	103,250	0	0	285,000	49,776	430,000	199,362	2,136,894	482,156
2025	531,101	10,463	599,000	80,238	101,407	15,665	240,000	97,963	0	0	290,000	44,076	440,000	190,762	2,201,508	439,167
2026	0	0	629,000	68,438	104,543	13,647	245,000	91,963	0	0	295,000	38,276	450,000	180,862	1,723,543	393,186
2027	0	0	660,000	56,047	108,202	11,567	250,000	85,838	0	0	300,000	32,081	460,000	170,738	1,778,202	356,271
2028	0	0	693,000	43,045	112,384	9,414	260,000	78,963	0	0	310,000	24,956	470,000	159,238	1,845,384	315,616
2029	0	0	728,000	29,392	116,043	7,177	265,000	71,813	0	0	315,000	17,206	485,000	147,488	1,909,043	273,076
2030	0	0	764,000	15,051	120,224	4,868	275,000	63,863	0	0	325,000	8,938	495,000	135,362	1,979,224	228,082
2031	0	0	0	0	124,405	2,476	280,000	54,925	0	0	0	0	510,000	121,750	914,405	179,151
2032	0	0	0	0	0	0	290,000	45,825	0	0	0	0	525,000	106,450	815,000	152,275
2033	0	0	0	0	0	0	300,000	35,675	0	0	0	0	540,000	90,700	840,000	126,375
2034	0	0	0	0	0	0	310,000	24,425	0	0	0	0	555,000	74,500	865,000	98,925
2035	0	0	0	0	0	0	320,000	12,800	0	0	0	0	575,000	57,850	895,000	70,650
2036	0	0	0	0	0	0	0	0	0	0	0	0	595,000	39,162	595,000	39,162
2037	0	0	0	0	0	0	0	0	0	0	0	0	610,000	19,826	610,000	19,826
	<u>\$ 3,464,958</u>	<u>\$ 272,850</u>	<u>\$ 7,112,000</u>	<u>\$ 977,841</u>	<u>\$ 1,326,649</u>	<u>\$ 194,867</u>	<u>\$ 5,410,000</u>	<u>\$ 1,370,953</u>	<u>\$ 4,850,000</u>	<u>\$ 275,800</u>	<u>\$ 3,470,000</u>	<u>\$ 546,189</u>	<u>\$ 8,360,000</u>	<u>\$ 2,838,160</u>	<u>\$ 33,993,607</u>	<u>\$ 6,476,660</u>



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

**SCHEDULES OF RATE STRUCTURE AND CUSTOMERS**

**June 30, 2018**

Residential - Schedule RS		
Customer Charge	\$	20.13
Energy Charge Per kWh		0.10425
General Power - Schedule GSA		
Part 1		
Customer Charge		27.65
Energy Charge Per kWh		0.12561
Part 2		
Customer Charge		104.39
Demand Charges:		
First 50 kW		0.00
Excess Over 50 kW		16.72
Energy Charges:		
First 15,000 kWh		0.12620
Additional kWh		0.06987
Part 3		
Customer Charge		365.36
Demand Charges:		
First 1,000 kW		16.87
Next 1,500 kW		21.80
Excess of Higher of 2,500 kW or Contract Demand		43.60
Energy Charge Per kWh		0.06987
Outdoor Lighting - Schedule LS		
Customer Charge		27.65
Energy Charge Per kWh		0.07647
General Power - Schedule GSB		
Customer Charge		1,500.00
Demand Charges:		
Onpeak		10.61
Maximum		5.09
Excess Over Contract		10.61
Energy Charge		
Onpeak		0.09255
Offpeak First 200 hours		0.06820
Offpeak Next 200 hours		0.02296
Offpeak Additional kWh		0.01962

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

**SCHEDULES OF RATE STRUCTURE AND CUSTOMERS (Continued)**

**June 30, 2018**

General Power - Schedule GSC		
Customer Charge	\$	1,500.00
Demand Charges:		
Onpeak		10.61
Maximum		4.48
Excess Over Contract		10.61
Energy Charge		
Onpeak		0.09255
Offpeak First 200 hours		0.06820
Offpeak Next 200 hours		0.02296
Offpeak Additional kWh		0.01962
General Power - Schedule GSD		
Customer Charge		1,500.00
Demand Charges:		
Onpeak		10.61
Maximum		4.47
Excess Over Contract		10.61
Energy Charge		
Onpeak		0.09255
Offpeak First 200 hours		0.06820
Offpeak Next 200 hours		0.02184
Offpeak Additional kWh		0.01962
General Power-TDGSA		
Customer Charge		1,500.00
Demand Charges:		
Onpeak		10.66
Excess Offpeak		5.09
Excess Over Contract		10.66
Energy Charge		
Onpeak		0.09584
Offpeak First 200 hours		0.06322
Offpeak Next 200 hours		0.02185
Offpeak Additional kwh		0.01890

Customers - As of June 30, 2018 the total number of customers was 22,187

**CITY OF LAFOLLETTE - BOARD OF PUBLIC UTILITIES  
ELECTRIC DEPARTMENT  
SCHEDULES OF RATE STRUCTURE AND CUSTOMERS**

**June 30, 2017**

Residential - Schedule RS		
Customer Charge	\$	18.26
Energy Charge Per kWh		0.10413
General Power - Schedule GSA		
Part 1		
Customer Charge		27.26
Energy Charge Per kWh		0.12363
Part 2		
Customer Charge		102.90
Demand Charges:		
First 50 kW		0.00
Excess Over 50 kW		16.21
Energy Charges:		
First 15,000 kWh		0.12412
Additional kWh		0.06959
Part 3		
Customer Charge		360.16
Demand Charges:		
First 1,000 kW		16.34
Next 1,500 kW		21.09
Excess of Higher of 2,500 kW or Contract Demand		42.18
Energy Charge Per kWh		0.06959
Outdoor Lighting - Schedule LS		
Customer Charge		27.26
Energy Charge Per kWh		0.07611
General Power - Schedule GSB		
Customer Charge		1,500.00
Demand Charges:		
Onpeak		10.36
Maximum		5.00
Excess Over Contract		10.36
Energy Charge		
Onpeak		0.09252
Offpeak First 200 hours		0.06873
Offpeak Next 200 hours		0.02453
Offpeak Additional kWh		0.02127

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

**SCHEDULES OF RATE STRUCTURE AND CUSTOMERS (Continued)**

**June 30, 2017**

General Power - Schedule GSC		
Customer Charge	\$	1,500.00
Demand Charges:		
Onpeak		10.36
Maximum		4.39
Excess Over Contract		10.36
Energy Charge		
Onpeak		0.09252
Offpeak First 200 hours		0.06873
Offpeak Next 200 hours		0.02453
Offpeak Additional kWh		0.02127
General Power - Schedule GSD		
Customer Charge		1,500.00
Demand Charges:		
Onpeak		10.36
Maximum		4.38
Excess Over Contract		10.36
Energy Charge		
Onpeak		0.09252
Offpeak First 200 hours		0.06873
Offpeak Next 200 hours		0.02343
Offpeak Additional kWh		0.02127
General Power-TDGSA		
Customer Charge		1,500.00
Demand Charges:		
Onpeak		10.41
Excess Offpeak		5.00
Excess Over Contract		10.41
Energy Charge		
Onpeak		0.09572
Offpeak First 200 hours		0.06386
Offpeak Next 200 hours		0.02344
Offpeak Additional kwh		0.02056

Customers - As of June 30, 2017 the total number of customers was 22,106

**COMPLIANCE SECTION**



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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, 2018 and 2017, 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 24, 2018.

**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.



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### **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 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  
October 29, 2018

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

**SCHEDULE OF PRIOR YEAR FINDINGS**

**For the Year Ended June 30, 2018**

There were no prior findings reported.



**GENERAL PURPOSE FINANCIAL STATEMENTS**

**OF**

**CITY OF LAFOLLETTE, TENNESSEE  
BOARD OF PUBLIC UTILITIES  
WATER DEPARTMENT**

**FOR THE FISCAL YEAR ENDED**

**JUNE 30, 2018**



**CITY OF LAFOLLETTE - BOARD OF PUBLIC UTILITIES  
WATER DEPARTMENT  
(An Enterprise Fund of the City of LaFollette, Tennessee)**

**LaFollette, Tennessee**

**FINANCIAL STATEMENTS**

**June 30, 2018 and 2017**



**CITY OF LAFOLLETTE - BOARD OF PUBLIC UTILITIES  
WATER DEPARTMENT  
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THE UNIVERSITY OF CHICAGO  
PHYSICS DEPARTMENT  
PHYSICS 230  
LECTURE 1

1.1. The Scientific Method  
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1.5. Momentum  
1.6. Rotational Motion  
1.7. Oscillations  
1.8. Waves  
1.9. Relativity  
1.10. Quantum Mechanics

**INTRODUCTORY SECTION**

**CITY OF LAFOLLETTE – BOARD OF PUBLIC UTILITIES  
WATER DEPARTMENT**

**ROSTER OF OFFICIALS**

**June 30, 2018**

David R. Longmire	Board of Directors – Chairman
C. Boyd Henegar	Board of Directors – Vice Chairman
James B. Campbell	Board of Directors – Secretary/Treasurer
Joseph H. (J.H.) Willoughby	Board of Directors – Member
Janice S. Walker	Board of Directors – Member
Walter (Kenny) Baird, Jr.	General Manager

HOUGH  
2011

FINANCIAL SECTION

FINANCIAL SECTION

2011



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## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the City of LaFollette - Board of Public Utilities - Water Department, an enterprise fund of the City of LaFollette, Tennessee, which comprise the balance sheets as of June 30, 2018 and 2017, 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 comprise 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 - Water Department, as of June 30, 2018 and 2017, 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.



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**Emphasis of Matter**

As discussed in Note 1, the financial statements of the City of LaFollette - Board of Public Utilities - Water 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 Water Department. They do not purport to, and do not, present fairly the financial position of the City of LaFollette, Tennessee as of June 30, 2018 and 2017, 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 - 10, the schedule of required pension contributions on page 27 and the schedule of changes in total OPEB liability and related ratios on page 28 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 - Water 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 29, 2018 on our consideration of the City of LaFollette - Board of Public Utilities - Water 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of LaFollette - Board of Public Utilities - Water Department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of LaFollette - Board of Public Utilities - Water Department's internal control over financial reporting and compliance.

Certified Public Accountants  
Knoxville, Tennessee  
October 29, 2018

**CITY OF LAFOLLETTE – BOARD OF PUBLIC UTILITIES  
WATER DEPARTMENT**

**Fiscal Years Ending June 30, 2018 and 2017**

**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 Water Department provides services to certain customers in the City of LaFollette, as well as serving portions of Campbell and Claiborne Counties in East Tennessee.

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

The Water Department’s Management Discussion and Analysis (MD&A) focuses on the fiscal year ending June 30, 2018 and 2017 activities, resulting changes and current known facts, and should be read in conjunction with the Water Department’s financial statements.

**WATER DEPARTMENT HIGHLIGHTS**

**Financial Highlights**

- The Water Department’s net position increased \$630,512 or 3% in fiscal year 2018.
- Operating revenue increased \$168,017 or less than 3%.
- Operating expenses increased \$71,887 or 1%.
- Interest income increased \$4,552 or 174%.
- Interest expense increased \$2,398 or 2%.
- Capital contributions decreased \$256,546 or 33%.
- Capital assets, net of depreciation, increased \$373,111 or 1%.
- Long-term debt represented 25% of the Water Department’s capital structure, compared to 27% last year. Capital structure equals long-term debt (including the current portion of revenue bonds and capital outlay notes due to be retired next fiscal year) plus net position.
- The Water Department’s maximum debt service coverage is \$875,078 (fiscal year 2023).

**Water Department Highlights**

- Several water line, sewer line, water tank and pump station projects were completed by LUB personnel. These projects will further enhance system reliability by reducing water losses, inflow/infiltration problems, etc.
- Continued aggressively enforcing the fats, oils, and grease (FOG) program that requires businesses and industries to provide FOG removal before they reach LUB’s sewer system. This will further protect the environment by eliminating grease-caused sewer overflows.
- Continued disposing of sewer solids by land application at state-approved farm sites.

- Installed a sludge press at the wastewater treatment plant that will reduce the moisture content of the solids handled by plant personnel. This project was funded by a \$525,000.00 Community Development Block Grant.
- Completed several upgrade projects at the water treatment plant.

## **LUB, WATER DEPARTMENT, FINANCIAL STATEMENTS**

The Water 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 Sheets**

The Water 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 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.

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

The statements indicate the Water 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 Water Department:

**Balance Sheets  
As of June 30**

	(\$ in thousands)		
	2018	2017 As Restated	2016
Current and Other Assets	\$ 1,532	\$ 2,012	\$ 1,801
Capital Assets, Net	35,189	34,815	34,983
Total Assets	<u>36,721</u>	<u>36,827</u>	<u>36,784</u>
Current and Other Liabilities	2,093	2,099	2,100
Long-Term Debt, Net	8,863	9,599	10,326
Total Liabilities	<u>10,956</u>	<u>11,698</u>	<u>12,426</u>
Deferred Inflows of Resources	<u>6</u>	<u>0</u>	<u>0</u>
Net Position:			
Net Investment in Capital Assets	25,590	24,491	23,984
Unrestricted	169	638	374
Total Net Position	<u>\$ 25,759</u>	<u>\$ 25,129</u>	<u>\$ 24,358</u>

**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 2018, current and other assets decreased \$478,740 or 24%. The Water Department’s cash and cash equivalents decreased \$485,470. During 2017, current and other assets increased \$209,855 or 12%. The Water Department’s cash and cash equivalents increased \$483,624.
- Net capital assets increased \$373,111 or 1% in 2018 and decreased \$167,371 or less than 1% in 2017. Plant additions during the year included various water line, sewer line, tank, pump station, and treatment plant projects.
- Deferred inflows of resources increased \$5,980 or 100% in 2018 as a result of implementing GASB 75 for other post retirement benefits (OPEB).
- Current and other liabilities increased \$5,328 or less than 1% in 2018 and decreased \$1,522 or 1% in 2017.
- In 2018, long-term debt decreased \$736,793 or 8%. Long-term debt retired this fiscal year was \$726,183. In 2017, long-term debt decreased \$726,172 or 7%, and long-term debt retired in the prior fiscal year was \$715,744.
- Net investment in capital assets increased \$1,099,294 or 4% in 2018 and increased \$506,157 or 2% in 2017.
- Unrestricted net position decreased \$468,782 or 73% in 2018 and increased \$264,021 or 76% in 2017.

**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 Water Department:

**Statements of Revenues, Expenses and Changes in Net Position  
For the years ended June 30**

	(\$ in thousands)		
	2018	As Restated 2017	2016
Operating Revenue	\$ 6,715	\$ 6,547	\$ 6,534
Operating Expenses:			
Water Purchased	1	1	1
Water System	1,647	1,696	1,626
Wastewater System	795	736	731
Customer Accounting and Collection	578	549	497
General and Administrative	1,929	1,942	1,697
Depreciation	1,524	1,480	1,425
Total Operating Expenses	<u>6,474</u>	<u>6,404</u>	<u>5,977</u>
Income (Loss) from Operations	241	143	557
Interest Income	7	3	1
Interest Expense	<u>(142)</u>	<u>(139)</u>	<u>(132)</u>
Income (Loss) Before Capital Contributions	106	7	426
Capital Contributions, Net	<u>525</u>	<u>782</u>	<u>524</u>
Change in Net Position	<u>\$ 631</u>	<u>\$ 789</u>	<u>\$ 950</u>

### **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 Change in Net Position presentation.

- Operating revenue is largely determined by the volume of water and wastewater treatment sales for the fiscal year. Any change (increase/decrease) in retail water and sewer rates would also be a cause of a change in operating revenue.
- Operating expenses (water purchased, water system, wastewater system, customer accounting and collection, and general and administrative) are normally impacted by changes in areas including but not limited to labor cost (staffing, wage rates), group health insurance costs, chemicals and water and sewer system maintenance costs.
- Depreciation expense is impacted by plant additions and retirements during the fiscal year.
- 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.
- Capital contributions are impacted by the level of grant funds received during the fiscal year.
- Prior period adjustments are impacted by any adjusting entries where the transaction pertains to a prior fiscal year.

### **Current Year Impacts and Analysis**

- Operating revenue increased \$168,017 or 3% for the fiscal year ending June 30, 2018, the result of increased base rate charges implemented at the beginning of the fiscal year. Operating revenue increased \$13,339 or less than 1% for the fiscal year ending June 30, 2017, the result of flat sales volume during the fiscal year.
- Operating expenses increased \$71,887 or 1% from last fiscal year, compared to an increase of \$425,738 or 7% in 2017.
  - Water purchased increased \$24 or 4% from last fiscal year, compared to an increase of \$4 or less than 1% in 2017.
  - Water system expenses decreased \$49,857 or 3% in 2018 and increased \$70,374 or 4% in 2017. This was due to a general decrease in operating and maintenance costs.
  - Wastewater system expenses increased \$62,571 or 9% in 2018 and increased \$3,562 or less than 1% in 2017. This was due to a general increase in operating and maintenance costs.
  - Customer accounting and collection expenses increased \$29,259 or 5% in 2018 and increased \$52,088 or 10% in 2017. This was due to a general increase in costs.
  - General and administrative expenses decreased \$13,492 or less than 1% in 2018 and increased \$244,851 or 14% in 2017. This was due to a general increase in health insurance and pension costs.
  - Depreciation expense increased \$43,382 or 3% in 2018 and increased \$54,859 or 4% in 2017.
- Interest income increased \$4,552 or 174% in 2018 and increased \$1,972 or 305% in 2017.
- Interest expense increased \$2,398 or 2% in 2018 and increased \$7,650 or 6% in 2017.
- Capital contributions decreased \$256,546 in 2018 and increased \$257,048 in 2017. This was due to decreased grant funds and capital contributions as compared to the prior fiscal year.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

As of June 30, 2018, the Water Department had \$35,188,535 invested in a variety of capital assets, as reflected in the schedule below, which represents a net increase (including additions, retirements, and depreciation) of \$373,111 or 1% compared to the end of the last fiscal year. As of June 30, 2017, the Water Department had \$34,815,424 invested in a variety of capital assets, as reflected in the schedule below, which represents a net decrease of \$167,371 or less than 1% compared to the end of 2016.

**As of June 30  
(Net of Depreciation)**

	2018	2017	2016
Land and Land Rights	\$ 169,537	\$ 169,537	\$ 162,537
Structures and Improvements	10,305,013	10,677,346	10,709,501
Furniture, Fixtures and Equipment	2,072,622	1,003,679	860,839
Distribution Reservoir and Standpipes	1,364,545	1,337,943	1,384,286
Transmission and Distribution Mains	18,028,470	18,615,563	18,399,933
Service Installations	3,061,802	2,980,835	3,010,921
Total Plant	<u>35,001,989</u>	<u>34,784,903</u>	<u>34,528,017</u>
Construction Work in Progress	186,546	30,521	454,778
Total Net Capital Assets	<u>\$ 35,188,535</u>	<u>\$ 34,815,424</u>	<u>\$ 34,982,795</u>

Major capital asset additions during the year were as follows:

- Completed several upgrade projects at the water treatment plant, most being at the intake structure and intake building.
- Installed a sludge press at the wastewater treatment plant.

**Debt Outstanding**

As of June 30, 2018, the Water Department had \$9,598,584 in debt outstanding (including the current portion of revenue bonds and other loans), which represents a decrease of \$726,183 or 7% compared to the end of the last fiscal year. As of June 30, 2017, the Water Department had \$10,324,767 in debt outstanding which represents a decrease of \$715,744 or 6% compared to the end of 2016.

The following is a schedule of the Water Department's outstanding debt as of June 30, 2018, 2017, and 2016:

**Outstanding Debt  
As of June 30**

	2018	2017	2016
Tennessee Municipal Bond Fund Loans	\$ 2,125,393	\$ 2,333,811	\$ 2,536,089
State Revolving Fund loans	5,403,663	5,848,647	6,290,139
Rural Development Revenue and Tax Bonds	1,682,449	1,714,414	1,745,571
General Obligation Bonds	380,000	420,000	460,000
Total Outstanding Debt	<u>\$ 9,591,505</u>	<u>\$ 10,316,872</u>	<u>\$ 11,031,799</u>

### **IMPACTS ON FUTURE FINANCIAL POSITION**

The Water Department is not expected to add very many new water and wastewater customers over the course of the next fiscal year. Charges for both services will be closely monitored, with changes in rates being recommended as circumstances may dictate.

No other facts, decisions, or conditions are currently known which would have a significant impact on the Water Department's financial position or results of operations during fiscal year 2019.

### **FINANCIAL CONTACT**

The Water Department's financial statements are designed to present users (citizens, customers, investors and creditors) with a general overview of the Water Department's financial position and results of operations for the fiscal years ending June 30, 2018 and June 30, 2017. 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  
WATER DEPARTMENT  
BALANCE SHEETS**

	As of June 30,	<u>2018</u>	<u>As Restated 2017</u>
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and Cash Equivalents	\$	329,895	\$ 815,365
Accounts Receivable, Net		1,087,630	1,068,877
Materials and Supplies		<u>115,021</u>	<u>127,044</u>
<b>Total Current Assets</b>		<u>1,532,546</u>	<u>2,011,286</u>
<b>NONCURRENT ASSETS:</b>			
Capital Assets, Net		<u>35,188,535</u>	<u>34,815,424</u>
<b>TOTAL ASSETS</b>	<b>\$</b>	<b><u>36,721,081</u></b>	<b>\$ <u>36,826,710</u></b>
<b>LIABILITIES, DEFERRED INFLOWS AND NET POSITION</b>			
<b>CURRENT LIABILITIES:</b>			
Accounts Payable	\$	212,540	\$ 206,670
Current Portion of Accrued Compensated Absences		220,842	200,869
Current Portion of Retirement Plan Liability		35,008	35,008
Current Maturities of Long-Term Debt		<u>735,982</u>	<u>725,372</u>
<b>Total Current Liabilities</b>		<u>1,204,372</u>	<u>1,167,919</u>
<b>NONCURRENT LIABILITIES:</b>			
Accrued Compensated Absences - Long-Term		486,384	477,628
Retirement Plan Liability - Long-Term		153,187	188,195
Other Postemployment Benefits (OPEB) Liability		249,275	264,804
Long-Term Debt, Net		<u>8,862,602</u>	<u>9,599,395</u>
<b>Total Noncurrent Liabilities</b>		<u>9,751,448</u>	<u>10,530,022</u>
<b>TOTAL LIABILITIES</b>		<u>10,955,820</u>	<u>11,697,941</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>			
Deferred OPEB Inflows		<u>5,980</u>	<u>0</u>
<b>NET POSITION:</b>			
Net Investment in Capital Assets		25,589,951	24,490,657
Unrestricted		<u>169,330</u>	<u>638,112</u>
<b>Total Net Position</b>		<u>25,759,281</u>	<u>25,128,769</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION</b>	<b>\$</b>	<b><u>36,721,081</u></b>	<b>\$ <u>36,826,710</u></b>

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

**CITY OF LAFOLLETTE - BOARD OF PUBLIC UTILITIES  
WATER DEPARTMENT**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

	For the Years Ended June 30,		As Restated 2017
	<u>2018</u>		<u>2017</u>
<b>OPERATING REVENUES:</b>			
Water Revenue (Net of Bad Debts of \$15,600 and \$7,311 in 2018 and 2017, Respectively)	\$ 4,515,037	\$	4,361,071
Wastewater Services Revenue (Net of Bad Debts of \$13,800 and \$15,500 in 2018 and 2017, Respectively)	1,988,416		1,949,496
Other Revenue	<u>211,506</u>		<u>236,375</u>
<b>Total Operating Revenues</b>	<u>6,714,959</u>		<u>6,546,942</u>
<b>OPERATING EXPENSES:</b>			
Water Purchased	587		563
Water System	1,646,583		1,696,440
Wastewater System	797,262		734,691
Customer Accounting and Collection	578,092		548,833
General and Administrative	1,928,768		1,942,260
Depreciation	<u>1,523,661</u>		<u>1,480,279</u>
<b>Total Operating Expenses</b>	<u>6,474,953</u>		<u>6,403,066</u>
<b>OPERATING INCOME (LOSS)</b>	<u>240,006</u>		<u>143,876</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Interest Income	7,171		2,619
Interest Expense	<u>(141,665)</u>		<u>(139,267)</u>
<b>Net Nonoperating Expenses</b>	<u>(134,494)</u>		<u>(136,648)</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS</b>	105,512		7,228
<b>CAPITAL CONTRIBUTIONS</b>	<u>525,000</u>		<u>781,546</u>
<b>CHANGE IN NET POSITION</b>	630,512		788,774
<b>NET POSITION - BEGINNING OF YEAR, AS RESTATED - SEE NOTE 14</b>	<u>25,128,769</u>		<u>24,339,995</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 25,759,281</u>	\$	<u>25,128,769</u>

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

**CITY OF LAFOLLETTE - BOARD OF PUBLIC UTILITIES  
WATER DEPARTMENT  
STATEMENTS OF CASH FLOWS**

	For the Years Ended June 30,	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Cash Received from Customers	\$	6,484,700	\$ 6,573,557
Cash Receipts from Other Operations		211,506	236,375
Cash Paid to Employees		(3,302,447)	(3,249,708)
Cash Paid to Suppliers		(1,646,513)	(1,734,795)
<b>Net Cash Provided by (Used In) Operating Activities</b>		<b>1,747,246</b>	<b>1,825,429</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Plant Additions and Construction		(1,388,657)	(531,362)
Plant Retirements		16,885	0
Repayments on Long-Term Debt Borrowing		(725,367)	(714,927)
Interest on Capital Debt		(142,748)	(140,351)
(Increase) Decrease in Restricted Cash		0	42,216
<b>Net Cash Provided by (Used in) Capital and Related Financing Activities</b>		<b>(2,239,887)</b>	<b>(1,344,424)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Interest on Cash and Cash Equivalents		7,171	2,619
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		(485,470)	483,624
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>		815,365	331,741
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	\$	<b>329,895</b>	\$ 815,365
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>			
Income (Loss) From Operations	\$	240,006	\$ 143,876
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Depreciation (Net of Capitalized Depreciation of \$68,768 in 2018 and \$90,157 in 2017)		1,523,661	1,480,279
(Increase) Decrease in Assets:			
Accounts Receivable - Customers		(18,753)	262,990
Materials and Supplies		12,023	(31,437)
Increase (Decrease) in Liabilities:			
Accounts Payable		6,137	(12,806)
Retirement Plan Liability		(35,008)	(35,008)
OPEB Liability		(15,529)	0
Accrued Compensated Absences		28,729	17,535
Deferred OPEB Inflows		5,980	0
<b>Total Adjustments</b>		<b>1,507,240</b>	<b>1,681,553</b>
<b>Net Cash Provided by (Used In) Operating Activities</b>	\$	<b>1,747,246</b>	\$ 1,825,429
<b>Supplementary Schedule of Noncash Capital and Related Financing Activities:</b>			
Contributed Capital Assets	\$	525,000	\$ 781,546
Amortization of Bond Premium	\$	816	\$ 817

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

CITY OF LAFOLLETTE - BOARD OF PUBLIC UTILITIES  
WATER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

**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 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.

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

All activities of the Water 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 Water Department is determined by its measurement focus. The transactions of the Water 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 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 operations, maintenance, general and administrative functions, and other nonoperating revenues and expenses 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.

**Revenues and Expenses** - Revenues 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. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water Department are charges to customers for water and wastewater services. Operating expenses for the Water 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 Water Department's policy to use restricted resources first, then unrestricted resources as they are needed.

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.

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

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.

**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, 2018 and 2017, balances due from the Electric Department to the Water Department were \$250,749 and \$286,133, 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. Donated assets are valued at their estimated fair 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 \$2,500 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 20% per year for the Water Department property and equipment.

**Cash and Cash Equivalents** - For purposes of the statements of cash flows, the Water Department considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

**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.

**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. It is also the Water 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 Water Department collects various taxes from customers and remits these amounts to applicable taxing authorities. The Water Department's accounting policy is to exclude these taxes from revenues and cost of sales.

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

**Deferred Outflows/Inflows of Resources** - In addition to assets, the balance sheet may sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. In addition to liabilities, the balance sheet may sometimes report a separate section for deferred inflows of resources. The Water Department's inflows of resources consist of deferred inflows related to other postemployment benefits (see Note 9). This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then.

**Net Position** - 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 Water 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 Water Department's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

**Implementation of GASB Statement No. 75** - During the fiscal year ended June 30, 2018, the Water Department implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide postemployment benefits to their employees. The requirements of this new standard and their effect on the financial statements are more fully explained in Notes 9 and 14.

**Evaluation of Subsequent Events** - Management has evaluated subsequent events through October 29, 2018, 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, 2018, the book balances of the Water Department's deposits were \$329,895 and the bank balances were \$329,895. Of the bank balances, \$250,000 was covered by FDIC insurance and \$79,895 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 an agreement with First Volunteer Bank, which participates in the Tennessee Bank Collateral Pool.

**NOTE 3 - UNBILLED REVENUE**

Estimated unbilled revenue of approximately \$284,000 and \$265,000 is included in accounts receivable as of June 30, 2018 and 2017, respectively.

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2018 is as follows:

	Balances, July 01, 2017	Additions	Reductions	Balances, June 30, 2018
<b>Capital Assets, Not Being Depreciated:</b>				
Land and Land Rights	\$ 169,537	\$ 0	\$ 0	\$ 169,537
Construction Work in Progress	30,521	156,026	0	186,547
<b>Total Capital Assets, Not Being Depreciated</b>	<b>200,058</b>	<b>156,026</b>	<b>0</b>	<b>356,084</b>
<b>Capital Assets, Being Depreciated:</b>				
Structures and Improvements	17,165,026	56,903	0	17,221,929
Furniture, Fixtures and Equipment	6,651,112	1,335,458	11,396	7,975,174
Distribution Reservoir and Standpipes	2,317,140	75,686	2,125	2,390,701
Transmission and Distribution Mains	29,856,721	8,040	0	29,864,761
Service Installations	6,920,513	350,312	3,364	7,267,461
<b>Total Capital Assets, Being Depreciated</b>	<b>62,910,512</b>	<b>1,826,399</b>	<b>16,885</b>	<b>64,720,026</b>
<b>Less Accumulated Depreciation for:</b>				
Structures and Improvements	6,487,680	429,237	0	6,916,917
Furniture, Fixtures and Equipment	5,647,433	255,119	0	5,902,552
Distribution Reservoir and Standpipes	979,197	46,959	0	1,026,156
Transmission and Distribution Mains	11,241,158	595,134	0	11,836,292
Service Installations	3,939,678	265,980	0	4,205,658
<b>Total Accumulated Depreciation</b>	<b>28,295,146</b>	<b>1,592,429</b>	<b>0</b>	<b>29,887,575</b>
<b>Total Capital Assets, Being Depreciated, Net</b>	<b>34,615,366</b>	<b>233,970</b>	<b>16,885</b>	<b>34,832,451</b>
<b>Capital Assets, Net</b>	<b>\$ 34,815,424</b>	<b>\$ 389,996</b>	<b>\$ 16,885</b>	<b>\$ 35,188,535</b>

Capital asset activity for the year ended June 30, 2017 is as follows:

	Balances, July 01, 2016	Additions	Reductions	Balances, June 30, 2017
<b>Capital Assets, Not Being Depreciated:</b>				
Land and Land Rights	\$ 162,537	\$ 7,000	\$ 0	\$ 169,537
Construction Work in Progress	454,778	418,524	842,781	30,521
<b>Total Capital Assets, Not Being Depreciated</b>	<b>617,315</b>	<b>425,524</b>	<b>842,781</b>	<b>200,058</b>
<b>Capital Assets, Being Depreciated:</b>				
Structures and Improvements	16,775,532	389,494	0	17,165,026
Furniture, Fixtures and Equipment	6,250,972	400,140	0	6,651,112
Distribution Reservoir and Standpipes	2,317,140	0	0	2,317,140
Transmission and Distribution Mains	29,051,599	805,122	0	29,856,721
Service Installations	6,694,947	225,566	0	6,920,513
<b>Total Capital Assets, Being Depreciated</b>	<b>61,090,190</b>	<b>1,820,322</b>	<b>0</b>	<b>62,910,512</b>
<b>Less Accumulated Depreciation for:</b>				
Structures and Improvements	6,066,031	421,649	0	6,487,680
Furniture, Fixtures and Equipment	5,390,133	257,300	0	5,647,433
Distribution Reservoir and Standpipes	932,854	46,343	0	979,197
Transmission and Distribution Mains	10,651,666	589,492	0	11,241,158
Service Installations	3,684,026	255,652	0	3,939,678
<b>Total Accumulated Depreciation</b>	<b>26,724,710</b>	<b>1,570,436</b>	<b>0</b>	<b>28,295,146</b>
<b>Total Capital Assets, Being Depreciated, Net</b>	<b>34,365,480</b>	<b>249,886</b>	<b>0</b>	<b>34,615,366</b>
<b>Capital Assets, Net</b>	<b>\$ 34,982,795</b>	<b>\$ 675,410</b>	<b>\$ 842,781</b>	<b>\$ 34,815,424</b>

**NOTE 5 - COMMITMENTS**

The Water Department periodically enters into work plans for various system improvements. As of June 30, 2018, the Department has not entered into any contractual construction commitments.

**NOTE 6 - LONG-TERM DEBT**

Changes in long-term debt for the year ended June 30, 2018 are as follows:

	Balances July 01, 2017	Increases	Decreases	Balances June 30, 2018	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)	\$ 380,000	\$ 0	\$ (59,000)	\$ 321,000	\$ 61,000
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)	669,913	0	(76,871)	593,042	78,771
State Revolving Fund Loan Payable to the Tennessee Local Development Authority - Series 2003 (TLDA, Series 2003)	473,399	0	(53,676)	419,723	54,064
State Revolving Fund Loan Payable to the Tennessee Local Development Authority - Series 2006 (TLDA, Series 2006)	5,375,248	0	(391,308)	4,983,940	394,440
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)	1,283,898	0	(72,547)	1,211,351	74,934
Rural Development Water and Sewer Revenue and Tax Bonds - Series 2012 - Fixed Rate of 2.5%	1,714,414	0	(31,965)	1,682,449	32,773
Water System General Obligation Bonds, Series 2014A, 2.0% to 2.75%	<u>420,000</u>	<u>0</u>	<u>(40,000)</u>	<u>380,000</u>	<u>40,000</u>
	10,316,872	0	(725,367)	9,591,505	735,982
Plus: Unamortized Premiums on Issuance	<u>7,895</u>	<u>0</u>	<u>(816)</u>	<u>7,079</u>	<u>0</u>
	<u>\$ 10,324,767</u>	<u>\$ 0</u>	<u>\$ (726,183)</u>	<u>\$ 9,598,584</u>	<u>\$ 735,982</u>



**NOTE 6 - LONG-TERM DEBT (Continued)**

Changes in long-term debt for the year ended June 30, 2017 are as follows:

	Balances		Balances		Amounts
	July 01, 2016	Increases	Decreases	June 30, 2017	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)	\$ 437,000	\$ 0	\$ (57,000)	\$ 380,000	\$ 59,000
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)	745,030	0	(75,117)	669,913	76,871
State Revolving Fund Loan Payable to the Tennessee Local Development Authority - Series 2003 (TLDA, Series 2003)	526,703	0	(53,304)	473,399	53,681
State Revolving Fund Loan Payable to the Tennessee Local Development Authority - Series 2006 (TLDA, Series 2006)	5,763,436	0	(388,188)	5,375,248	391,308
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)	1,354,059	0	(70,161)	1,283,898	72,547
Rural Development Water and Sewer Revenue and Tax Bonds - Series 2012 - Fixed Rate of 2.5%	1,745,571	0	(31,157)	1,714,414	31,965
Water System General Obligation Bonds, Series 2014A, 2.0% to 2.75%	460,000	0	(40,000)	420,000	40,000
	11,031,799	0	(714,927)	10,316,872	725,372
Plus: Unamortized Premiums on Issuance	8,712	0	(817)	7,895	0
	<u>\$ 11,040,511</u>	<u>\$ 0</u>	<u>\$ (715,744)</u>	<u>\$ 10,324,767</u>	<u>\$ 725,372</u>

The bonds, notes and loans payable outstanding as of June 30, 2018 are as follows:

	Interest Rates	Date Issued	Final Maturity Date	Amount of Original Issue	Balance June 30, 2018
Loan Payable to PBA - Clarksville, Series 2003	Variable	12/29/2003	05/25/2023	\$ 1,000,000	\$ 321,000
Loan Payable to PBA - Clarksville, Series 2004	Variable	05/24/2005	05/25/2025	1,461,400	593,042
Loan Payable to TLDA, Series 2003	0.71%	06/23/2003	06/30/2026	1,060,000	419,723
Loan Payable to TLDA, Series 2006	0.80%	06/25/2007	02/20/2030	7,997,945	4,983,940
Loan Payable to PBA - Clarksville, Series 2008	Variable	10/31/2008	05/25/2031	1,670,500	1,211,351
Rural Development Water and Sewer Revenue and Tax Bonds, Series 2012	2.50%	12/04/2012	06/30/2051	1,825,000	1,682,449
Water System General Obligation Bonds, Series 2014A	2.0% to 2.75%	12/05/2014	03/01/2027	500,000	380,000
					<u>\$ 9,591,505</u>

**NOTE 6 - LONG-TERM DEBT (Continued)**

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

	Principal	Interest
2019	\$ 735,982	\$ 129,965
2020	746,127	124,633
2021	757,319	114,921
2022	768,719	105,010
2023	780,156	94,922
2024 - 2028	3,265,210	335,771
2029 - 2033	1,444,464	172,047
2034 - 2038	250,692	121,608
2039 - 2043	284,035	88,265
2044 - 2048	321,812	50,488
2049 - 2052	236,989	10,219
	<u>\$ 9,591,505</u>	<u>\$ 1,347,849</u>

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 \$8,142,640 based on rates in effect as of June 30, 2018. Principal and interest paid for the current year and total net revenues of the Water Department were \$564,204 and \$6,714,959, 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 7 - OTHER LONG-TERM LIABILITIES**

Changes in other long-term liabilities for the year ended June 30, 2018 are as follows:

	Balance July 01, 2017	Increases	Decreases	Balance June 30, 2018	Amounts Due Within One Year
Accrued Compensated Absences	\$ 678,497	\$ 203,037	\$ (174,308)	\$ 707,226	\$ 220,842
Retirement Plan Liability (See Note 8)	223,203	0	(35,008)	188,195	35,008
OPEB Liability (See Note 9)	264,804	14,603	(30,132)	249,275	0
	<u>\$ 1,166,504</u>	<u>\$ 217,640</u>	<u>\$ (239,448)</u>	<u>\$ 1,144,696</u>	<u>\$ 255,850</u>

Changes in other long-term liabilities for the year ended June 30, 2017 are as follows:

	Balance July 01, 2016	Increases	Decreases	Balance June 30, 2017	Amounts Due Within One Year
Accrued Compensated Absences	\$ 660,962	\$ 242,424	\$ (224,889)	\$ 678,497	\$ 200,869
Retirement Plan Liability (See Note 8)	258,211	0	(35,008)	223,203	35,008
OPEB Liability (See Note 9)	246,208	22,859	(4,263)	264,804	0
	<u>\$ 1,165,381</u>	<u>\$ 265,283</u>	<u>\$ (264,160)</u>	<u>\$ 1,166,504</u>	<u>\$ 235,877</u>

**NOTE 8 - RETIREMENT PLANS**

**Pension Plan**

The Water Department participates in the Retirement Security Plan (RS Plan) sponsored and administered by the National Rural Electric Cooperative Association (NRECA), which is a cost-sharing pension plan that has the characteristics described in paragraph 2 of GASB Statement No. 78. The RS Plan must file annual reports with the U.S. Department of Labor (Form 5500) that include a copy of the RS Plan annual financial statements. An electronic copy of Form 5500, and the plan's annual financial statements, can be obtained by going to [www.efast.dol.gov](http://www.efast.dol.gov) and using the search tool (EIN 530116145; PN 333). Copies of the RS Plan's annual financial statements are also available to participating employers by calling NRECA's Member Contact Center at 866-673-2299.

The Plan provides defined benefit pension retirement benefits to covered employees. Members are eligible to retire at age 62 or after 30 years of service, beginning in 1970. Benefits are determined by a formula using the member's final average effective salary for each of their years of benefit service. Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. As of June 30, 2018, 17 of the Water Department's employees were covered under the RS Plan (16 as of June 30, 2017). The Water Department may amend certain terms of the Plan, including benefit levels provided for each year of service, normal retirement age, cost-of-living (COLA) adjustments to retiree annuity payments, eligibility for participation, and required employee contributions to the plan. Other plan terms, such as vesting periods, forms of payment, and factors used to reduce benefits for early retirement and conversion of benefits to optional forms of payment, are governed at the overall plan level and cannot be adjusted by individual employers (such provisions require approval by the NRECA board of directors). Each employer elects to participate in the Plan.

Plan participants do not contribute to the Plan, and the Water Department is required to contribute annually in accordance with the terms of the RS Plan. The total annual contribution is determined actuarially to be sufficient in funding the benefits of the RS Plan as a level percentage of covered payroll over the average expected remaining working lifetime of its participants. The amount is determined annually. This total annual contribution is allocated based on each employer's RS Plan provisions and participant demographics (in particular, the average age of participants and each participant's pay level). The Water Department may amend certain benefit provisions, changing the corresponding contribution level after the effective date of the amendment. For the year ended June 30, 2018, required employer contributions for the Water Department were \$442,604 based on a rate of 27.27% of covered payroll (\$432,162 based on a rate of 25.80% for the year ended June 30, 2017). These amounts represent all of the required contributions for each year, and no amounts are included in accounts payable at either year end. The RS Plan must meet minimum funding requirements under ERISA, as determined by Internal Revenue Service regulations. The Water Department can choose to withdraw from the RS Plan, subject to plan provisions that require the Department to fully fund its share of RS Plan liabilities before withdrawing.

The Water Department has recorded a payable to NRECA related to contractual agreements for contributions to the RS Plan related to past service upon the Department's entrance into the Plan. This liability is to be repaid in annual installments, with final payment due in 2023. The Water Department's contractual liability for past service costs as of June 30, 2018 and 2017 is as follows:

	2018	2017
Contractual Liability - Beginning of Year	\$ 223,203	\$ 258,211
Amounts remitted to the NRECA	(35,008)	(35,008)
Contractual Liability - End of Year	188,195	223,203
Less Current Portion of Retirement Plan Liability	(35,008)	(35,008)
Long-Term Portion of Retirement Plan Liability	\$ 153,187	\$ 188,195

**401(k) Plan**

The Water Department also has a defined contribution 401(k) plan through the NRECA which covers substantially all employees. The Water Department matches up to 4% of participants' base pay each year. Voluntary participant contributions are allowed and totaled \$120,884 and \$118,511 for the years ended June 30, 2018 and 2017, respectively. Contributions by the Water Department for the years ended June 30, 2018 and 2017 were \$72,519 and \$71,356, respectively.

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

**General Information About the OPEB 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 Water 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 Electric Department.

*Benefits Provided* - The Water Department's healthcare plan is insured and serviced by Blue Cross Blue Shield of Tennessee. A premium is paid for medical coverage which is not age related. However, the underlying cost of the medical coverage does vary by age as medical costs tend to increase with age. As a result, older employees receive a more valuable benefit than younger employees. As the premium paid for retirees is the same as for active employees, a more valuable benefit is received by retirees as compared to younger, active employees. GASB 75 defines this benefit as an implicit rate subsidy and it is to be valued under the standards. An adjustment from active employee health costs to retiree medical health costs is made to properly account for this subsidy.

*Employees Covered by Benefit Terms* - At July 1, 2017, the following employees of the Water Department were covered by the benefit terms of The Plan:

	<u>2017</u>
Retired Employees	2
Disabled Employees	0
Beneficiaries	1
Active Employees	<u>31</u>
Total Participants	<u>34</u>

The contribution requirements are established and may be amended by the board of commissioners. The Plan is currently being funded on a pay-as-you-go basis, whereby amounts paid to retirees and their matching payments are the only contributions. There are no assets accumulating in a trust that meets the criteria of paragraph 4 of GASB Statement No. 75. For the fiscal year ended June 30, 2018, the Water Department paid \$23,405 to the Plan for OPEB benefits as they came due.

**Total OPEB Liability**

*Actuarial Assumptions* - The total OPEB liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.00%
Healthcare Cost Trend Rates	5.00% for 2018, remaining stagnant over the course of the next several periods.
Retiree's Share of Benefit-Related Costs	Members are required to make monthly contributions in order to maintain their coverage. The Water Department pays a portion of eligible retirees' and their dependents' medical premiums, for a total of five years. The portion paid amounts to 2% for each year of service up to 50% of premiums for retirees and 1% for each year of service up to 25% of premiums for their dependents.

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

**General Information About the OPEB Plan (Continued)**

**Total OPEB Liability (Continued)**

Actuarial valuations of an ongoing plan involve estimates of value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. 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 value of assets, consistent with the long-term perspective of the calculations.

The actuarial demographic assumptions used in the July 1, 2017 actuarial valuation were based on the results of past experience. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. The mortality rates employed in this valuation are taken from the Group Annuity 1983 Mortality Table.

*Discount Rate* - The discount rate used to measure the total OPEB liability as of June 30, 2018 was 3.87% (3.58% as of June 30, 2017). This rate reflects the interest rate derived from yields on 20-year, tax-exempt general obligation municipal bonds, prevailing on the measurement date, with an average rating of AA/Aa as shown on the Bond Buyer's 20-Year Municipal GO index.

**Changes in the Total OPEB Liability**

	Total OPEB Liability
<b><u>Balances at June 30, 2017</u></b>	\$ <u>264,804</u>
Changes for the Year	
Service Cost	4,946
Interest	9,657
Change in Assumptions	(6,727)
Benefit Payments	<u>(23,405)</u>
Net Changes	<u>(15,529)</u>
<b><u>Balances at June 30, 2018</u></b>	\$ <u><u>249,275</u></u>

*Changes in Assumptions* - The discount rate was changed from 3.58% as of the beginning of the measurement period to 3.87% as of June 30, 2018. This change in assumption increased the total OPEB liability.

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

<u>Total OPEB Liability</u>	<u>1% Decrease (2.87%)</u>	<u>Discount Rate (3.87%)</u>	<u>1% Increase (4.87%)</u>
2018	\$ <u>272,953</u>	\$ <u>249,275</u>	\$ <u>228,235</u>
	<u>1% Decrease (2.58%)</u>	<u>Discount Rate (3.58%)</u>	<u>1% Increase (4.58%)</u>
2017	\$ <u>289,697</u>	\$ <u>264,804</u>	\$ <u>242,695</u>

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

**General Information About the OPEB Plan (Continued)**

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

*Sensitivity of Total OPEB Liability to Changes in the Healthcare Cost Trend Rate* - The following presents the total OPEB liability related to The Plan, as well as what the total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower (4.00%) or 1-percentage-point higher (6.00%) than the current healthcare cost trend rate.

<u>Total OPEB Liability</u>	<u>1% Decrease (4.00%)</u>	<u>Healthcare Cost Trend Rates (5.00%)</u>	<u>1% Increase (6.00%)</u>
2018	\$ <u>222,907</u>	\$ <u>249,275</u>	\$ <u>280,575</u>
2017	\$ <u>239,554</u>	\$ <u>264,804</u>	\$ <u>294,716</u>

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

*OPEB Expense* - For the fiscal year ended June 30, 2018, the Water Department recognized OPEB expense of \$13,856.

*Deferred Outflows of Resources and Deferred Inflows of Resources* - For the fiscal year ended June 30, 2018, the Water Department reported deferred outflows of resources and deferred inflows of resources related to OPEB benefits from the following sources:

<u>2018</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Change in Assumptions	\$ <u>0</u>	\$ <u>5,980</u>

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

<u>For the Years ended June 30:</u>	
2019	\$ (747)
2020	(747)
2021	(747)
2022	(747)
2023	(747)
Thereafter	<u>(2,245)</u>
Total	\$ <u>(5,980)</u>

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

**NOTE 10 - NET POSITION**

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. The net position for 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Net Investment in Capital Assets:		
Net Capital Assets	\$ 35,188,535	\$ 34,815,424
Less: Long-Term Debt - Net of Discounts & Premiums	<u>(9,598,584)</u>	<u>(10,324,767)</u>
	<u>25,589,951</u>	<u>24,490,657</u>
Unrestricted	<u>169,330</u>	<u>638,112</u>
Total	<u>\$ 25,759,281</u>	<u>\$ 25,128,769</u>

**NOTE 11 - LITIGATION**

From time to time, various claims and lawsuits are pending against the Water Department. In the opinion of the Water Department's management, the potential loss on all claims and lawsuits will not be significant to the Water Department's financial statements.

**NOTE 12 - RISK MANAGEMENT**

The Water 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 Water 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 Water Department has the responsibility of following any reporting requirements, including timely reporting of any incidents which might result in a damage claim. The Water 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.

**NOTE 13 - CAPITAL CONTRIBUTIONS**

Capital contributions in 2018 consist of contributions from the City of LaFollette totaling \$525,000 of a sewer system improvement project.

Capital contributions in 2017 consist of contributions from Campbell County totaling \$781,546 of water lines.

**NOTE 14 - PRIOR PERIOD ADJUSTMENT AND ADOPTION OF NEW ACCOUNTING STANDARDS**

During 2018, the Water Department adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide postemployment benefits to their employees. See Note 9 for additional information about the Water Department's OPEB plan. As a result of adopting GASB Statement No. 75, the Water Department has recorded a prior period adjustment to report an OPEB liability as of June 30, 2017. No beginning balances for deferred outflows or inflows of resources related to OPEB were reported, as it was not practical for the Water Department to determine these amounts. The cumulative effect of applying this standard has been reported as a restatement of beginning net position for the year ending June 30, 2017.

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

	As Originally Reported 2017	As Restated 2017	Effect of Change
<b>BALANCE SHEET</b>			
Current Assets	\$ 2,011,286	\$ 2,011,286	\$ 0
Noncurrent Assets	<u>34,815,424</u>	<u>34,815,424</u>	<u>0</u>
<b>Total Assets</b>	<u>\$ 36,826,710</u>	<u>\$ 36,826,710</u>	<u>\$ 0</u>
Current Liabilities	\$ 1,167,919	\$ 1,167,919	\$ 0
Noncurrent Liabilities	10,511,426	10,530,022	18,596
Net Position	<u>25,147,365</u>	<u>25,128,769</u>	<u>(18,596)</u>
<b>Total Liabilities and Net Position</b>	<u>\$ 36,826,710</u>	<u>\$ 36,826,710</u>	<u>\$ 0</u>
<b>STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION</b>			
Operating Revenues	\$ 6,546,942	\$ 6,546,942	\$ 0
Operating Expenses	<u>(6,403,066)</u>	<u>(6,403,066)</u>	<u>0</u>
<b>Operating Income</b>	143,876	143,876	0
Nonoperating Revenues (Expenses)	(136,648)	(136,648)	0
Capital Contributions	<u>781,546</u>	<u>781,546</u>	<u>0</u>
<b>Change in Net Position</b>	788,774	788,774	0
<b>Net Position - Beginning of Year</b>	<u>24,358,591</u>	<u>24,339,995</u>	<u>(18,596)</u>
<b>Net Position - End of Year</b>	<u>\$ 25,147,365</u>	<u>\$ 25,128,769</u>	<u>\$ (18,596)</u>



THE QUALITY OF THE WORKING LIFE OF THE UNITED STATES  
WORKING POPULATION

SCHEDULE 1 - THE QUALITY OF THE WORKING LIFE OF THE UNITED STATES

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**REQUIRED SUPPLEMENTARY INFORMATION SECTION**

**CITY OF LAFOLLETTE - BOARD OF PUBLIC UTILITIES  
WATER DEPARTMENT  
SCHEDULE OF REQUIRED PENSION CONTRIBUTIONS**

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
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
2017	432,162	35,008	467,170
2018	442,604	35,008	477,612

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

See Independent Auditor's Report.

CITY OF LAFOLLETTE - BOARD OF PUBLIC UTILITIES  
WATER DEPARTMENT

SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS

Last Fiscal Year Ended June 30

	<u>2018</u>
<b>Total OPEB Liability</b>	
Service Cost	\$ 4,945
Interest	9,657
Change in Assumptions	(6,726)
Benefit Payments	<u>(23,405)</u>
<b>Net Change in Total OPEB Liability</b>	(15,529)
<b>Total OPEB Liability - Beginning</b>	<u>264,804</u>
<b>Total OPEB Liability - Ending</b>	<u>\$ 249,275</u>
<b>Covered Payroll</b>	\$ 2,341,817
<b>Total OPEB Liability (Asset) as a Percentage of Covered Payroll</b>	10.64%

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

See Independent Auditor's Report.

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**SUPPLEMENTARY INFORMATION SECTION**

CITY OF LAFOLLETTE - BOARD OF PUBLIC UTILITIES  
WATER DEPARTMENT

SCHEDULES OF REVENUES AND EXPENSES  
-WATER DIVISION-

	For the Years Ended June 30,	2018	2017
<b>OPERATING REVENUES:</b>			
Water Revenue (Net of Bad Debts of \$15,600 and \$7,311 in 2018 and 2017, Respectively)	\$	4,515,037	\$ 4,361,071
Other Revenue		114,914	111,211
<b>Total Operating Revenues</b>		<u>4,629,951</u>	<u>4,472,282</u>
<b>OPERATING EXPENSES:</b>			
Water Purchased		587	563
Water System		1,646,583	1,696,440
Customer Accounting and Collection		424,366	401,422
General and Administrative		1,368,981	1,361,225
Depreciation		920,409	877,576
<b>Total Operating Expenses</b>		<u>4,360,926</u>	<u>4,337,226</u>
<b>INCOME FROM OPERATIONS</b>		<u>269,025</u>	<u>135,056</u>
<b>NONOPERATING REVENUE (EXPENSES):</b>			
Interest Income		5,235	1,912
Interest Expense		(73,934)	(70,006)
<b>Net Nonoperating Expenses</b>		<u>(68,699)</u>	<u>(68,094)</u>
<b>INCOME BEFORE CAPITAL CONTRIBUTIONS</b>		200,326	66,962
<b>CAPITAL CONTRIBUTIONS</b>		<u>0</u>	<u>781,546</u>
<b>CHANGE IN NET POSITION</b>	\$	<u>200,326</u>	\$ <u>848,508</u>

See Independent Auditor's Report.

CITY OF LAFOLLETTE - BOARD OF PUBLIC UTILITIES  
WATER DEPARTMENT

SCHEDULES OF REVENUES AND EXPENSES  
-WASTEWATER DIVISION-

	For the Years Ended June 30,	2018	2017
<b>OPERATING REVENUES:</b>			
Wastewater Services Revenue (Net of Bad Debts of \$13,800 and \$15,500 in 2018 and 2017, Respectively)		\$ 1,988,416	\$ 1,949,496
Other Revenue		96,592	125,164
<b>Total Operating Revenues</b>		<u>2,085,008</u>	<u>2,074,660</u>
<b>OPERATING EXPENSES:</b>			
Wastewater System		797,262	734,691
Customer Accounting and Collection		153,726	147,411
General and Administrative		559,787	581,035
Depreciation		603,252	602,703
<b>Total Operating Expenses</b>		<u>2,114,027</u>	<u>2,065,840</u>
<b>INCOME (LOSS) FROM OPERATIONS</b>		<u>(29,019)</u>	<u>8,820</u>
<b>NONOPERATING REVENUE (EXPENSES):</b>			
Interest Income		1,936	707
Interest Expense		(67,731)	(69,261)
<b>Net Nonoperating Expenses</b>		<u>(65,795)</u>	<u>(68,554)</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS</b>		<u>(94,814)</u>	<u>(59,734)</u>
<b>CAPITAL CONTRIBUTIONS</b>		<u>525,000</u>	<u>0</u>
<b>CHANGE IN NET POSITION</b>		<u>\$ 430,186</u>	<u>\$ (59,734)</u>

See Independent Auditor's Report.

**OTHER INFORMATION SECTION**

**CITY OF LAFOLLETTE - BOARD OF PUBLIC UTILITIES  
WATER DEPARTMENT**

**SCHEDULE OF DEBT SERVICE REQUIREMENTS**

**For the Year Ended June 30, 2018**

	2003 Series		2003 Series		2004 Series		2006 Series		2008 Series		2012 Series		2014A Series		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 61,000	\$ 6,279	\$ 54,064	\$ 2,804	\$ 78,771	\$ 10,531	\$ 394,440	\$ 38,436	\$ 74,934	\$ 21,728	\$ 32,773	\$ 41,687	\$ 40,000	\$ 8,500	\$ 735,982	\$ 129,965
2020	62,000	5,642	54,449	2,419	80,670	10,131	397,608	35,268	77,798	22,615	33,602	40,958	40,000	7,700	746,127	124,633
2021	64,000	4,297	54,836	2,031	82,570	8,542	400,800	32,076	80,661	21,067	34,452	40,008	40,000	6,900	757,319	114,921
2022	66,000	2,908	55,227	1,641	84,616	6,915	404,028	28,848	83,525	19,461	35,323	39,137	40,000	6,100	768,719	105,010
2023	68,000	1,476	55,621	1,247	86,662	5,248	407,268	25,608	86,389	17,799	36,216	38,244	40,000	5,300	780,156	94,922
2024	0	0	56,017	851	88,854	3,541	410,544	22,332	89,252	16,080	37,132	37,328	45,000	4,500	726,799	84,632
2025	0	0	56,416	452	90,899	1,791	413,832	19,044	92,593	14,304	38,071	36,389	45,000	3,488	736,811	75,468
2026	0	0	33,093	80	0	0	417,155	15,720	95,457	12,461	39,034	35,426	45,000	2,362	629,740	66,049
2027	0	0	0	0	0	0	420,504	12,372	98,798	10,562	40,021	34,439	45,000	1,238	604,323	58,611
2028	0	0	0	0	0	0	423,888	8,988	102,616	8,596	41,033	33,427	0	0	567,537	51,011
2029	0	0	0	0	0	0	427,284	5,592	105,957	6,554	42,071	32,389	0	0	575,312	44,535
2030	0	0	0	0	0	0	430,716	2,160	109,776	4,445	43,134	31,326	0	0	583,626	37,931
2031	0	0	0	0	0	0	35,872	0	113,595	2,260	44,225	30,235	0	0	193,692	32,485
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	23,705	122	0	0	23,705	122
	<u>\$ 321,000</u>	<u>\$ 20,602</u>	<u>\$ 419,723</u>	<u>\$ 11,525</u>	<u>\$ 593,042</u>	<u>\$ 46,699</u>	<u>\$ 4,983,840</u>	<u>\$ 246,444</u>	<u>\$ 1,211,351</u>	<u>\$ 177,932</u>	<u>\$ 1,682,449</u>	<u>\$ 798,559</u>	<u>\$ 380,000</u>	<u>\$ 46,088</u>	<u>\$ 9,591,505</u>	<u>\$ 1,347,849</u>

See Independent Auditor's Report.



**CITY OF LAFOLLETTE - BOARD OF PUBLIC UTILITIES  
WATER DEPARTMENT**

**SCHEDULE OF RATE STRUCTURE AND NUMBER OF CUSTOMERS**

**June 30, 2018**

**WATER CHARGES - WITHIN CITY LIMITS**

First	1,500 Gallons	\$15.90 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	\$24.58 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, 2018, the number of customers was as follows:

Water	9,911
Wastewater	3,564

See Independent Auditor's Report.

**CITY OF LAFOLLETTE - BOARD OF PUBLIC UTILITIES  
WATER DEPARTMENT**

**SCHEDULE OF RATE STRUCTURE AND NUMBER OF CUSTOMERS**

**June 30, 2017**

**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, 2017, the number of customers was as follows:

Water	9,840
Wastewater	3,556

See Independent Auditor's Report.

## CITY OF LAFOLLETTE - BOARD OF PUBLIC UTILITIES WATER DEPARTMENT

AWWA

**Free Water Audit Software:  
Reporting Worksheet**

WAS v5.0  
American Water Works Association  
Copyright © 2014. All Rights Reserved.

Click to access definition  
Click to add a comment

**Water Audit Report for:** LaFollette Utilities Board (0000374)  
**Reporting Year:** 2018 7/2017 - 6/2018

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

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

WATER SUPPLIED							
Volume from own sources	9	683.283	MG/Yr				
Water imported	9	0.000	MG/Yr				
Water exported	10	0.000	MG/Yr				
<b>WATER SUPPLIED:</b>		<b>676.518</b>	MG/Yr				

Master Meter and Supply Error Adjustments

Pcnt:	7	1.00%				
Value:						

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

---

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

AUTHORIZED CONSUMPTION					
Billed metered	10	413.389	MG/Yr		
Billed unmetered	10	0.130	MG/Yr		
Unbilled metered	9	98.330	MG/Yr		
Unbilled unmetered	5	8.456	MG/Yr		
<b>AUTHORIZED CONSUMPTION:</b>		<b>520.305</b>	MG/Yr		

Click here for help using option buttons below

Pcnt:	1.25%				
Value:					

Use buttons to select percentage of water supplied OR value

---

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

WATER LOSSES (Water Supplied - Authorized Consumption)			
<b>Apparent Losses</b>		<b>156.213</b>	MG/Yr
Unauthorized consumption	5	1.691	MG/Yr
Customer metering inaccuracies	9	0.000	MG/Yr
Systematic data handling errors	5	1.033	MG/Yr
<b>Apparent Losses:</b>		<b>2.725</b>	MG/Yr

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

Real Losses (Current Annual Real Losses or CARL)			
Real Losses = Water Losses - Apparent Losses:		<b>153.488</b>	MG/Yr
<b>WATER LOSSES:</b>		<b>156.213</b>	MG/Yr

Pcnt:	0.25%		
Value:			

---

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

NON-REVENUE WATER			
<b>NON-REVENUE WATER:</b>		<b>262.999</b>	MG/Yr

= Water Losses + Unbilled Metered + Unbilled Unmetered

---

**SYSTEM DATA**

Length of mains	9	700.0	miles
Number of active AND inactive service connections	9	10,063	
Service connection density		14	conn./mile main

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

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

Average length of customer service line	9	125.0	psi
---	---	-------	-----

---

**COST DATA**

Total annual cost of operating water system	10	\$4,373,630	\$/Year
Customer retail unit cost (applied to Apparent Losses)	10	\$13.04	\$/1000 gallons (US)
Variable production cost (applied to Real Losses)	10	\$566.04	\$/Million gallons <input type="checkbox"/> 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

See Independent Auditor's Report.

**CITY OF LAFOLLETTE - BOARD OF PUBLIC UTILITIES  
WATER DEPARTMENT**

AWWA Free Water Audit Software:  
System Attributes and Performance Indicators
WAS v5.0  
American Water Works Association

Water Audit Report for: **LaFollette Utilities Board (0000374)**

Reporting Year: **2018** | **7/2017 - 6/2018**

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

**System Attributes:**

	Apparent Losses:	2.725	MG/Yr																
	+ Real Losses:	153.488	MG/Yr																
	= <b>Water Losses:</b>	<b>156.213</b>	MG/Yr																
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 40%;"></td> <td style="width: 10%; text-align: right;">Unavoidable Annual Real Losses (UARL):</td> <td style="width: 10%; border: 1px solid black; background-color: #ffff00; text-align: center;">241.65</td> <td style="width: 10%; text-align: right;">MG/Yr</td> <td style="width: 20%;"></td> </tr> <tr> <td></td> <td style="text-align: right;">Annual cost of Apparent Losses:</td> <td style="border: 1px solid black; background-color: #ffff00; text-align: center;">\$35,531</td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">Annual cost of Real Losses:</td> <td style="border: 1px solid black; background-color: #ffff00; text-align: center;">\$86,880</td> <td></td> <td style="text-align: right;">Valued at <b>Variable Production Cost</b></td> </tr> </table> <p align="right" style="font-size: small;">Return to Reporting Worksheet to change this assumption</p>						Unavoidable Annual Real Losses (UARL):	241.65	MG/Yr			Annual cost of Apparent Losses:	\$35,531				Annual cost of Real Losses:	\$86,880		Valued at <b>Variable Production Cost</b>
	Unavoidable Annual Real Losses (UARL):	241.65	MG/Yr																
	Annual cost of Apparent Losses:	\$35,531																	
	Annual cost of Real Losses:	\$86,880		Valued at <b>Variable Production Cost</b>															

**Performance Indicators:**

Financial:	{	Non-revenue water as percent by volume of Water Supplied:	38.9%											
		Non-revenue water as percent by cost of operating system:	4.2%	Real Losses valued at Variable Production Cost										
Operational Efficiency:	{	Apparent Losses per service connection per day:	0.74	gallons/connection/day										
		Real Losses per service connection per day:	N/A	gallons/connection/day										
		Real Losses per length of main per day*:	600.74	gallons/mile/day										
		Real Losses per service connection per day per psi pressure:	N/A	gallons/connection/day/psi										
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 40%;">From Above, Real Losses = Current Annual Real Losses (CARL):</td> <td style="width: 10%; border: 1px solid black; background-color: #ffff00; text-align: center;">153.49</td> <td style="width: 10%; text-align: right;">million gallons/year</td> <td style="width: 20%;"></td> <td style="width: 10%;"></td> </tr> <tr> <td>Infrastructure Leakage Index (ILI) (CARL/UARL):</td> <td style="border: 1px solid black; background-color: #ffff00; text-align: center;">0.64</td> <td></td> <td></td> <td></td> </tr> </table>					From Above, Real Losses = Current Annual Real Losses (CARL):	153.49	million gallons/year			Infrastructure Leakage Index (ILI) (CARL/UARL):	0.64			
From Above, Real Losses = Current Annual Real Losses (CARL):	153.49	million gallons/year												
Infrastructure Leakage Index (ILI) (CARL/UARL):	0.64													

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

See Independent Auditor's Report.



## CITY OF LAFOLLETTE - BOARD OF PUBLIC UTILITIES WATER DEPARTMENT

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:** 2017 7/2016 - 6/2017

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

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

---

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

**WATER SUPPLIED**

		Enter grading in column 'E' and 'J'			
		Grade	Value	Grade	Value
Volume from own sources	9	9	663.308 MG/Yr	7	1.00%
Water imported	9	9	0.000 MG/Yr		
Water exported	10	10	0.000 MG/Yr		
<b>WATER SUPPLIED:</b>			<b>656.741 MG/Yr</b>		

**Master Meter and Supply Error Adjustments**

Pcnt	Value
1.00%	

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

---

**AUTHORIZED CONSUMPTION**

Billed metered	10	410.848 MG/Yr
Billed unmetered	10	0.102 MG/Yr
Unbilled metered	9	15.043 MG/Yr
Unbilled unmetered	9	8.209 MG/Yr
<b>AUTHORIZED CONSUMPTION:</b>		<b>434.202 MG/Yr</b>

Default option selected for Unbilled unmetered - a grading of 6 is applied but not displayed

---

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

		<b>222.538 MG/Yr</b>
--	--	----------------------

**Apparent Losses**

Unauthorized consumption	9	1.642 MG/Yr
Customer metering inaccuracies	9	0.000 MG/Yr
Systematic data handling errors	7	1.027 MG/Yr
<b>Apparent Losses:</b>		<b>2.669 MG/Yr</b>

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

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

---

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

Real Losses = Water Losses - Apparent Losses:	7	219.869 MG/Yr
<b>WATER LOSSES:</b>		<b>222.538 MG/Yr</b>

---

**NON-REVENUE WATER**

<b>NON-REVENUE WATER:</b>		<b>245.791 MG/Yr</b>
---------------------------	--	----------------------

= Water Losses + Unbilled Metered + Unbilled Unmetered

---

**SYSTEM DATA**

Length of mains:	9	700.0 miles
Number of active AND inactive service connections:	9	9,992
Service connection density:	7	14 conn /mile main
Are customer meters typically located at the curbside or property line?	7	Yes
Average length of customer service line has been set to zero and a data grading score of 10 has been applied	7	
Average operating pressure:	9	125.0 psi

---

**COST DATA**

Total annual cost of operating water system:	10	\$4,476,314 \$/Year
Customer retail unit cost (applied to Apparent Losses):	10	\$13.04 \$/1000 gallons (US)
Variable production cost (applied to Real Losses):	10	\$564.43 \$/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

See Independent Auditor's Report.

**CITY OF LAFOLLETTE - BOARD OF PUBLIC UTILITIES  
WATER DEPARTMENT**

AWWA Free Water Audit Software:

WAS v5.0  
American Water Works Association

**System Attributes and Performance Indicators**

Water Audit Report for: LaFollette Utilities Board (0000374)

Reporting Year: 2017 7/2016 - 6/2017

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

**System Attributes:**

	Apparent Losses:	2,669	MG/Yr	
	+ Real Losses:	219,869	MG/Yr	
	= <b>Water Losses:</b>	<b>222,538</b>	MG/Yr	
?	Unavoidable Annual Real Losses (UARL):	241.16	MG/Yr	
	Annual cost of Apparent Losses:	\$34,803		
	Annual cost of Real Losses:	\$124,100		Valued at <b>Variable Production Cost</b>

Return to Reporting Worksheet to change this assumption

**Performance Indicators:**

Financial:	{	Non-revenue water as percent by volume of Water Supplied:	37.4%
		Non-revenue water as percent by cost of operating system:	3.8%
			Real Losses valued at Variable Production Cost
Operational Efficiency:	{	Apparent Losses per service connection per day:	0.73 gallons/connection/day
		Real Losses per service connection per day:	N/A gallons/connection/day
		Real Losses per length of main per day*:	860.55 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):	219.87 million gallons/year
?		Infrastructure Leakage Index (ILI) [CARL/UARL]:	0.91

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

See Independent Auditor's Report.

UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK  
IN RE: [Illegible]  
[Illegible]

RECEIVED  
FEB 14 2014

[Illegible text]

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**COMPLIANCE SECTION**

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

Board of Commissioners and Senior Management  
City of LaFollette - Board of Public Utilities -  
Water 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 - Water Department, an enterprise fund of the City of LaFollette, Tennessee, which comprise the balance sheets as of June 30, 2018 and 2017, 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 29, 2018.

**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 - Water 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 Water Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of LaFollette - Board of Public Utilities - Water 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.



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**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of LaFollette - Board of Public Utilities - Water 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 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  
October 29, 2018

**CITY OF LAFOLLETTE - BOARD OF PUBLIC UTILITIES  
WATER DEPARTMENT**

**SCHEDULE OF PRIOR YEAR FINDINGS**

**For the Year Ended June 30, 2018**

There were no prior findings reported.