

NEW ISSUE
BOOK-ENTRY-ONLY

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

In the opinion of Bond Counsel, based on existing law and assuming compliance with certain tax covenants of the City, interest on the Bonds will be excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. 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 excise and franchise taxes. (See "LEGAL MATTERS - Tax Matters" herein).

\$37,250,000
CITY OF MORRISTOWN, TENNESSEE
General Obligation Bonds, Series 2019B

Dated: December 2, 2019

Due: June 1 (as indicated on the inside cover)

The \$37,250,000 General Obligation Bonds, Series 2019B (the "Bonds") shall be issued by the City of Morristown, Tennessee (the "City" or "Issuer") as book-entry-only Bonds in denominations of \$5,000 and authorized integral multiples thereof. The Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC") except as otherwise described herein. DTC will act as securities depository of the Bonds. So long as Cede & Co. is the registered owner of the Bonds, as the nominee for DTC, principal and interest with respect to the Bonds shall be payable to Cede & Co., as nominee for DTC, which will, in turn, remit such principal and interest to the DTC participants for subsequent disbursements to the beneficial owners of the Bonds. Individual purchases of the Bonds will be made in book-entry-only form, in denominations of \$5,000 or integral multiples thereof and will bear interest at the annual rates as shown below. Interest on the Bonds is payable semi-annually from the date thereof commencing on June 1, 2020 and thereafter on each December 1 and June 1 by check or draft mailed to the owners thereof as shown on the books and records of the Registration Agent. In the event of discontinuation of the book-entry system, principal of and interest on the Bonds are payable at the designated corporate trust office of Regions Bank, Nashville, Tennessee, the registration and paying agent (the "Registration Agent").

The Bonds shall be payable from unlimited ad valorem taxes to be levied on all taxable property within the City, provided that any portions of the bonds that finance improvements to storm water drainage systems, the water system or the sewer system of the Issuer shall also be payable from but not secured by the revenues of such respective systems. For the prompt payment of the principal of, premium, if any, and interest on the Bonds, the full faith and credit of the City are irrevocably pledged.

Bonds maturing June 1, 2030 and thereafter are subject to optional redemption prior to maturity on or after June 1, 2029.

<u>Due</u> <u>(June 1)</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP**</u>	<u>Due</u> <u>(June 1)</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP**</u>
2021	\$ 870,000	5.00 %	1.18 %	618635NP7	2031	\$ 1,390,000	4.00 %	2.00 % C	618635NZ5
2022	910,000	5.00	1.20	618635NQ5	2032	1,390,000	2.375	2.40	618635PA8
2023	955,000	5.00	1.25	618635NR3	2033	1,390,000	2.50	2.50	618635PB6
2024	1,005,000	5.00	1.30	618635NS1	2034	1,390,000	2.50	2.60	618635PC4
2025	1,055,000	5.00	1.35	618635NT9	2035	1,385,000	3.00	2.60 C	618635PD2
2026	1,110,000	5.00	1.41	618635NU6	2036	1,385,000	3.00	2.65 C	618635PE0
2027	1,165,000	5.00	1.50	618635NV4	2037	1,385,000	3.00	2.70 C	618635PF7
2028	1,220,000	5.00	1.60	618635NW2	2038	1,385,000	3.00	2.75 C	618635PG5
2029	1,280,000	5.00	1.70	618635NX0	2039	1,385,000	2.75	2.85	618635PH3
2030	1,345,000	4.00	1.85 C	618635NY8	2040	1,385,000	2.75	2.86	618635PJ9
	\$ 5,540,000	3.00%		Term Bond Due	June 1, 2044	@ 2.85%	c		618635PN0
	\$ 6,925,000	3.00%		Term Bond Due	June 1, 2049	@ 2.90%	c		618635PT7

c = Yield to call June 1, 2029

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

The Bonds are offered when, as and if issued by the City, subject to the approving legal opinion of Bass, Berry & Sims PLC, Knoxville, Tennessee, bond counsel, whose opinion will be delivered with the Bonds. Certain legal matters in connection with the Bonds will be passed upon from Bacon Jessee Perkins Carroll & Anderson, LLP, counsel to the City. It is expected that the Bonds, in book entry only form, will be available for delivery through the facilities of DTC, New York, New York, on or about December 2, 2019

Cumberland Securities Company, Inc.
Municipal Advisor

November 7, 2019

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

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

** Copyright, American Bankers Association (the "ABA"). CUSIP data herein are provided by CUSIP Global Services, which is managed on behalf of the ABA by S&P Global Market Intelligence, a division of S&P Global Inc. The CUSIP numbers listed above are being provided solely for the convenience of Bondholders only at the time of issuance of the Bonds and the Municipality makes no representation with respect to such numbers nor undertakes any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

CITY OF MORRISTOWN, TENNESSEE

OFFICIALS

Honorable Gary Chesney
Anthony W. Cox
Lauren Carroll

Mayor
City Administrator
City Attorney

COUNCIL MEMBERS

Kay Senter, Vice Mayor

Al A'Hearn

Chris Bivens

Bob Garrett

Tommy Pedigo

Ken Smith

UNDERWRITER

Robert W. Baird & Co., Inc.
Red Bank, New Jersey

REGISTRATION AND PAYING AGENT

Regions Bank
Nashville, Tennessee

BOND COUNSEL

Bass, Berry & Sims PLC
Knoxville, Tennessee

FINANCIAL ADVISOR

Cumberland Securities Company, Inc.

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SUMMARY STATEMENT

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

Issuer	City of Morristown, Tennessee (the “City” or “Issuer”). See APPENDIX B contained herein.
The Bonds	\$37,250,000 General Obligation Bonds, Series 2019B (the “Bonds”) of the City, dated December 2, 2019. The Bonds mature each June 1 beginning June 1, 2021 through June 1, 2040, inclusive, June 1, 2044, and June 1, 2049. 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, provided that any portions of the bonds that finance improvements to storm water drainage systems, the water system or the sewer system of the Issuer shall also be payable from but not secured by the revenues of such respective systems. For the prompt payment of the principal of, premium, if any, and interest on the Bonds, the full faith and credit of the City are irrevocably pledged.
Purpose	The Bonds are being issued for the purpose of (i) acquisition of land for and the construction, improvement and/or equipping of a community center; (ii) acquisition of land for and the construction, improvement, renovation, equipping and/or repair of roads, bridges, streets, highways, sidewalks and related equipment, parks and recreation facilities, public buildings, industrial parks, storm water drainage systems, water system, sewer system, fire department equipment and buildings, law enforcement buildings and equipment, and the acquisition of related vehicles and equipment including, but not limited to, lighting, computers and other technological equipment (the "Projects"); (iii) acquisition of all property, real and personal, appurtenant to the Projects; (iv) payment of legal, fiscal, administrative, architectural and engineering costs incident to the Projects and incident to the indebtedness described herein; (v) payment of capitalized interest during construction of the Projects and for up to six months thereafter; and (vi) payment of costs incident to the issuance and sale of the bonds authorized herein.
Optional Redemption	The Bonds maturing on or after June 1, 2030 are subject to optional redemption prior to maturity on or after June 1, 2029, at the redemption price of par plus accrued interest. See section entitled “SECURITIES OFFERED - Optional Redemption”.
Tax Matters	In the opinion of Bond Counsel, based on existing law and assuming compliance with certain tax covenants of the City, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. Interest on the Bonds will be exempt from certain taxation in Tennessee, all as more fully described in the section entitled “LEGAL MATTERS-Tax Matters” and APPENDIX A (form of opinion) included herein.
Rating	S&P: “AA-”. See the section entitled “MISCELLANEOUS - Ratings” for more information.
Registration & Paying Agent	Regions Bank, Nashville, Tennessee (the “Registration Agent”).
Bond Counsel	Bass, Berry & Sims PLC, Knoxville, Tennessee.
Financial Advisor	Cumberland Securities Company, Inc., Tennessee. See the section entitled “MISCELLANEOUS - Municipal Advisor; Related Parties; Others”, herein.
Underwriter	Robert W. Baird & Co., Inc, Red Bank, New Jersey.

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”.

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

DisclosureIn accordance with Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 as amended, the City will provide the Municipal Securities Rulemaking Board (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 the OFFICIAL STATEMENT is deemed “final” within the meaning of Rule 15c2-12 the Securities Exchange Act of 1934 as of the date which appears on the cover hereof. For more information concerning the City, or the OFFICIAL STATEMENT, contact Mayor Gary Chesney, 100 West First North Street, Morristown, Tennessee 37816, Telephone: (423) 581-0100; or the City's Financial Advisor, Cumberland Securities Company, Inc., Telephone: (865) 988-2663.

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

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Beginning Fund Balance	\$24,425,304	\$25,712,008	\$27,014,574	\$25,500,831	\$23,227,247
Revenues	30,300,249	33,129,445	38,106,551	34,933,974	35,069,913
Expenditures	29,762,742	32,465,415	36,181,623	35,072,221	33,520,735
Other Financing Sources:					
Transfers In	1,452,361	1,597,848	1,851,069	1,934,663	1,928,844
Transfers Out	(585,663)	(783,218)	(2,393,623)	(4,070,000)	(1,801,666)
Excess of Revenues Over (Under) Expenditures	1,404,205	1,478,660	1,382,374	(2,273,584)	127,178
Ending Fund Balance	\$25,712,008	\$27,014,574	\$25,500,831	\$23,227,247	\$24,903,603

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

\$37,250,000
CITY OF MORRISTOWN, TENNESSEE
General Obligation Bonds, Series 2019B

SECURITIES OFFERED

AUTHORITY AND PURPOSE

This OFFICIAL STATEMENT which includes the Summary Statement hereof and appendices hereto is furnished in connection with the offering by the City of Morristown, Tennessee (the “City” or “Issuer”) of its \$37,250,000 General Obligation Bonds, Series 2019B (the “Bonds”).

The Bonds are authorized to be issued pursuant to the provisions of Title 9, Chapter 21, *Tennessee Code Annotated*, as amended, and other applicable provisions of the law and pursuant to a resolution adopted by the City Council of the City (the “City Council”). The detailed bond resolution (the “Resolution”) was adopted by the City Council on October 15, 2019.

The Bonds are being issued for the purpose of financing, in whole or in part, (i) acquisition of land for and the construction, improvement and/or equipping of a community center; (ii) acquisition of land for and the construction, improvement, renovation, equipping and/or repair of roads, bridges, streets, highways, sidewalks and related equipment, parks and recreation facilities, public buildings, industrial parks, storm water drainage systems, water system, sewer system, fire department equipment and buildings, law enforcement buildings and equipment, and the acquisition of related vehicles and equipment including, but not limited to, lighting, computers and other technological equipment (the "Projects"); (iii) acquisition of all property, real and personal, appurtenant to the Projects; (iv) payment of legal, fiscal, administrative, architectural and engineering costs incident to the Projects and incident to the indebtedness described herein; (v) payment of capitalized interest during construction of the Projects and for up to six months thereafter; and (vi) payment of costs incident to the issuance and sale of the Bonds.

DESCRIPTION OF THE BONDS

The Bonds will be initially dated and bear interest from December 2, 2019. Interest on the Bonds will be payable semi-annually on June 1 and December 1, commencing June 1, 2020. The Bonds are issuable in registered book-entry only form and in \$5,000 denominations or integral multiples thereof as shall be requested by each respective registered owner.

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

SECURITY

The Bonds shall be payable from unlimited ad valorem taxes to be levied on all taxable property within the City, provided that any portions of the bonds that finance improvements to storm water drainage systems, the water system or the sewer system of the Issuer shall also be payable from but not secured by the revenues of such respective systems. For the prompt payment of the principal of, premium, if any, and interest on the Bonds, the full faith and credit of the City are irrevocably pledged.

The 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 any direct appropriations from the General Fund of the City or other funds of the City to the payment of debt service on the Bonds including revenues of the systems as described above.

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

OPTIONAL REDEMPTION

Bonds maturing June 1, 2030, and thereafter, shall be subject to optional redemption prior to maturity at the option of the City on June 1, 2029 and thereafter, as a whole or in part, at any time, at the redemption price of par plus accrued interest to the redemption date.

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

(i) if the Bonds are being held under a Book-Entry Only 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 Only System by DTC, or a successor Depository, the Bonds within the maturity to be redeemed shall be selected by the Registration Agent by lot or such other random manner as the Registration Agent in its discretion shall determine.

MANDATORY REDEMPTION

Subject to any credit hereinafter described, the City shall redeem Bonds maturing June 1, 2044 and June 1, 2049 on the redemption dates set forth below opposite the maturity date, in aggregate principal amounts equal to the respective dollar amounts set forth below opposite the respective redemption dates at a price of par plus accrued interest thereon to the date of redemption. The Bonds to be so redeemed within a maturity shall be selected in the manner described above relating to optional redemption.

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

<u>Maturity</u>	<u>Redemption Date</u>	<u>Principal Amount of Bonds Redeemed</u>
June 1, 2044	June 1, 2041	\$1,385,000
	June 1, 2042	\$1,385,000
	June 1, 2043	\$1,385,000
	June 1, 2044*	\$1,385,000
June 1, 2049	June 1, 2045	\$1,385,000
	June 1, 2046	\$1,385,000
	June 1, 2047	\$1,385,000
	June 1, 2048	\$1,385,000
	June 1, 2049*	\$1,385,000

*Final Maturity

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

NOTICE OF REDEMPTION

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

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BASIC DOCUMENTATION

REGISTRATION AGENT

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

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

BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

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

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

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

Notices. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish

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

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

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

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

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

DISCONTINUANCE OF BOOK-ENTRY-ONLY SYSTEM

In the event that (i) DTC determines not to continue to act as securities depository for the Bonds or (ii) to the extent permitted by the rules of DTC, the City determines to discontinue the Book-Entry-Only System, the Book-Entry-Only System shall be discontinued. Upon the occurrence of the event described above, the City will attempt to locate another qualified securities depository, and if no qualified securities depository is available, Bond certificates will be printed and delivered to beneficial owners.

No Assurance Regarding DTC Practices. The foregoing information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the City

believes to be reliable, but the City, the Bond Counsel, the Registration Agent, the Financial Advisor and the Underwriter do not take any responsibility for the accuracy thereof. So long as Cede & Co. is the registered owner of the Bonds as nominee of DTC, references herein to the holders or registered owners of the Bonds will mean Cede & Co. and will not mean the beneficial owners of the Bonds. None of the City, the Bond Counsel, the Registration Agent, the Financial Advisor or the Underwriter will have any responsibility or obligation to the Participants, DTC or the persons for whom they act with respect to (i) the accuracy of any records maintained by DTC or by any Direct or Indirect Participant of DTC, (ii) payments or the providing of notice to Direct Participants, the Indirect Participants or the beneficial owners or (iii) any other action taken by DTC or its partnership nominee as owner of the Bonds.

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

DISPOSITION OF BOND PROCEEDS

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

- (a) all accrued interest, if any, shall be deposited to the appropriate fund of the City to be used to pay interest on the Bonds on the first interest payment date following delivery of the Bonds; and
- (b) the remainder 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 2019B 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 or such notice); or
3. By delivering such Bonds to the Registration Agent for cancellation by it;

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

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

REMEDIES OF BONDHOLDERS

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

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

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

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LEGAL MATTERS

LITIGATION

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

TAX MATTERS

Federal

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

- is excluded from a bondholder's federal gross income under the Internal Revenue Code of 1986, as amended, (the "Code"), 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 the section "CHANGES IN FEDERAL AND STATE TAX LAW" below.

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

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

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

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 (which may be consolidated into one or more 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 amendment 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 an incumbency certificate, signed by the Mayor and City Administrator acting in their official capacity 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 under the caption 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 opinion is included in “APPENDIX A-Form of Legal Opinion”.

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MISCELLANEOUS

RATING

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

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

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

COMPETITIVE PUBLIC SALE

The Bonds were offered for sale at competitive public bidding on November 7, 2019. Details concerning the public sale were provided to potential bidders and others in the *Preliminary Official Statement* that was dated November 1, 2019.

The successful bidder for the Bonds was an account led by Robert W. Baird & Co., Inc., Red Bank, New Jersey, (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 \$39,303,907.52 (consisting of the par amount of the Bonds, plus a net original issue premium of \$2,554,963.75 and less an underwriter’s discount of \$501,056.23) or 105.513846% of par.

FINANCIAL ADVISOR; RELATED PARTIES; OTHER

Financial Advisor. Cumberland Securities Company, Inc., Knoxville, Tennessee has been employed by the City to serve as its Financial Advisor. The Financial Advisor is an independently owned financial advisory firm.

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

where the Bank serves the City in other normal commercial banking capacities, it will be compensated separately for such services.

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

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

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

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

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DEBT RECORD

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

ADDITIONAL DEBT

The City has not authorized any additional debt as of the date hereof. The City has various capital projects which may or may not be funded in future years.

CONTINUING DISCLOSURE

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

Five-Year History of Filing. While it is believed that all appropriate filings were made with respect to the ratings of City's outstanding bond issues, some of which were insured by the various municipal bond insurance companies, no absolute assurance can be made that all such rating changes of the bonds of the City or various insurance companies which insured some transactions were made or made in a timely manner as required by Rule 15c2-12. Because the City does not believe the foregoing to be material, for the past five years, the City has complied in all material respects with its existing continuing disclosure agreements in accordance with Rule 15c2-12.

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

1. Summary of bonded indebtedness as of the end of such fiscal year as shown on page B-9;
2. The indebtedness and debt ratios as of the end of such fiscal year, together with information about the property tax base as shown on pages B-10 and B-11;
3. Estimated Bonded Debt Service Requirements - General Debt Service Fund and Storm Water Fund as of the end of such fiscal year as shown on page B-12;
4. Estimated Bonded Debt Service Requirements – Revenue and Tax Supported - Solid Waste Fund as of the end of such fiscal year as show on page B-13;
5. Estimated Bonded Debt Service Requirements – Revenue and Tax Supported - Sewer System as of the end of such fiscal year as show on page B-14;
6. Estimated Bonded Debt Service Requirements – Revenue and Tax Supported - Water System as of the end of such fiscal year as show on page B-15;
7. Estimated Bonded Debt Service Requirements – Revenue and Tax Supported - Cable System as of the end of such fiscal year as show on page B-16;
8. Estimated Bonded Debt Service Requirements – Revenue and Tax Supported - Electric System as of the end of such fiscal year as show on page B-17;
9. The fund balances, net assets and retained earnings for the fiscal year as shown on page B-18;
10. Summary of Revenues, Expenditures and Changes in Fund Balances - General Fund for the fiscal year as shown on page B-19;
11. 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-25;
12. 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-25; and
13. The ten largest taxpayers as shown on page B-26.

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

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

1. Upon the occurrence of a Listed Event (as defined in (3) below), the City shall in a timely manner, but in no event more than ten (10) business days after the occurrence of such event, file a notice of such occurrence with the MSRB and SID, if any. Notwithstanding the foregoing, notice of Listed Events described in subsection (3)(h) and (i) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds pursuant to the Resolution.
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 the *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(b), of the U.S. Securities and Exchange Commission.

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CERTIFICATION OF ISSUER

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

/s/ Gary Chesney
Mayor

ATTEST:

/s/ Anthony W. Cox
City Administrator

FORM OF LEGAL OPINION

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

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the City of Morristown, Tennessee (the "Issuer") of the \$37,250,000 General Obligation Bonds, Series 2019B (the "Bonds") dated December 2, 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, provided that any portions of the bonds that finance improvements to storm water drainage systems, the water system or the sewer system of the Issuer shall also be payable from but not secured by the revenues of such respective systems.

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,

27280263.1

Bass, Berry & Sims, PLC

SUPPLEMENTAL INFORMATION STATEMENT

GENERAL INFORMATION

LOCATION

The City of Morristown (the “City”), the county seat of Hamblen County (the “County”), is located in northeastern Tennessee with a population of approximately 29,663. The County is bordered to the west by Grainger County and to the north by Hawkins County. Greene and Cocke Counties make up the County's eastern border, and Jefferson County borders the County's south. It sits approximately 84 miles north of Asheville, North Carolina, and 40 miles east of Knoxville.

GENERAL

The City of Morristown itself was officially incorporated in 1855 with a Mayor-Council form of government. The position of Administrator was added later. The voters elect the City Council and the Mayor. The Council selects the City Administrator, who handles day-to-day operations of the City.

The approximate land area of the County is 111,360 acres, 93.7% of which is devoted to agriculture due to the fertility of the land. The leading crops produced are tobacco, corn, oats, soybeans, wheat, potatoes, and tomatoes. The natural resources of the area are Zinc and Coal minerals. Morristown is the site of one of the leading tobacco markets in the southeastern United States. Perhaps the most important agricultural development in the County's history will be the East Tennessee Agricultural Resources Park in White Pine. Opened in 1994, this \$5.5 million park is the hub of wholesale food distribution for the eastern United States.

In 2004 Morristown was designated a Metropolitan Statistical Area (the “MSA”) that had a population of 136,137 according to the 2010 US Census. The MSA includes Hamblen, Jefferson and Grainger Counties. According to the 2010 US Census, the City of Morristown had a population of approximately 29,137 and Hamblen County had a population of 62,544.

The County is also part of the Knoxville-Sevierville-Harriman Combined Statistical Area (the “CSA”). According to the 2010 Census, the CSA had a population of 1,056,442. The CSA includes Roane, Anderson, Blount, Knox, Loudon, Union, Grainger, Hamblen, Jefferson, Campbell, Cocke and Sevier Counties. The City of Knoxville is the largest city in the CSA with a population of 178,874 according to the 2010 Census.

TRANSPORTATION

The County is served by the Norfolk Southern Railroad. Hamblen County is located at the intersection of Interstates 40 and 81 and offers easy access to Interstate 75 in nearby Knoxville. Additionally, U.S. Highway 11E, 25E and Interstate 40 and 81 as well as Tennessee Routes 34, 66, 113, 160, 340, 342 and 343 serve the County.

General aviation air service is provided by the City-owned and managed Morristown Moore-Murrell Airport, equipped with a 5,700-foot runway. It has aviation gas and jet-fuel facilities and several non-precision approach systems. It is located adjacent to the Morristown Airport Industrial District.

There are two commercial airports near the County. McGhee-Tyson Airport, located just south of Knoxville, is approximately a one-hour drive from Morristown. About one hour's drive north of Morristown is the Tri-City Airport.

EDUCATION

Hamblen County School System consists of eighteen schools: two high schools, four middle schools, eleven elementary schools and an alternative school. Fall 2017 enrollment was 10,292 with 630 teachers. The school system offers continuing education and special projects for its student population as well as its teachers and administrators. Special programs are offered to Morristown citizens as well.

Source: Tennessee Department of Education.

Walters State Community College, a public two-year higher education institution founded in 1970, is located in Morristown, Tennessee. The college offers programs of study that lead to the Associate of Science, Associate of Arts, and Associate of Applied Science degrees. Fall 2018 enrollment was 6,228 students. There are four principal campuses in Hamblen, Sevier, Greene, and Claiborne counties.

Walters State serves ten predominantly rural East Tennessee counties in the mountains and foothills of the Great Smokies and Clinch Mountains. The primary service area includes the counties of Claiborne, Cocke, Grainger, Greene, Hamblen, Hancock, Hawkins, Jefferson, Sevier, and Union.

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

The Tennessee College of Applied Technology at Morristown. The Tennessee Technology Center at Morristown (the "TCAT-M") is part of a statewide system of 26 vocational-technical schools. TCAT-M 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. TCAT-M serves the northeast region of the state including Greene, Cocke, Jefferson, Hancock, Hawkins, Claiborne, Grainger, Sevier and Hamblen Counties. TCAT-M main campus is located in Hamblen County. There are three satellite campuses for Morristown: Tazewell, Claiborne County; Greeneville, Greene County; and Sevierville, Sevier County.

Source: Tennessee College of Applied Technology at Morristown and TN Higher Education Commission.

Other colleges and universities that are in neighboring counties are Carson-Newman University in Jefferson County, Tusculum College in Greene County, University of Tennessee in Knoxville and East Tennessee State University in Johnson City.

HOSPITALS

Lakeway Regional Hospital. Lakeway Regional Hospital, a 135-bed, full-service hospital, provides medical care in orthopedics, women's services, general surgery, endoscopy, senior services, a CARF-accredited rehabilitation unit, an AABB- and CAP-accredited laboratory, radiology, emergency, and trauma. Lakeway Regional Hospital 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 Franklin, 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.

Morristown-Hamblen Healthcare System. Located in Morristown, this nonprofit 167 bed hospital is a regionally integrated healthcare delivery system serving the surrounding eight counties. There are over 297 doctors who provide services focused on areas of heart, cancer, emergency-trauma-critical care, and women's and children's health. The facility is affiliated with Covenant Health. Covenant Health, headquartered in nearby Knoxville, has nine acute-care hospitals plus inpatient and outpatient cancer care, behavioral and rehabilitation centers, home health, outpatient surgery and diagnostic centers, physician offices and more. More than 10,000 people are employed by Covenant Health and its member organizations, with nearly 1,500 affiliated physicians. Covenant Health is a comprehensive health system established in 1996.

Source: Covenant Health.

MANUFACTURING AND COMMERCE

Supplementing the County's agricultural base is a strong and diverse industrial economy of manufacturing firms employing the majority of the County's population. Of these firms, many are Fortune 500 companies and represent six foreign countries.

The City has three industrial parks: East Tennessee Progress Center with 960 acres available, Morristown Airport Industrial District, and the East Tennessee Valley Industrial District.

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The following chart lists the County's major employers:

Major Employers in Hamblen County

<u>Company</u>	<u>Product</u>	<u>Employees</u>
Hamblen County Schools	Education	1,288
MAHLE, Inc.	Aluminum Pistons	1,057
Koch Foods	Process Poultry	970
JTEKT Automotive	Pumps & Hoses	850
Wal-Mart	Retail	814
Walters State Comm. College	Education	740
Morristown-Hamblen Healthcare	Hospital	725
Arconic (formerly Howmet Corp.)	Ceramic Cores and Wax Patterns	600
Rich Products	Food Service	525
Team Technologies	Assembles Plastic Parts	520
Lear Corporation	Auto Seat Frames	443
Sykes Enterprises	Call Center	400
Lakeway Regional Hospital*	Hospital	390
HealthStar Physicians	Healthcare	373
Otics USA, Inc.	Automotive Parts	371
City of Morristown	Government	338
Oddello Industries	Furniture	333
Tuff Torq Corporation	Transmissions & Axles	332
Housecall Health Services	Healthcare	300
Morristown Drivers Service	Transportation	250

* Closed in December of 2018.

Source: Business Journal of the Tri-Cities, City of Morristown CAFR and Knoxville News Sentinel – 2018.

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EMPLOYMENT INFORMATION

For the month of August 2019, the unemployment rate for Morristown stood at 4.1% with 11,235 persons employed out of a labor force of 11,716. For the month of August 2019, the unemployment rate for Hamblen County stood at 4.8% with 27,184 persons employed out of a labor force of 28,565.

The Morristown MSA's unemployment for August 2019 was at 3.8% with 50,502 persons employed out of a labor force of 52,504. As of August 2019, the unemployment rate in the Knoxville-Morristown-Sevierville 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%	4.0%
Tennessee	6.6%	5.6%	4.7%	3.8%	3.5%
Morristown	8.4%	6.9%	5.7%	4.4%	4.0%
Index vs. National	135	130	116	100	100
Index vs. State	127	123	121	116	114
Hamblen County	7.4%	6.2%	5.1%	4.1%	3.8%
Index vs. National	119	117	104	93	95
Index vs. State	112	111	109	108	109
Morristown MSA	7.4%	6.3%	5.2%	4.1%	3.8%
Index vs. National	119	119	106	93	95
Index vs. State	112	113	111	108	109
Knoxville-Sevierville- Harriman-LaFollette CSA	6.4%	5.5%	4.6%	3.7%	3.4%
Index vs. National	103	104	94	84	85
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

Per Capita Personal Income

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
National	\$44,493	\$46,494	\$48,451	\$49,246	\$51,640
Tennessee	\$38,814	\$40,128	\$42,128	\$43,326	\$45,517
Hamblen County	\$32,254	\$33,188	\$34,579	\$35,780	\$36,017
Index vs. National	72	71	71	73	70
Index vs. State	83	83	82	83	79
Morristown MSA	\$31,108	\$32,113	\$33,413	\$34,482	\$35,263
Index vs. National	70	69	69	70	68
Index vs. State	80	80	79	80	77
Knoxville-Sevierville-Harriman CSA	\$36,273	\$37,533	\$39,260	\$40,417	\$42,102
Index vs. National	82	81	81	82	82
Index vs. State	93	94	93	93	92

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

Social and Economic Characteristics

	<u>National</u>	<u>Tennessee</u>	<u>Hamblen County</u>	<u>Morristown</u>
Median Value Owner Occupied Housing	\$193,500	\$151,700	\$131,200	\$11,200
% High School Graduates or Higher Persons 25 Years Old and Older	87.30%	86.50%	82.0%	78.9%
% Persons with Income Below Poverty Level	12.30%	15.0%	16.7%	26.9%
Median Household Income	\$57,652	\$48,708	\$42,042	\$33,597

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

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RECREATION

Panther Creek State Park. Panther Creek State Park is located in Hamblen County. It covers approximately 1,435 acres and is on the shores of Cherokee Reservoir, an impoundment of the Holston River. Legend has it that both Panther Creek and Panther Springs, located about 1 1/2 miles southeast of the park, received their names from the claim of a Colonel Bradley of Virginia who, while exploring the area, shot a panther that fell into the spring. Boating and fishing on Cherokee Lake are popular activities. The park also features campsites, picnic areas, hiking and horse-back riding trails, and a swimming pool. Over 600,000 people visited the park annually.

Source: Tennessee State Parks.

RECENT DEVELOPMENTS

Colgate Palmolive. Colgate Palmolive Company built a 108,000 square-foot facility and in 2017 have begun production of a new oral care product. This expansion created 75 new jobs.

Iatric. Iatric, a division of Rockline Industries, completed an expansion in 2018 its facility to produce medical wet wipes. The 435,000 square-foot facility (almost 10 acres under roof) was built on a former brownfield site in the East Tennessee Valley Industrial District. Iatric will produce a variety of wipes, medical and household, including products that are classified as medical devices and fall under guidance from the FDA. Over the course of the next 2-3 years, Iatric will hire over 300 new workers. Rockline Industries, headquartered in Wisconsin, was founded in 1976 and is privately held and employs about 2,500 people worldwide. Three facilities are located in Arkansas. Another facility located in New Jersey is the largest coffee filter manufacturer in the world, producing 64 billion units in 2017.

Kawasaki Tennessee. Kawasaki Tennessee constructed a 21,000 square-foot addition to their existing facility in the East Tennessee Progress Center in 2016 and are currently constructing another 45,000 square-foot addition. As of 2018, they have created nearly 100 new jobs and anticipate another 50 to be created with the newer expansion.

Lakeway Regional Hospital. Lakeway Regional Hospital, a 135-bed, full-service hospital, was closed at the end of 2018. The facility was operated by Tennova Healthcare. Tennova Healthcare was acquired by one of the largest for-profit hospital companies in the country, Community Health Systems, Inc

Malar Contract Lighting. Malar Contract Lighting constructed a new 50,000 square-foot facility in 2016 to consolidate operations in the East Tennessee Progress Center.

Original Footwear. Original Footwear bought an existing building in the Morristown Airport Industrial District in 2014 and constructed a 50,000 square-foot addition in 2016, creating over 150 jobs.

Petoskey Plastics, Inc. Petoskey Plastics, Inc. announced in 2018 that the company will invest \$29.6 million to expand its operations in Hamblen County and create approximately 70 jobs in Morristown over the next five years. Work on the expansion is scheduled to begin in the second quarter of 2018 and is anticipated that the first phase of the new expansion will be

operational in the fourth quarter of 2018. Petoskey Plastics will add 30,000 square feet to its existing Morristown manufacturing facility, which specializes in polyethylene film. Petoskey Plastics is an environmentally-focused film, bag and resin manufacturer. The company supplies the automotive, medical, grocery, retail, packaging and construction industries. Headquartered in Michigan, Petoskey Plastics operates three manufacturing plants across the U.S. and employs more than 400 associates.

Rockline Industries. Rockline Industries in Morristown hired about 250 new workers in 2018. The facility is 435,000 square feet and makes wet wipes. Rockline, founded in 1976, employs about 2,500 people worldwide and has factories in Wisconsin, Arkansas, New Jersey, England and South China.

Van Hool NV. Van Hool NV officials announced in 2018 that the Belgian company will establish its first U.S. manufacturing operation in Morristown and create nearly 640 jobs over the next five years. Van Hool, a family-owned Belgian manufacturer of buses, coaches and industrial vehicles, plans to invest more than \$47 million to construct an approximately 500,000-square-foot facility in Morristown's East Tennessee Progress Center. At the new plant, Van Hool will manufacture public transit and commuter vehicles for U.S. transit agencies. Construction of the facility will begin later this year. Van Hool anticipates the facility will be operational in the first quarter of 2020.

Van Hool designs and manufactures approximately 3,000 commercial vehicles and 1,400 buses and coaches annually. Van Hool's commercial vehicle department produces a comprehensive range of semitrailers, road tankers, tank and bulk containers, and container chassis. Van Hool operates production facilities in Belgium, where it is headquartered, and Skopje, Macedonia. The company employs approximately 4,450 employees worldwide.

Source: Citizen Tribune and Knoxville News Sentinel.

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CITY OF MORRISTOWN, TENNESSEE
SUMMARY OF BONDED INDEBTEDNESS

Series	Final Maturity	Interest Rate Mode	General Fund	Solid Waste Fund	Sewer Fund ³	Water Fund ³	Cable Fund ³	Electric Fund ³	Storm Water	Outstanding as of June 30, 2019
\$5,000,000 General Obligation Loan, Series 2009	2028	Variable ⁴	\$ 2,051,798	\$ 117,705	\$ 1,374,299	\$ -	\$ -	\$ -	\$ 58,197	\$ 3,602,000
\$4,000,000 Capital Outlay Notes, Series 2011	2023	Fixed	1,545,700	109,300	-	-	-	-	-	1,655,000
\$12,500,000 Sewer Revenue and Tax Loan, Series 2007-203	2032	Fixed	-	-	6,720,127	-	-	-	-	6,720,127
\$31,000,000 General Obligation Bonds, Series 2012	2036	Fixed	-	-	19,483,001	-	-	-	3,746,999	23,230,000
\$1,121,234 Sewer Revenue and Tax Loan, Series 2009-229	2032	Fixed	-	-	940,801	-	-	-	-	940,801
\$3,601,030 Sewer Revenue and Tax Loan (MPLG, LLC)	2034	Fixed	-	-	2,041,667	-	-	-	-	2,041,667
\$10,492,582 Water Revenue and Tax Bonds, Series DWF 01-042	2026	Fixed	-	-	-	4,260,262	-	-	-	4,260,262
\$7,500,000 Water Revenue and Tax Loan, Series 2009	2030	Hybrid	-	-	-	4,745,000	-	-	-	4,745,000
\$2,000,000 Water Revenue and Tax Bonds, Series 2011	2026	Fixed	-	-	-	854,489	-	-	-	854,489
Electric System Plant Acquisition Notes	2019	Fixed	-	-	-	-	18,686	-	-	18,686
\$1,000,000 First Tennessee Bank Note, Series 2014	2024	Fixed	-	-	-	-	-	-	-	585,000
\$5,000,000 CWSRF Loan, Series 2013-328	2032	Fixed	-	-	4,248,106	-	-	-	-	4,248,106
\$10,000,000 TMBF Loan Agreement, Series 2015	2037	Variable ⁴	-	-	8,822,000	-	-	-	-	8,822,000
\$15,000,000 TMBF Loan Agreement, Series 2016	2037	Variable ⁴	-	-	3,874,000	-	-	-	-	3,874,000
\$2,000,000 TMBF Loan Agreement, Series 2016	2021	Fixed	-	-	-	-	-	-	-	1,224,000
\$9,710,000 General Obligation Bonds, Series 2017	2041	Fixed	9,055,000	-	-	-	-	-	-	9,055,000
\$64,325,000 General Obligation Bonds, Series 2018	2042	Fixed	18,225,000	-	19,700,000	-	-	-	-	61,400,000
\$12,775,000 General Obligation Refunding Bonds, Series 2019	2033	Fixed	-	-	12,775,000	-	-	-	-	12,775,000
TOTAL BONDED DEBT AS OF JUNE 30, 2018			\$ 30,877,498	\$ 227,005	\$ 79,979,000	\$ 9,859,751	\$ 5,469,000	\$ 19,833,686	\$ 3,805,196	\$ 150,051,137

CURRENT ISSUE										
Plus: General Obligation Bonds, Series 2019B	2049	Fixed	\$ 37,250,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 37,250,000
TOTAL BONDED DEBT, INCLUDING DEBT ISSUED POST JUNE 30, 2019			\$ 68,127,498	\$ 227,005	\$ 79,979,000	\$ 9,859,751	\$ 5,469,000	\$ 19,833,686	\$ 3,805,196	\$ 187,301,137

LESS: OUTSTANDING REVENUE SUPPORTED DEBT

Less: Outstanding Revenue Supported Debt			\$ -	\$ -	\$ (79,979,000)	\$ (9,859,751)	\$ (5,469,000)	\$ (19,833,686)	\$ -	\$ (115,141,437)
NET BONDED DEBT			\$ 68,127,498	\$ 227,005	\$ -	\$ -	\$ -	\$ -	\$ 3,805,196	\$ 72,159,700

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 Audit Report.

² The City budgets to account for interest rate and/or basis risk.

³ General Obligation Debt supported by revenues of applicable utility system.

⁴ Loan has a rate which is reset every fifth anniversary of the original loan date.

CITY OF MORRISTOWN, TENNESSEE
Indebtedness and Debt Ratios

INTRODUCTION

The indebtedness information set forth in the following table is based upon information derived in part from the Audit Report.

	For Fiscal Year Ended June 30				Unaudited 2019	After Issuance 2019
	2015	2016	2017	2018		
INDEBTEDNESS						
TAX SUPPORTED						
General Obligation Bonds & Notes	\$ 18,735,568	\$ 17,549,348	\$ 26,059,210	\$ 24,429,183	\$ 30,877,498	\$ 68,127,498
Solid Waste System	329,237	303,923	278,447	252,808	227,005	227,005
Storm Water System	4,651,646	4,440,156	4,228,584	4,228,584	3,805,196	3,805,196
TOTAL TAX SUPPORTED	\$ 23,716,450	\$ 22,293,427	\$ 30,566,241	\$ 28,910,575	\$ 34,909,700	\$ 72,159,700
REVENUE SUPPORTED						
Sewer System	\$ 72,434,451	\$ 68,834,606	\$ 82,783,886	\$ 77,950,297	\$ 79,979,000	\$ 79,979,000
Water System	13,512,438	12,671,214	11,759,668	10,822,651	9,859,751	9,859,751
Cable System	4,358,430	5,127,358	6,886,937	6,252,166	5,469,000	5,469,000
Electric System	20,781,676	19,669,765	18,538,889	17,350,677	19,833,686	19,833,686
TOTAL REVENUE SUPPORTED	\$ 111,086,995	\$ 106,302,943	\$ 119,969,380	\$ 112,375,791	\$ 115,141,437	\$ 115,141,437
TOTAL DEBT	\$ 134,803,445	\$ 128,596,370	\$ 150,535,621	\$ 141,286,366	\$ 150,051,137	\$ 187,301,137
Less: Revenue Supported Debt	\$ (111,086,995)	\$ (106,302,943)	\$ (119,969,380)	\$ (112,375,791)	\$ (115,141,437)	\$ (115,141,437)
NET DIRECT DEBT	\$ 23,716,450	\$ 22,293,427	\$ 30,566,241	\$ 28,910,575	\$ 34,909,700	\$ 72,159,700
PROPERTY TAX BASE (1)						
Estimated Actual Value	\$ 2,780,217,165	\$ 2,746,434,729	\$ 2,842,514,915	\$ 3,038,536,909	\$ 3,086,778,825	\$ 3,086,778,825
Appraised Value	2,780,217,165	2,746,434,729	2,842,514,915	2,876,886,745	2,922,562,192	2,922,562,192
Assessed Value	887,337,647	881,913,900	913,026,879	926,385,185	941,281,446	941,281,446

(1) Source: Tax Aggregate Report of Tennessee.

DEBT RATIOS	For Fiscal Year Ended June 30				After Issuance	
	2015	2016	2017	2018		2019
TOTAL DEBT to Estimated Actual Value	4.85%	4.68%	5.30%	4.65%	4.86%	6.07%
TOTAL DEBT to Appraised Value	4.85%	4.68%	5.30%	4.91%	5.13%	6.41%
TOTAL DEBT to Assessed Value	15.19%	14.58%	16.49%	15.25%	15.94%	19.90%
NET DIRECT DEBT to Estimated Actual Value	0.85%	0.81%	1.08%	0.95%	1.13%	2.34%
NET DIRECT DEBT to Appraised Value	0.85%	0.81%	1.08%	1.00%	1.19%	2.47%
NET DIRECT DEBT to Assessed Value	2.67%	2.53%	3.35%	3.12%	3.71%	7.67%
PER CAPITA RATIOS						
POPULATION (1)	29,304	29,663	29,771	29,771	29,771	29,771
PER CAPITA PERSONAL INCOME (2)	\$ 35,036	\$ 35,375	\$ 36,017	\$ 36,017	\$ 36,017	\$ 36,017
Estimated Actual Value to POPULATION	\$ 94,875	\$ 92,588	\$ 95,479	\$ 102,064	\$ 103,684	\$ 103,684
Assessed Value to POPULATION	\$ 30,280	\$ 29,731	\$ 30,668	\$ 31,117	\$ 31,617	\$ 31,617
Total Debt to POPULATION	\$ 4,600	\$ 4,335	\$ 5,056	\$ 4,746	\$ 5,040	\$ 6,291
Net Direct Debt to POPULATION	\$ 809	\$ 752	\$ 1,027	\$ 971	\$ 1,173	\$ 2,424
Total Debt Per Capita as a percent of PER CAPITA PERSONAL INCOME	13.13%	12.26%	14.04%	13.18%	13.99%	17.47%
Net Direct Debt Per Capita as a percent of PER CAPITA PERSONAL INCOME	2.31%	2.12%	2.85%	2.70%	3.26%	6.73%

(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 MORRISTOWN, TENNESSEE
ESTIMATED BONDED DEBT SERVICE REQUIREMENTS
 General Debt Service Fund and Storm Water Fund

F.Y. Ended	Existing Debt General Obligation ¹			Plus: General Obligation Bonds, Series 2019B			Total Bonded Debt Service Requirements			% Principal Repaid
	Principal	Interest ²	TOTAL	Principal	Interest ³	TOTAL	Principal	Interest ²	TOTAL	
2020	\$ 1,949,251	\$ 1,298,199	\$ 3,247,451	\$ -	\$ 649,739	\$ 649,739	\$ 1,949,251	\$ 1,947,938	\$ 3,897,190	2.71%
2021	2,012,481	1,221,983	3,234,464	825,000	1,306,738	2,131,738	2,837,481	2,528,720	5,366,201	
2022	2,095,411	1,142,579	3,237,990	850,000	1,263,238	2,113,238	2,945,411	2,405,817	5,351,227	
2023	2,173,926	1,059,282	3,233,208	875,000	1,217,738	2,092,738	3,048,926	2,277,019	5,325,945	
2024	2,257,442	972,435	3,229,877	900,000	1,169,988	2,069,988	3,157,442	2,142,422	5,299,864	19.38%
2025	2,040,757	883,337	2,924,094	925,000	1,119,738	2,044,738	2,965,757	2,003,074	4,968,832	
2026	2,139,273	792,284	2,931,557	955,000	1,066,988	2,021,988	3,094,273	1,859,271	4,953,544	
2027	2,242,789	696,578	2,939,367	985,000	1,011,488	1,996,488	3,227,789	1,708,066	4,935,854	
2028	2,336,304	611,621	2,947,925	1,015,000	953,238	1,968,238	3,351,304	1,564,858	4,916,162	
2029	1,110,406	523,052	1,633,458	1,045,000	892,238	1,937,238	2,155,406	1,415,290	3,570,695	39.94%
2030	1,087,894	488,783	1,576,677	1,075,000	828,238	1,903,238	2,162,894	1,317,020	3,479,915	
2031	1,116,996	456,213	1,573,209	1,105,000	774,438	1,879,438	2,221,996	1,230,651	3,452,646	
2032	1,141,097	422,299	1,563,396	1,140,000	718,838	1,858,838	2,281,097	1,141,136	3,422,234	
2033	1,170,199	387,035	1,557,234	1,175,000	685,825	1,860,825	2,345,199	1,072,860	3,418,059	
2034	1,199,886	350,610	1,550,497	1,210,000	651,075	1,861,075	2,409,886	1,001,685	3,411,572	55.82%
2035	1,229,041	312,102	1,541,142	1,245,000	616,325	1,861,325	2,474,041	928,427	3,402,467	
2036	1,097,271	274,932	1,372,203	1,285,000	574,775	1,859,775	2,382,271	849,707	3,231,978	
2037	1,127,271	238,986	1,366,257	1,320,000	533,225	1,853,225	2,447,271	772,211	3,219,482	
2038	955,000	199,813	1,154,813	1,360,000	491,675	1,851,675	2,315,000	691,488	3,006,488	
2039	995,000	162,800	1,157,800	1,400,000	450,125	1,850,125	2,395,000	612,925	3,007,925	72.52%
2040	1,030,000	124,238	1,154,238	1,445,000	412,038	1,857,038	2,475,000	536,275	3,011,275	
2041	1,070,000	84,313	1,154,313	1,490,000	373,950	1,863,950	2,560,000	458,263	3,018,263	
2042	1,105,000	42,838	1,147,838	1,530,000	332,400	1,862,400	2,635,000	375,238	3,010,238	
2043	-	-	-	1,580,000	290,850	1,870,850	1,580,000	290,850	1,870,850	87.64%
2044	-	-	-	1,625,000	249,300	1,874,300	1,625,000	249,300	1,874,300	
2045	-	-	-	1,675,000	207,750	1,882,750	1,675,000	207,750	1,882,750	
2046	-	-	-	1,725,000	166,200	1,891,200	1,725,000	166,200	1,891,200	
2047	-	-	-	1,775,000	124,650	1,899,650	1,775,000	124,650	1,899,650	
2048	-	-	-	1,830,000	83,100	1,913,100	1,830,000	83,100	1,913,100	100.00%
2049	-	-	-	1,885,000	41,550	1,926,550	1,885,000	41,550	1,926,550	
	\$ 34,682,695	\$ 12,746,310	\$ 47,429,004	\$ 37,250,000	\$ 19,257,451	\$ 56,507,451	\$ 71,932,695	\$ 32,003,761	\$ 103,936,456	

(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 Audit Report.

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

(3) True Interest Cost of 2.754%.

CITY OF MORRISTOWN, TENNESSEE
ESTIMATED BONDED DEBT SERVICE REQUIREMENTS -
REVENUE & TAX SUPPORTED - Solid Waste Fund
As of June 30, 2019

F.Y. Ended <u>6/30</u>	Total Bonded Debt Service Requirements			% Principal Repaid
	<u>Principal</u>	<u>Interest²</u>	<u>TOTAL</u>	
2020	\$ 25,965	\$ 5,384	\$ 9,195	11.44%
2021	25,828	4,800	9,185	
2022	25,991	4,215	9,170	
2023	26,186	3,624	9,183	
2024	36,382	2,924	9,189	61.83%
2025	6,777	2,423	9,191	
2026	6,973	2,223	9,186	
2027	7,168	2,017	9,176	
2028	7,364	1,806	9,160	
2029	7,592	1,588	9,170	77.63%
2030	7,820	1,364	9,174	
2031	8,048	1,133	9,171	
2032	8,276	895	9,162	
2033	8,504	651	9,146	
2034	8,765	400	9,155	95.87%
2035	9,365	136	9,157	100.00%
	<u>\$ 227,005</u>	<u>\$ 35,585</u>	<u>\$ 146,770</u>	

(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 Audit Report.

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

CITY OF MORRISTOWN, TENNESSEE
ESTIMATED BONDED DEBT SERVICE REQUIREMENTS -
REVENUE & TAX SUPPORTED - Sewer System
As of June 30, 2019

F.Y. Ended <u>6/30</u>	Total Bonded Debt Service Requirements			% Principal Repaid
	<u>Principal</u>	<u>Interest²</u>	<u>TOTAL</u>	
2020	\$ 3,943,375	\$ 2,425,103	\$ 6,368,478	4.93%
2021	4,911,831	2,452,843	7,364,674	
2022	5,018,777	2,283,084	7,301,861	
2023	5,128,608	2,109,310	7,237,917	
2024	5,235,957	1,931,453	7,167,410	30.31%
2025	5,229,838	1,745,400	6,975,239	
2026	4,746,268	1,557,846	6,304,114	
2027	4,855,261	1,372,774	6,228,036	
2028	4,948,835	1,200,495	6,149,330	
2029	4,690,388	1,029,725	5,720,113	60.90%
2030	4,748,168	890,114	5,638,283	
2031	4,810,969	759,048	5,570,016	
2032	4,620,755	625,904	5,246,658	
2033	4,269,875	498,798	4,768,673	
2034	4,307,741	372,723	4,680,463	89.36%
2035	3,217,896	254,933	3,472,829	
2036	2,946,730	157,434	3,104,163	
2037	2,347,730	69,121	2,416,851	100.00%
	<u>\$ 79,979,000</u>	<u>\$ 21,736,109</u>	<u>\$ 101,715,109</u>	

(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 Audit Report. Includes the MPLG LLC contract payments. Also includes the total estimated debt service on the on the State Revolving Fund Loans estimated to be \$12,500,000 once all funds are drawn down.

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

CITY OF MORRISTOWN, TENNESSEE
ESTIMATED BONDED DEBT SERVICE REQUIREMENTS -
REVENUE & TAX SUPPORTED - Water System
As of June 30, 2019

F.Y. Ended <u>6/30</u>	Total Bonded Debt Service Requirements¹			% Principal Repaid
	<u>Principal</u>	<u>Interest²</u>	<u>TOTAL</u>	
2020	\$ 989,209	\$ 242,834	\$ 1,232,043	10.03%
2021	1,020,959	216,827	1,237,786	
2022	1,053,151	189,997	1,243,148	
2023	1,080,796	162,393	1,243,189	
2024	1,113,922	134,005	1,247,927	53.33%
2025	1,147,518	104,756	1,252,274	
2026	1,090,802	74,724	1,165,526	
2027	527,250	54,237	581,487	
2028	544,177	40,528	584,705	
2029	561,161	26,386	587,547	92.59%
2030	578,201	11,809	590,010	
2031	75,301	3,347	78,648	
2032	77,304	1,188	78,492	100.00%
	<u>\$ 9,859,751</u>	<u>\$ 1,263,032</u>	<u>\$ 11,122,783</u>	

(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 Audit Report.

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

CITY OF MORRISTOWN, TENNESSEE
ESTIMATED BONDED DEBT SERVICE REQUIREMENTS -
REVENUE & TAX SUPPORTED - Cable System
As of June 30, 2019

F.Y. Ended <u>6/30</u>	Total Bonded Debt Service Requirements¹			% Principal Repaid
	<u>Principal</u>	<u>Interest²</u>	<u>TOTAL</u>	
2020	\$ 671,000	\$ 180,832	\$ 851,832	
2021	692,000	161,877	853,877	
2022	713,000	142,184	855,184	
2023	305,000	125,994	430,994	
2024	318,000	113,636	431,636	49.35%
2025	205,000	100,700	305,700	
2026	215,000	90,450	305,450	
2027	225,000	79,700	304,700	
2028	235,000	70,700	305,700	
2029	245,000	61,300	306,300	69.92%
2030	255,000	53,950	308,950	
2031	260,000	46,300	306,300	
2032	270,000	38,175	308,175	
2033	280,000	29,400	309,400	
2034	285,000	20,300	305,300	94.61%
2035	295,000	10,325	305,325	100.00%
	<u>\$5,469,000</u>	<u>\$1,325,822</u>	<u>\$6,794,822</u>	

(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 Audit Report.

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

CITY OF MORRISTOWN, TENNESSEE=
ESTIMATED BONDED DEBT SERVICE REQUIREMENTS -
REVENUE & TAX SUPPORTED - Electric System
As of June 30, 2019

F.Y. Ended 6/30	Total Bonded Debt Service Requirements ⁽¹⁾			% Principal Repaid
	Principal	Interest (2)	TOTAL	
2020	\$ 1,093,686	\$ 822,238	\$ 1,915,924	5.51%
2021	1,120,000	768,488	1,888,488	
2022	1,175,000	712,488	1,887,488	
2023	1,225,000	653,738	1,878,738	
2024	1,285,000	592,488	1,877,488	29.74%
2025	1,345,000	528,238	1,873,238	
2026	1,405,000	460,988	1,865,988	
2027	1,470,000	390,738	1,860,738	
2028	1,525,000	331,938	1,856,938	
2029	950,000	270,938	1,220,938	63.50%
2030	980,000	242,438	1,222,438	
2031	1,010,000	213,038	1,223,038	
2032	1,035,000	181,475	1,216,475	
2033	1,075,000	147,838	1,222,838	
2034	1,110,000	112,900	1,222,900	89.76%
2035	1,145,000	74,050	1,219,050	
2036	285,000	33,975	318,975	
2037	295,000	24,000	319,000	
2038	305,000	12,200	317,200	100.00%
	<u>\$ 19,833,686</u>	<u>\$ 6,574,188</u>	<u>\$ 26,407,874</u>	

(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 Audit Report.

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

FINANCIAL OPERATIONS

BASIS OF ACCOUNTING AND PRESENTATION

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The 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:

	<u>For the Fiscal year Ended June 30</u>				
<u>Fund Type</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
<i>Governmental Funds:</i>					
General	\$25,712,008	\$24,118,457	\$25,500,831	\$23,227,247	\$24,903,603
Solid Waste	203,306	277,148	436,377	454,844	219,405
Capital Projects	-	-	1,375,000	10,185,121	8,023,585
Other Governmental	<u>159,724</u>	<u>154,713</u>	<u>92,712</u>	<u>124,431</u>	<u>256,538</u>
Total	<u>\$26,075,038</u>	<u>\$24,550,318</u>	<u>\$27,404,920</u>	<u>\$33,991,643</u>	<u>\$33,403,131</u>
<i>Proprietary Net Assets:</i>					
Total	\$112,970,648	\$117,631,985	\$122,871,634	\$127,725,116	\$133,281,477

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

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

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Revenues:					
Taxes	\$ 22,852,719	\$ 24,289,234	\$ 25,426,851	\$ 27,005,685	\$ 27,538,575
Licenses, Permits, Fines	967,966	287,287	582,198	233,169	376,870
Use of Money and Property	627,462	502,987	1,457,614	439,642	689,957
Service Charges and Fees	134,359	1,183,648	1,106,110	928,015	808,304
Intergovernmental Rev.	5,717,743	6,866,289	9,533,778	6,327,463	5,656,207
Total Revenues	<u>\$ 30,300,249</u>	<u>\$ 33,129,445</u>	<u>\$ 38,106,551</u>	<u>\$ 34,933,974</u>	<u>\$ 35,069,913</u>
Expenditures:					
Current					
General Government	\$ 3,836,706	\$ 5,063,666	\$ 4,283,426	\$ 4,810,790	\$ 4,151,784
Public Safety	14,486,063	15,122,516	15,016,624	16,725,206	16,318,178
Public Works	6,493,909	7,127,460	10,821,704	8,195,581	6,702,363
Parks and Recreation	2,037,972	2,024,368	2,296,653	1,951,518	2,049,579
Civic Support	750,451	756,937	1,936,921	1,460,895	1,554,393
Economic Development	201,550	328,040	-	-	-
Miscellaneous	567,854	639,916	389,559	370,885	463,208
Debt Service					
Principal	1,110,165	1,147,537	1,185,375	1,221,744	1,629,183
Interest and Fiscal Charges	178,780	161,713	251,361	335,602	652,047
Professional Services	99,292	93,262	-	-	-
Total Expenditures	<u>\$ 29,762,742</u>	<u>\$ 32,465,415</u>	<u>\$ 36,181,623</u>	<u>\$ 35,072,221</u>	<u>\$ 33,520,735</u>
Excess of Revenues Over (Under) Expenditures	\$ 537,507	\$ 664,030	\$ 1,924,928	\$ (138,247)	\$ 1,549,178
Other Financing Sources (Uses):					
Bond Proceeds	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers In	1,452,361	1,597,848	1,851,069	1,934,663	1,928,844
Transfers Out	(585,663)	(783,218)	(2,393,623)	(4,070,000)	(1,801,666)
Other Sources	-	-	-	-	-
Total	<u>\$ 866,698</u>	<u>\$ 814,630</u>	<u>\$ (542,554)</u>	<u>\$ (2,135,337)</u>	<u>\$ 127,178</u>
Excess of Revenues Over (Under) Expenditures & Other Uses	\$ 1,404,205	\$ 1,478,660	\$ 1,382,374	\$ (2,273,584)	\$ 1,676,356
Fund Balance July 1	24,425,304	25,712,008	27,014,574	25,500,831	23,227,247
Adjustments	<u>(117,501)</u>	<u>(176,094)</u>	<u>(2,896,117)</u>	<u>-</u>	<u>-</u>
Fund Balance June 30	<u><u>\$ 25,712,008</u></u>	<u><u>\$ 27,014,574</u></u>	<u><u>\$ 25,500,831</u></u>	<u><u>\$ 23,227,247</u></u>	<u><u>\$ 24,903,603</u></u>

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

INVESTMENT AND CASH MANAGEMENT PRACTICES

Investment of idle City operating funds is controlled by state statute and local policies and administered by the City Recorder. 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. Deposits with savings and loan associations must be collateralized as outlined above, by an irrevocable letter of credit issued by the Federal Home Loan Bank or by providing notes secured by the first mortgages or first deeds for trust upon residential property in the state equal to at least 150 percent of the amount of uninsured deposits. All collateral must be held in a third party escrow account for the benefit of the City. For reporting purposes, all investments are stated at cost which approximates market value.

REAL PROPERTY ASSESSMENT, TAX LEVY AND COLLECTION PROCEDURES

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

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

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

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

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

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

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

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

County Taxation of Property

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

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

Assessment of Property

County Assessments; County Board of Equalization. The function of assessment is to assess all property (with certain exceptions) to the person or persons owning or claiming to own

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

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

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

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

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

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

Periodic Reappraisal and Equalization

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

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

Valuation for Property Tax Purposes

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

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

Certified Tax Rate

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

The governing body of a county or municipality may adjust the Certified Tax Rate to reflect extraordinary assessment changes or to recapture excessive adjustments.

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

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

Tax Freeze for the Elderly Homeowners

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

Tax Collection and Tax Lien

Property taxes are payable the first of August of each year, and if paid during August a 2% discount is applied. Property taxes are due by December 31st and are considered delinquent the first of January. The county trustee of each county acts as the collector of all county property taxes and of all municipal property taxes when the municipality does not collect its own taxes.

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

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Assessed Valuations. According to the Tennessee Tax Aggregate Report, property in the County and City reflected a ratio of appraised value to true market value of 0.9468. The following table shows pertinent data for tax year 2018¹.

Class	<u>Estimated Assessed Valuation</u>	<u>Assessment Rate</u>	<u>Estimated Appraised Value</u>
Public Utilities	\$ 18,255,769	55%	\$ 41,565,239
Commercial and Industrial	426,063,400	40%	1,125,008,979
Personal Tangible Property	247,612,912	30%	866,765,158
Residential and Farm	<u>249,349,365</u>	25%	<u>1,053,439,449</u>
Total	<u>\$941,281,446</u>		<u>\$3,086,778,825</u>

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

The estimated assessed value of property in the City for the fiscal year ending June 30, 2019 (tax year 2018) is \$941,281,446 compared to \$926,385,185 for the fiscal year ending June 30, 2018 (tax year 2017). The estimated actual value of all taxable property for tax year 2017 is \$3,086,778,825 as compared to \$3,038,536,909 for tax year 2017.

Property Tax Rates and Collections. The table on the following page 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 as of June 30, 2018.

PROPERTY TAX RATES AND COLLECTIONS				Fiscal Yr Collections		Aggregate Uncollected Balance	
Tax Year¹	Assessed Valuation	Tax Rates	Taxes Levied	Amount	Pct	As of June 30, 2018	
						Amount	Pct
2014	\$887,337,647	\$ 1.05	\$ 9,117,321	\$ 8,690,500	95.3%	N/A	
2015	881,913,900	1.114	10,933,593	10,355,811	94.7%	N/A	
2016	913,026,879	1.20	11,131,901	10,750,626	96.6%	N/A	
2017	926,385,185	1.20	10,890,196	10,436,089	95.8%	\$454,107	4.16%
2018	941,281,446	1.25	11,784,000	In Process			

¹ The tax year coincides with the calendar year, therefore, tax year 2018 is actually fiscal year 2018-2019.

* Estimated

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

<u>Taxpayer</u>	<u>Business Type</u>	<u>Assessment</u>	<u>Percentage of Total Levied</u>
1. MAHLE	Aluminum Pistons	\$ 39,156,367	4.23%
2. JTECK (Toyoda TRW)	Pumps & Hoses	36,383,598	3.93%
3. Inteplast (Vifan USA, Inc.)	Polypropylene film	19,230,788	2.08%
4. Otics USA	Automotive Parts	14,179,507	1.53%
5. Tuff Torq	Transmissions & Axles	13,193,588	1.43%
6. Team Technologies Inc.	Assembly	12,939,549	1.40%
7. KOCH Farms LLC	Food	11,291,045	1.22%
8. Time Equities (CBL)	Real Estate	11,090,960	1.20%
9. Rich Products	Food	10,269,989	1.11%
10. Meritor/Rockwell	Transmission Gearing	<u>9,799,253</u>	<u>1.06%</u>
TOTAL		<u>\$177,534,644</u>	<u>19.19%</u>

Source: The City.

PENSION PLANS

Employees of Morristown 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 10 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 5 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 10 years of service and members joining prior to July 1, 1979 were vested after 4 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 City of Morristown 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 of the funding status, trend information and actuarial status of the City's retirement programs, please refer to the appropriate Notes to Financial Statements located in the Comprehensive Annual Financial Report of the City herein.

INSURANCE

The City participates in the Tennessee Municipal League's Insurance Pool program for workmen's compensation insurance. This program has been established pursuant of Section 12-9-104(f), *Tennessee Code Annotated*. The City is required to pay into the program according to a formula which will be adjusted each year based upon the loss record of the City.

The City is exposed to various risk of losses related to torts; theft; damage and destruction of assets; errors and omissions; injuries to employees and natural disasters. The City purchases various commercial insurance policies to cover potential claim settlements and judgements. The City reports its risk management activities within the General and Special Revenue Funds. Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount can be reasonable estimated.

UNFUNDED ACCRUED LIABILITY FOR POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

GASB Statement 45 establishes standards for the measurement, recognition, and display of Other Post-Employment Benefits ("OPEB") in the financial reports of state and local government employers. GASB 45 requires the recognition of the accrued liability for the respective year, plus the disclosure of the total unfunded liability. Cash funding of the unfunded liability is not required.

For more information see the Notes to the Comprehensive Annual Financial Report located herein.

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APPENDIX C

GENERAL PURPOSE FINANCIAL STATEMENTS



City of

MORRISTOWN

Tennessee



COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR 2018
July 1, 2017 - June 30, 2018

Prepared by Finance Department

CITY OF MORRISTOWN, TENNESSEE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED
June 30, 2018

FINANCE DEPARTMENT

CITY OF MORRISTOWN, TENNESSEE

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INTRODUCTORY SECTION

City of Morristown

Incorporated 1855



November 30, 2018

To the Honorable Mayor, Members of the Governing Council, and Citizens of the City of Morristown:

State law requires that all general-purpose local governments publish, within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP), audited in accordance with generally accepted auditing standards and in accordance with Government Auditing Standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the Comprehensive Annual Financial Report (CAFR) of the City of Morristown for the fiscal year ended June 30, 2018.

This report consists of management's representations concerning the finances of the City of Morristown. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Morristown has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and compile sufficient reliable information for the preparation of the City of Morristown's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Morristown's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Morristown's financial statements have been audited by Brown, Edwards & Company, L.L.P., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Morristown for the fiscal year ended June 30, 2018, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the City of Morristown's financial statements for the fiscal year ended June 30, 2018, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City of Morristown was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the compliance report section of this CAFR.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Morristown's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The City of Morristown was incorporated in 1855 and operates under a council-administrator form of government. It is located between two major Tennessee Valley Authority lakes approximately 40 miles northeast of Knoxville on Interstate-81 and approximately 60 miles southwest of the Tri-Cities area on the same highway. The City currently occupies a land area of approximately 22 square miles and serves a population of approximately 29,600. The City is authorized by state statutes to levy a property tax on both real and personal properties located within its boundaries. It is also empowered by state statute to extend its corporate limits by annexation; however, changes by the state legislature are expected to significantly slow annexation initiatives.

Policy-making and legislative authority are vested in the Mayor and Council members consisting of the mayor and six other members. The Council is responsible, among other things, for passing ordinances, resolutions, adopting the budget, appointing committees, and hiring the City Administrator, City Attorney, Police Chief, and Fire Chief. The City's Administrator is responsible for carrying out the policies and ordinances of the Council, for overseeing the day-to-day operations of the City and for appointing the heads of various departments.

The City of Morristown provides a full range of services, including police, fire, street construction and maintenance, planning and zoning, parks and recreation, cultural events and general administrative services. In addition, water, electric, broadband, sewer service, and storm water collection are provided under an Enterprise Fund concept with user charges established by the Council and/or the Morristown Utility System to ensure adequate coverage of operating expenses and payments on outstanding debt.

The annual budget serves as the foundation for the City of Morristown's financial planning and control. All departments of the City of Morristown are required to submit requests for appropriation to the City Administrator. The City Administrator uses these requests as the starting point for developing a proposed budget. The City Administrator then presents this proposed budget to the Council for review by May 15th. The Council is required to hold a public hearing on the proposed budget and to adopt a final budget no later than June 30, the close of the City of Morristown's fiscal year. The appropriated budget is prepared by fund, function, and department. The City Administrator may make transfers of appropriations within a department. Budget-to-actual comparisons are provided in this report. The general fund comparison is presented on pages 11 through 13 as part of the basic financial statements for the City's fund.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Morristown operates.

Local economy

Based on its location, the City of Morristown is a regional employer and retail market. The City of Morristown, along with cooperative efforts by the Morristown Chamber of Commerce, Hamblen County Government, and its citizens has been one of the state's most successful recruiters of regional, national, and international industry despite being the third smallest in the State of Tennessee in terms of land size. The economy continues to have an impact on every segment of Morristown's largest taxpayers, especially the automotive industry. The breakdown of assessed values between commercial and residential is 71% and 29%, respectively. Manufacturing continues to make up the majority of property tax assessments for the City of Morristown.

There are seven Fortune 500 companies and thirteen international companies that have elected to manufacture in Morristown. Over the past year, companies reported investing over \$113.0 million in building expansion and equipment while creating over 300 new jobs.

The City of Morristown has been experiencing a significant amount of retail development. National retail chains continue to locate to Morristown. This has stopped leakage of sales tax to other neighboring communities. Several retail developments are under construction. As a result of the retail development, local option sales tax is projected to continue to experience a slight increase around 1% in the 2018-2019 fiscal year.

Recently, the City of Morristown earned a fourteenth-place ranking in the country for job growth from 247wallst.com. Because of the growth discussed above a rise in income levels is occurring. A recent study published in USA Today ranked Morristown fifth as the fastest growing income in the country. Additionally, due to the growth, Morristown is experiencing a tight inventory of homes for sale. Due to the shortage of housing inventory, several major residential developments are coming to fruition.

Long-term Financial Planning and Major Initiatives

The City of Morristown has a policy that requires an unassigned fund balance equal to 15-40% of General Fund expenditures. The City had an unassigned fund balance of \$7.5 million at June 30, 2018 in its General Fund. This represents approximately a 22% unassigned fund balance compared to expenditures. This compares to 20% unassigned fund balance compared to expenditures for the fiscal year ended June 30, 2017. Again, an indicator to City of Morristown's growth previously discussed and the commitment to be fiscally responsible.

The City of Morristown demonstrated its commitment to long-term planning with the adoption of its 2017-2018 fiscal year budget. The City of Morristown was proactive in that it appropriated \$2.4 million from fund balance for street paving and the development of a passive park. These funds were identified to meet the needs without issuing additional debt. It should be stressed that fund balance is only used for capital items and is not used for re-occurring expenditures. Council continued demonstrate effective long-term planning with the adoption of the 2018-2019 fiscal year budget. The City of Morristown was proactive in that it increased the property tax rate five cents to help support the debt service for a new bond issue. This strategic planning will allow for completion of the public works compound, and planning of a community center as well as much needed updates to the city center plaza /garage.

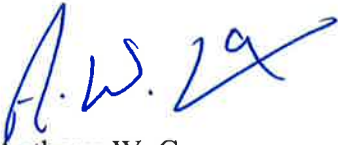
Awards and Acknowledgment

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to City of Morristown for its comprehensive annual financial report for the fiscal year ended June 30, 2017. This was the fifth consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

The City of Morristown also received the GFOA's Distinguished Budget Presentation award for its annual budget documented for the 2017-2018 fiscal year. To qualify for the Distinguished Budget Presentation Award, the City's budget document had to be judged proficient as a policy document, a financial plan, an operations guide, and a communications device. The preparation of this report could not have been accomplished without the efforts and dedication of the staff of the Department of Finance. We would like to express our appreciation to the Finance staff and other personnel from various departments, agencies, and authorities that assisted in the preparation of this report, especially Michelle Woods, Accounting Manager. Also, we would like to thank the Mayor and Council for their support for maintaining the highest standards of professionalism in the management of the City of Morristown's finances.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "A.W. Cox", with a stylized flourish extending to the right.

Anthony W. Cox
City Administrator

A handwritten signature in blue ink, appearing to read "Joey Barnard", with a large, circular flourish at the end.

Joey Barnard, CGFM, CFE, MBA
Assistant City Administrator



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Morristown
Tennessee**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Christopher P. Morrill

Executive Director/CEO

CITY OF MORRISTOWN, TENNESSEE
DIRECTORY OF PRINCIPAL OFFICIALS

June 30, 2018

MEMBERS OF CITY COUNCIL

Gary Chesney, Mayor

Dennis Alvis
Chris Bivens
Bob Garrett
Tommy Pedigo
Kay Senter
Ken Smith

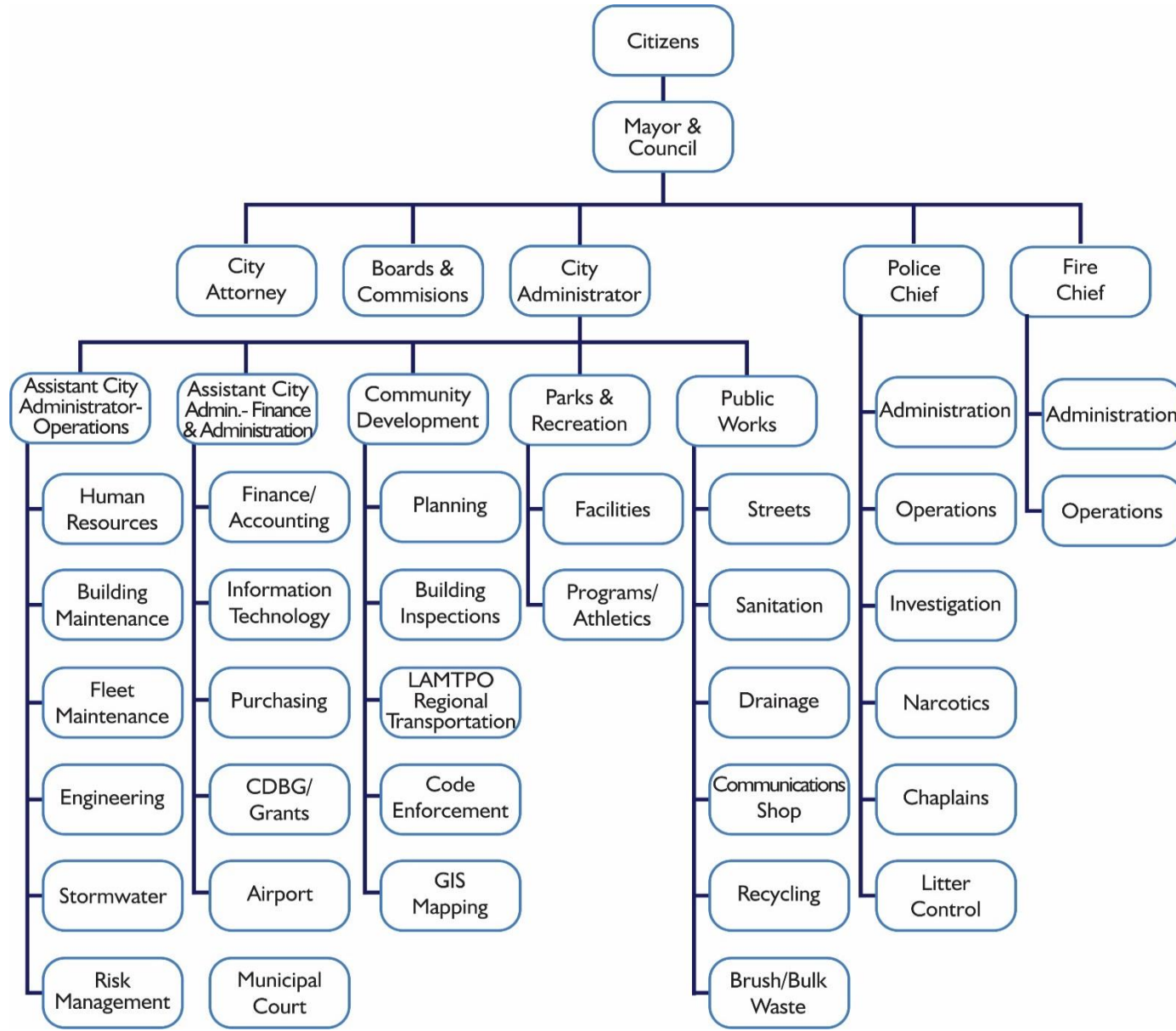
GENERAL CITY GOVERNMENT

Anthony W. Cox City Administrator
Joey Barnard.....Assistant City Administrator/ Finance & Administration
Larry ClarkAssistant City Administrator/
Certified Municipal Financial Officer
Lauren CarrollCity Attorney
Steve Nielson..... Director of Planning
Roger Overholt.....Chief of Police
William Honeycutt Fire Chief
Paul Brown..... Director of Public Works
Craig Price..... Director of Parks and Recreation

INDEPENDENT AUDITORS

Brown, Edwards & Company, L.L.P.

ORGANIZATIONAL CHART



FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

To the Honorable Members of City Council
City of Morristown, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Morristown, Tennessee (the "City"), 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 did not audit the financial statements of Morristown Utilities Commission, which represents 96.7%, 96.7%, and 98.8%, respectively, of the assets, net position, and revenues of the business-type activities. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Morristown Utilities Commission, is based solely on the report of the other auditors. We conducted our audit 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 requirements prescribed by the Comptroller of the Treasury, State of Tennessee. 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.

Report on the Financial Statements (Continued)

Auditor's Responsibility (Continued)

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

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof, and the respective budgetary comparison statements for the general fund and the solid waste fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 15 to the financial statements, in 2018 the City adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. 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 and the other required supplementary information, as listed in the table of contents, 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 and other auditors 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, non-major fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is also not a required part of the basic financial statements. The schedule of State Financial Assistance is presented for purposes of additional analysis and is also not a required part of the basic financial statements.

Other Matters (Continued)

Other Information (Continued)

The non-major fund financial statements, the schedule of expenditures of federal awards, and the schedule of state financial assistance are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion based on our audit, the procedures performed as described above, the combining non-major fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2018, on our consideration of the City'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 the testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness 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's internal control over financial reporting and compliance.

Brown, Edwards & Company, S. S. P.

CERTIFIED PUBLIC ACCOUNTANTS

Bristol, Virginia
November 30, 2018

Management's Discussion & Analysis

As management of the City of Morristown, Tennessee, we offer readers of the City of Morristown's financial statements this narrative overview and analysis of the financial activities of the City of Morristown for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in our letter of transmittal, which can be found on pages 1 through 3 of this report.

Financial Highlights

- The assets and deferred outflows of resources of the City of Morristown exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by approximately \$196.1 million (net position). Of this amount, \$40.4 million represents unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors.
- The City of Morristown's total net position increased by approximately \$10.6 million. Charges for services, which are program specific revenues accounted for \$111.9 million in revenue or 74.9% of all primary government revenues. The majority (96.3%) of the charges for services are from Morristown Utilities Commission. General revenues of the primary government account for \$37.5 million or 24.9% of all primary government revenues.
- As of the close of the current fiscal year, the City of Morristown's governmental funds reported combined ending fund balances of approximately \$33.4 million, a decrease of \$588,512 in comparison with the prior year. The decrease is attributed to increased expenditures in the Capital Projects Fund. Approximately 22.4% of this amount is available for spending at the government's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the City of Morristown's General Fund was approximately \$ 7.5 million, or approximately 22.2% of total General Fund expenditures and other financing uses.
- The City of Morristown's total outstanding long-term debt increased by \$2,168,370 during the current fiscal year.
- In 2018, the City adopted GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The overall effect of this new standard is to reflect the City's long-term other postretirement benefit ("OPEB") obligations directly in the financial statements. Under previous accounting guidance, these amounts were recorded incrementally over time, but were not recognized in their entirety. Instead, the total liability which has now been recorded, was only disclosed. The new standard not only changes certain measurement methodologies, but also requires certain new disclosures and that the City record a net OPEB liability directly on the statement of net position. Beginning net position has been restated as discussed in Note 15, and this has had a significant impact on the City's net position. However, because similar information has been disclosed in prior years, both in the notes to the financial statements and in required supplementary information, the effect of this new standard is not expected to negatively affect how most governmental entities are viewed by sophisticated readers of their financial statements. Because information to restate prior years is not readily available, the prior year comparative information included in this discussion and analysis has not been restated.

Management's Discussion & Analysis

Overview of the Financial Statements

This discussion and analysis provided here is intended to serve as an introduction to the City of Morristown's financial statements. The City of Morristown's basic financial statements consist of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

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

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

The *statement of activities* presents information showing how the City of Morristown'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 for some items that will only result in cash flows 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 of Morristown that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Morristown include general government, public safety, highways and streets, sanitation, economic development, and culture and recreation. The business-type activities of the City of Morristown include the power, water, storm water, broadband, and wastewater systems. Of the business-type activities, the Morristown Utilities Commission is responsible for water, power, wastewater, and broadband. The Morristown Utilities Commission is an administrative unit of the City and therefore has been included as a business-type activity of the primary government. The Morristown Utilities Commission issues a separate comprehensive annual financial report and information from that report is used in this report. Readers should consult the Morristown Utilities Commission's Comprehensive Annual Financial Report for more detailed information on their finances.

The government-wide financial statements can be found on pages 5-6 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Morristown, 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 of Morristown can be divided into three categories: governmental funds, proprietary funds, and fiduciary 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.

Management's Discussion & Analysis

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 fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Morristown maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the solid waste fund and the general capital projects fund, which are considered to be major funds. Data from the other governmental funds is combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City of Morristown adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 7-10 of this report.

Proprietary funds. The City of Morristown maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Morristown uses enterprise funds to account for its water, wastewater, storm water, broadband and power systems. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City of Morristown's various functions. The City of Morristown uses an internal service fund to account for its self-insured employee health insurance program. Because the services predominately benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

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 wastewater, water, power and broadband systems, all of which are considered to be major funds of the City of Morristown. The storm water system is not considered to be a major fund; however, it is presented separately in the proprietary fund financial statements because it is the only other proprietary fund.

The basic proprietary fund financial statements can be found on pages 15-19 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are *not* reported in the government-wide financial statements because the resources of those funds are *not* available to support the City of Morristown's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The City of Morristown maintains three fiduciary funds. The City of Morristown uses an agency fund to account for the Lakeway Area Metropolitan Transportation Planning Organization (LAMTPO) funding. LAMTPO is the metropolitan planning organization for Morristown's region encompassing two counties and four cities. LAMTPO's board consists of members from these localities consisting of Mayors and City Administrators. The City also maintains a trust fund for the OPEB obligation. The administration of the fund assets is contracted out to USI Advisors, Inc. Finally, the City maintains an Employee Benefits Trust Fund that is used to account for operations of the flexible benefits program for City of Morristown employees.

Management's Discussion & Analysis

The basic fiduciary fund financial statements can be found on pages 20 and 21 of this report.

Notes to the financial statements. The notes provide additional information that is necessary to acquire 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 22-59 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City of Morristown's progress in funding its obligation to provide pension and OPEB benefits to its employees. A table of contents has been provided to locate this information.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the government's financial position. In the case of the City of Morristown, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by almost \$196.1 million at the close of the most recent fiscal year.

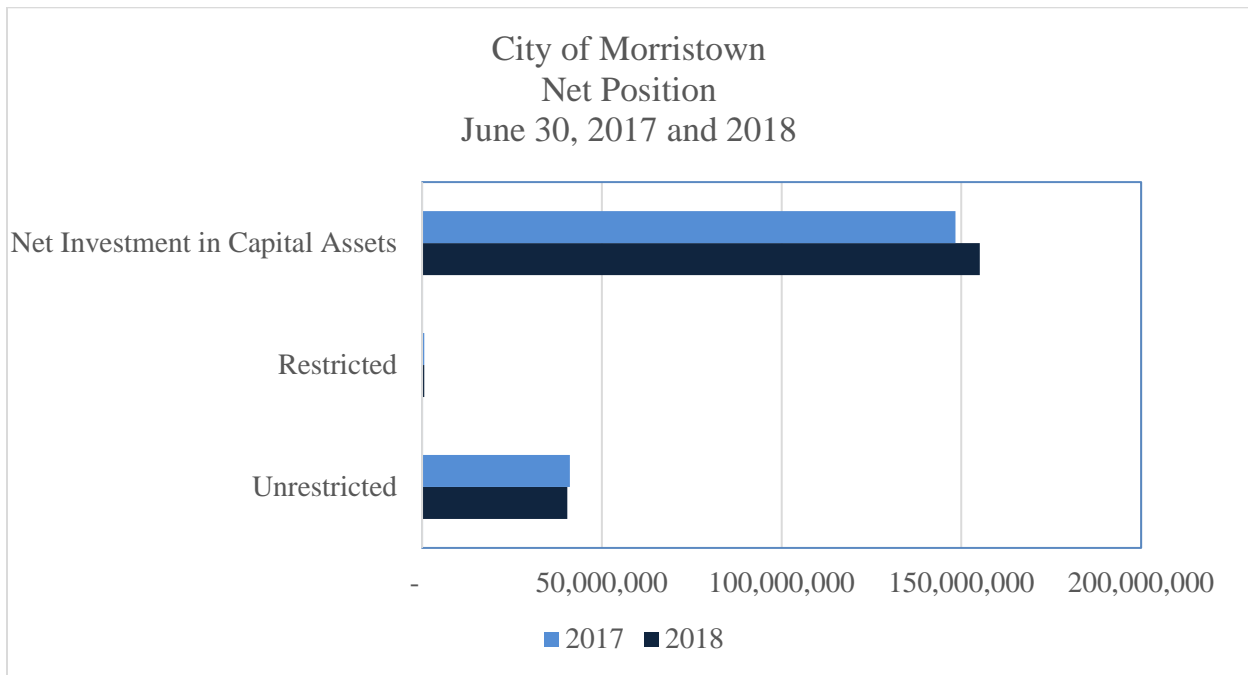
City of Morristown's Net Position						
	Governmental activities		Business-type activities		Total	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 50,064,735	\$ 49,206,031	\$ 43,355,387	\$ 50,139,880	\$ 93,420,122	\$ 99,345,911
Capital assets	64,156,532	61,906,919	226,728,190	209,222,214	290,884,722	271,129,133
Total assets	<u>\$ 114,221,267</u>	<u>\$ 111,112,950</u>	<u>\$ 270,083,577</u>	<u>\$ 259,362,094</u>	<u>\$ 384,304,844</u>	<u>\$ 370,475,044</u>
Total deferred outflows of resources	\$ 3,670,446	\$ 3,926,281	\$ 50,746	\$ 60,961	\$ 3,721,192	\$ 3,987,242
Long-term liabilities outstanding	\$ 39,292,738	\$ 38,716,019	\$ 118,740,237	\$ 114,334,947	\$ 158,032,975	\$ 153,050,966
Other liabilities	2,424,085	2,585,991	18,062,449	16,385,374	20,486,534	18,971,365
Total liabilities	<u>\$ 41,716,823</u>	<u>\$ 41,302,010</u>	<u>\$ 136,802,686</u>	<u>\$ 130,720,321</u>	<u>\$ 178,519,509</u>	<u>\$ 172,022,331</u>
Total deferred inflows of resources	\$ 13,383,318	\$ 12,058,215	\$ 50,160	\$ 276,921	\$ 13,433,478	\$ 12,335,136
Net position:						
Net investment in capital assets	\$ 44,366,928	\$ 44,128,853	\$ 110,725,993	\$ 104,788,569	\$ 155,092,921	\$ 148,917,422
Restricted	609,400	652,846	0	0	609,400	652,846
Unrestricted	17,815,244	16,897,307	22,555,484	23,637,244	40,370,728	40,534,551
Total net position	<u>\$ 62,791,572</u>	<u>\$ 61,679,006</u>	<u>\$ 133,281,477</u>	<u>\$ 128,425,813</u>	<u>\$ 196,073,049</u>	<u>\$ 190,104,819</u>

By far the largest portion of the City of Morristown's net position (79.1%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure); less any related outstanding debt that was used to acquire those assets. The City of Morristown uses these capital assets to provide a variety of services to citizens. Accordingly, these assets are *not* available for future spending. Although the City of Morristown's investment in its capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City of Morristown's net position (0.3%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$40,370,728 is unrestricted and may be used to meet Morristown's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Morristown is able to report positive balances in all reported categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

Management's Discussion & Analysis



However, the City of Morristown's overall net position increased by approximately \$10.6 million from the prior fiscal year. The reasons for the overall increase are discussed in the following sections for governmental activities and business-type activities.

Governmental Activities. During the current fiscal year, net position of the governmental activities increased by \$5.1 million. This increase is attributed to the capital outlay and economic expansion that the City of Morristown is currently experiencing. The City continues to see significant economic growth in the retail market. National retail chains continue to locate stores in Morristown. This has stopped leakage of sales tax to other neighboring communities. Several retail developments are under construction. As a result of the retail development, local option sales tax increased 1.01% in the 2017-2018 fiscal year compared to the prior year.

Management's Discussion & Analysis

City of Morristown's Changes in Net Position						
	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program revenues:						
Charges for services	\$ 2,775,957	\$ 2,634,403	\$ 109,103,026	\$ 107,598,364	\$ 111,878,983	\$ 110,232,767
Operating grants & contributions	191,531	128,336	-	-	191,531	128,336
Capital grants & contributions	701,821	1,668,274	263,600	230,150	965,421	1,898,424
General revenues:						
Property taxes	11,133,574	11,026,905	-	-	11,133,574	11,026,905
Sales tax	12,405,158	12,280,106	-	-	12,405,158	12,280,106
Intergovernmental	6,074,849	4,747,970	-	-	6,074,849	4,747,970
Other	4,735,491	4,232,290	3,194,522	2,701,620	7,930,013	6,933,910
Total revenues	38,018,381	36,718,284	112,561,148	110,530,134	150,579,529	147,248,418
Expenses:						
General government	5,565,353	2,623,688	-	-	5,565,353	2,623,688
Public safety	15,198,313	16,205,149	-	-	15,198,313	16,205,149
Public works	9,749,660	11,598,260	-	-	9,749,660	11,598,260
Economic development	-	-	-	-	-	-
Parks & recreation	2,196,230	3,817,269	-	-	2,196,230	3,817,269
Civic support	1,565,036	1,994,024	-	-	1,565,036	1,994,024
Transportation	-	-	-	-	-	-
Retiree health insurance	-	-	-	-	-	-
Interest on long-term debt	643,818	366,337	-	-	643,818	366,337
Water	-	-	6,791,455	6,676,177	6,791,455	6,676,177
Wastewater	-	-	12,957,929	12,035,984	12,957,929	12,035,984
Storm water	-	-	1,078,566	813,226	1,078,566	813,226
Power	-	-	76,594,389	76,497,573	76,594,389	76,497,573
Broadband	-	-	7,653,604	7,018,332	7,653,604	7,018,332
Total expenses	34,918,410	36,604,727	105,075,943	103,041,292	139,994,353	139,646,019
Increase (decrease) in net position before transfers	3,099,971	113,557	7,485,205	7,488,842	10,585,176	7,602,399
Transfers	1,928,844	1,934,663	(1,928,844)	(1,934,663)	-	-
Increase (decrease) in net position	5,028,815	2,048,220	5,556,361	5,554,179	10,585,176	7,602,399
Net position - July 1, (restated)	57,762,757	59,630,786	127,725,116	122,871,634	185,487,873	182,502,420
Net position - June 30,	\$ 62,791,572	\$ 61,679,006	\$ 133,281,477	\$ 128,425,813	\$ 196,073,049	\$ 190,104,819

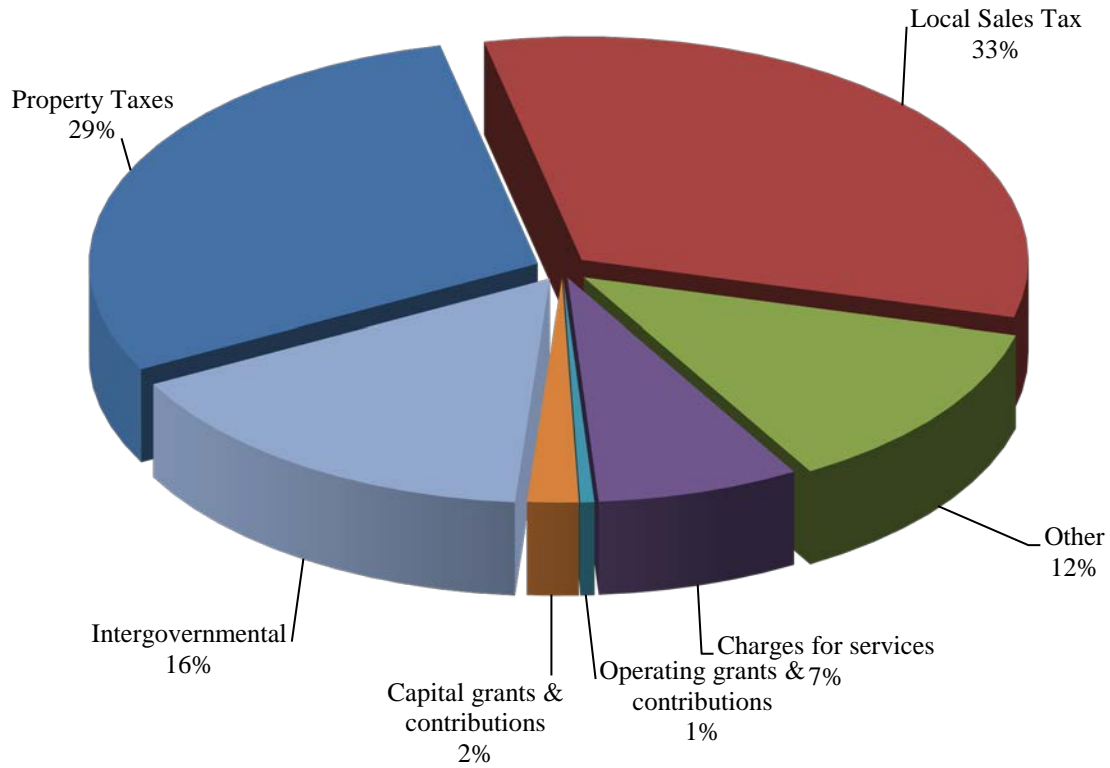
Revenues on the government-wide Statement of Activities are broken into two major categories, program and general revenues.

Program revenues are three types: charges for services (arise from charges to customers), operating grants and contributions (restricted for a specific purpose), and capital grants and contributions (restricted for a specific purpose).

General revenues are all revenues that do not qualify as program revenues and by far are the largest revenue source. The largest single revenue sources within this major category are property taxes and local option sales tax. Both property tax and sales tax continue to be a stable revenue source for the City of Morristown. During the current fiscal year, sales tax collections increased by approximately \$125,052 or 1.01% compared to the previous fiscal year. The graph below presents the major sources of revenues for governmental activities.

Management's Discussion & Analysis

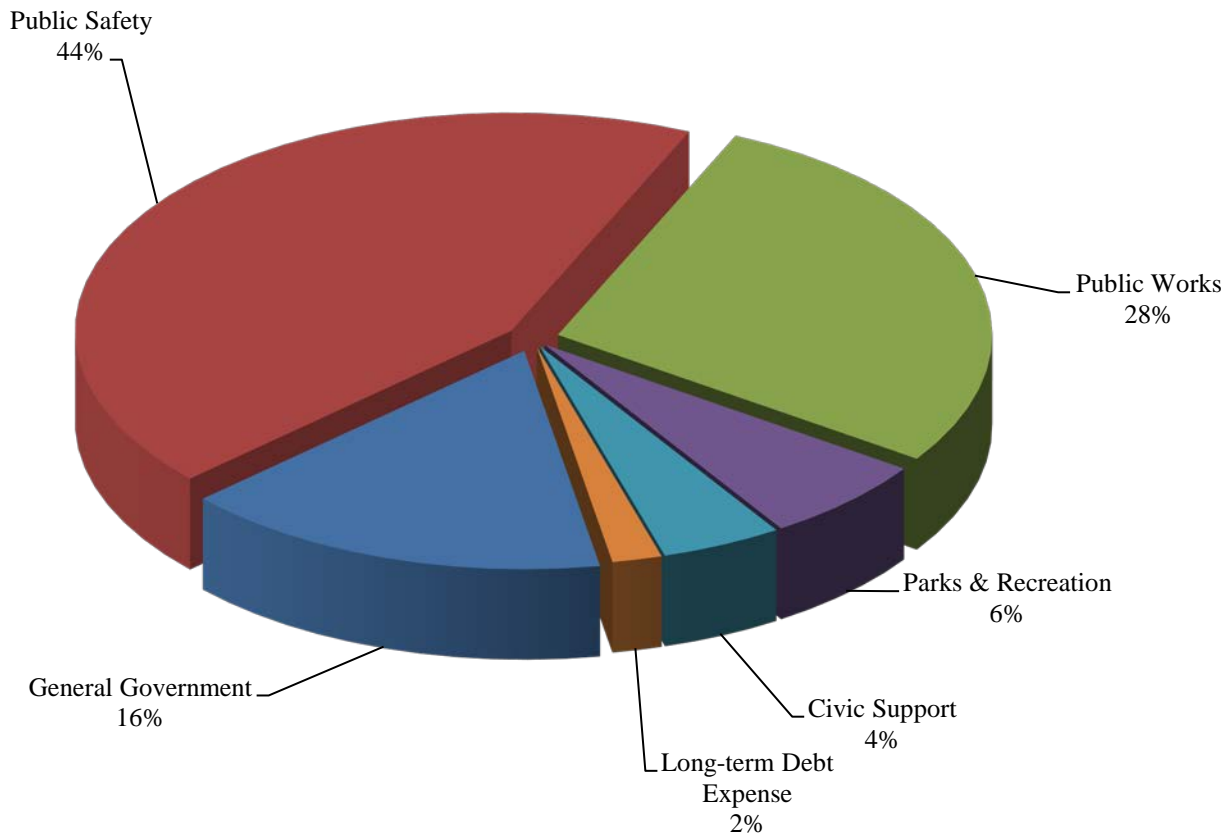
Revenues by Source - Governmental Activities



Public Safety expenses of \$15,198,313 and Public Works expenses of \$9,749,660 are the largest expenses of the City of Morristown, which when combined total \$24,947,973 and are 71.4% of total expenses. Of this amount, \$2,009,837 was recovered by charges for services, \$191,531 from operating grants/contributions, and \$701,821 from capital grants/contributions. For additional details, see illustrations below.

Management's Discussion & Analysis

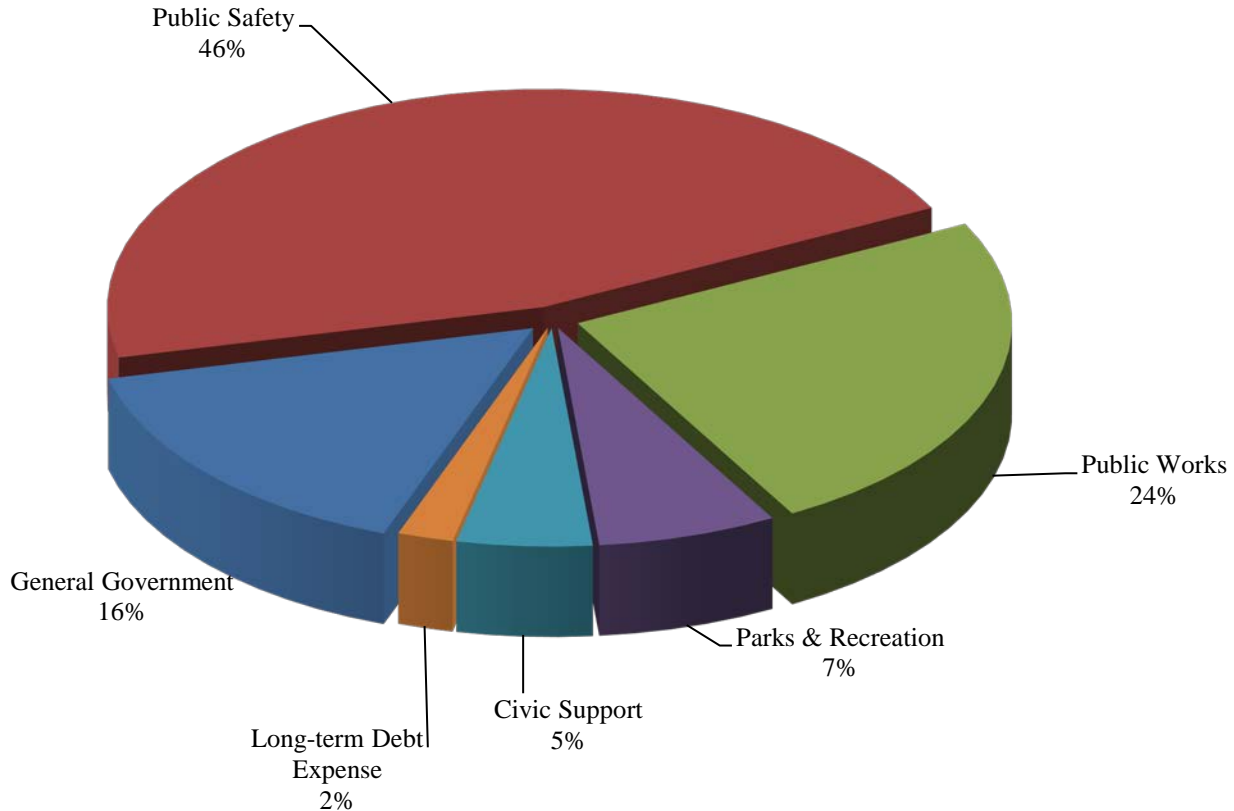
Program Expenses - Governmental Activities



The following illustration shows the “net (expenses)” from the Statement of Activities as a percentage of the total. Unlike the preceding illustration, this one not only shows the percentage of total costs, it shows the impact the program had on the local citizens’ tax base, as a percentage. Net expense is all program expenses less all program revenues.

Management's Discussion & Analysis

Expenses by Governmental Activities



Business-type Activities. For the City of Morristown's business-type activities, the results for the current year were positive in that overall net position increased to reach an ending balance of approximately \$133.3 million. The total increase in net position for business-type activities was \$5.6 million or 4.3% from the prior fiscal year. The increase in net position is attributed to the increase in rates on the water, wastewater, power, and broadband services.

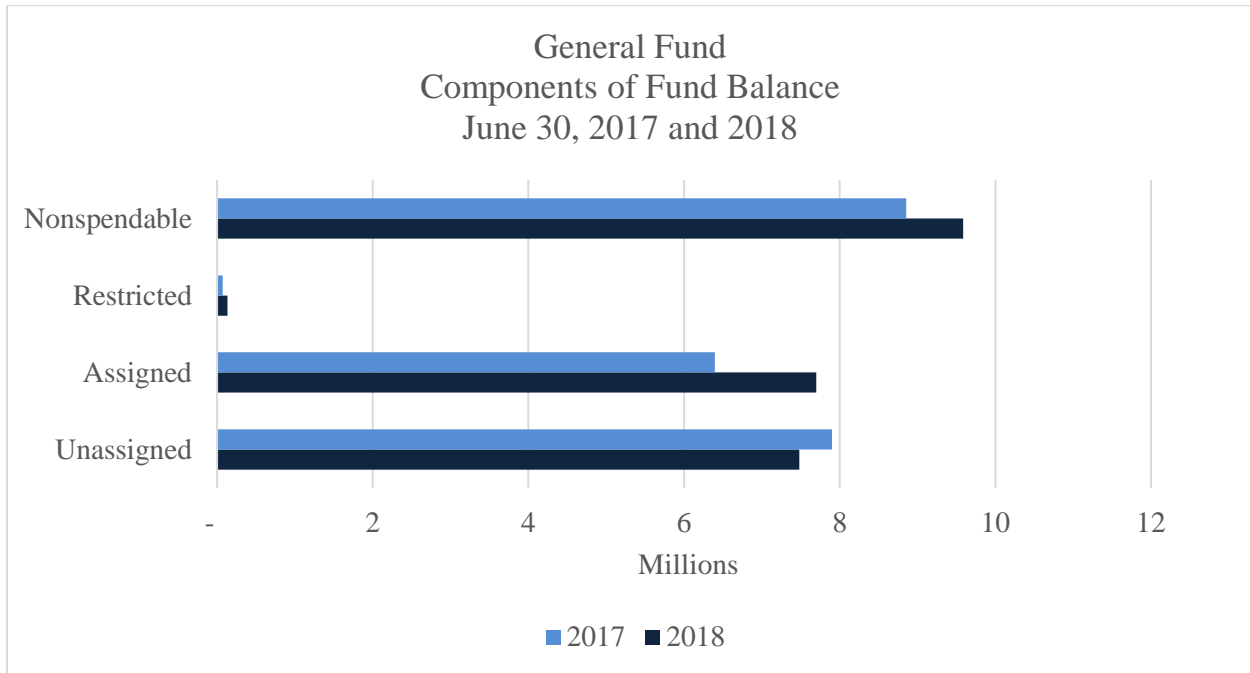
Financial Analysis of the Government's Funds

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

Governmental funds. The focus of the City of Morristown's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Morristown's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has been limited to use for a particular purpose by either an external party, the City of Morristown itself, or a group or individual that has been delegated authority to assign resources for use for a particular purpose by the City of Morristown's Council.

Management's Discussion & Analysis

At June 30, 2018, the City of Morristown's governmental funds reported combined ending fund balances of \$33,403,131 a decrease of \$588,512 in comparison with the prior year. Approximately 22.4% of this amount (\$7,482,374) constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of the fund balance is either nonspendable, restricted, or assigned to indicate that it is 1) not in spendable form or legally/contractually required to be maintained intact (\$9,587,862), 2) restricted for particular purposes (\$5,773,045), 3) committed for particular purposes (\$2,859,940), or 4) assigned for particular purposes (\$7,699,910).



The General Fund is the chief operating fund of the City of Morristown. At the end of the current fiscal year, unassigned fund balance was \$7,482,374, while total fund balance increased to \$24,903,603. This increase is attributed to conservative budgeting to ensure that actual revenues meet or exceed the projected amount. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Unassigned fund balance represents approximately 22.2% of total general fund expenditures and other uses, while total fund balance represents 74% of that same amount. City of Morristown Council has formally adopted a financial policy stating that the City's general fund will maintain an unassigned fund balance of at least 15%, but not to exceed 40% of annual general fund expenditures.

The fund balance of the City of Morristown's general fund increased \$1,676,356. As mentioned above, a conservative budgeting approach is utilized in projecting estimated revenues to ensure that actual revenues meet or exceed the projected amount. It must be stressed that fund balance is only being expended for one-time items, not reoccurring expenditures. As discussed earlier with governmental activities, the continued economic growth and retail development allow for the City to fund major capital expenditures and still maintain an unassigned fund balance within the adopted fund balance policy.

The solid waste fund is used to account for the City's sanitation and recycling operations. The Solid Waste Fund's operations are funded by user fees. The Solid Waste Fund balance decreased in the amount of \$235,439. The user fee funding the Solid Waste Fund, increased beginning July 1, 2018 as part of a long-term funding plan to help this fund become self-sufficient. It should be noted no funds were transferred from the general fund during FY2017-2018 as in years past.

Management's Discussion & Analysis

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

The unrestricted net position of the City's business-type activities increased by \$5,556,361. The unrestricted net position of the City's Storm Water Fund increased \$273,787 for the current fiscal year. Unrestricted net position of the Morristown Utilities Commission, which operates power, wastewater, water, and broadband service for the City, at the end of the year, amounted to \$19,920,634, a decrease of \$1,369,016. For a more thorough discussion of the Morristown Utilities Commission's finances readers should consult the Comprehensive Annual Financial Report issued by the Commission for the current fiscal year ended.

General Fund Budgetary Highlights

During the fiscal year, amendments were necessary to increase estimated revenues and original budgeted appropriations. Additionally, there were amendments made to reallocate appropriations between departments without increasing the total appropriations. The original budget ordinance approved appropriations totaling \$39,912,801. Budget amendments were approved by Council during the year increasing total appropriations to \$40,362,415, an increase of \$449,614 or 1.1%. Significant differences between the original budget and the final amended budget for the current fiscal year can be briefly summarized as follows:

- \$64,600 to transfer to the General Capital Projects Fund to provide funding for additional costs incurred to replace the chiller / boiler.
- \$1,000,000 to transfer to the General Capital Projects Fund necessary to cover the costs for the purchase of property within the East Tennessee Progress Center
- \$345,014 to transfer \$300,000 to the General Capital Projects fund to cover the match for the LPRF Grant and to increase appropriations within the General Fund in the amount \$45,014 to allow for the purchase of turn out gear for the Fire Department
- \$960,000 to decrease appropriations associated with the West A.J. Hwy road project. At the close of the fiscal year, actual expenditures were \$4,998,802 less than budgetary estimates. This is attributed to the timing of capital projects not being started as anticipated and the conservative management by department heads.

Capital Asset and Debt Administration

Capital assets. The City of Morristown's investment in capital assets for its governmental and business-type activities as of June 30, 2018, amounts to \$64 million and \$227 million, respectively (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements other than buildings, equipment, vehicles, park facilities, infrastructure, and construction in progress. The total increase in capital assets for the current fiscal year was approximately 7.3%.

Management's Discussion & Analysis

City of Morristown's Capital Assets (net of depreciation)						
	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 14,098,563	\$ 14,098,563	\$ 2,659,859	\$ 2,659,859	\$ 16,758,422	\$ 16,758,422
Buildings	10,874,043	11,249,979	-	-	10,874,043	11,249,979
Improvements other than buildings	2,753,451	2,540,019	-	-	2,753,451	2,540,019
Machinery & equipment	7,056,650	7,306,257	-	-	7,056,650	7,306,257
Infrastructure	24,079,668	26,002,396	-	-	24,079,668	26,002,396
Utility plant and equipment	-	-	194,351,715	192,623,306	194,351,715	192,623,306
Construction in progress	5,294,157	709,705	29,716,616	13,939,049	35,010,773	14,648,754
Total	\$ 64,156,532	\$ 61,906,919	\$ 226,728,190	\$ 209,222,214	\$ 290,884,722	\$ 271,129,133

Additional information on the City of Morristown's capital assets can be found in Note 7 on pages 33-35 of this report.

Long-term debt. At the end of the current fiscal year, the City of Morristown had total bonded debt outstanding of \$138.2 million; of this amount, \$24.7 million comprises net direct debt of governmental activities. The remainder of the City of Morristown's debt represents bonds secured by specified revenue sources and the full faith and credit of the government.

The City's breakdown of variable and fixed rate debt outstanding is 39% and 61% respectively.

The following is a brief summary of the City's long-term debt by fund:

City of Morristown's Long-Term Debt				
	Balance			Balance
	July 1, 2017	Additions	Reductions	
Governmental activities				
General fund	\$ 26,063,459	\$ -	\$ 1,629,184	\$ 24,434,275
Solid waste fund	273,881	-	26,479	\$ 247,402
Total governmental activities	26,337,340	-	1,655,663	24,681,677
Business-type activities				
Sewer system	69,212,681	15,060,000	8,124,211	76,148,470
Storm water system	4,230,422	-	213,006	4,017,416
Electric system	17,578,227	-	1,281,055	16,297,172
Water system	11,759,671	-	964,383	10,795,288
Telecom system	6,886,937	-	634,771	6,252,166
Total business-type activities	109,667,938	15,060,000	11,217,426	113,510,512
Total Debt	\$ 136,005,278	\$ 15,060,000	\$ 12,873,089	\$ 138,192,189

Management's Discussion & Analysis

The City of Morristown's total debt increased by \$2,186,911 (1.6%) during the current fiscal year. The reason for the increase was attributed to continued ongoing construction projects to upgrade and enhance the infrastructure of the wastewater plant, sewer lines, and pumping stations.

Additional information on the City of Morristown's long-term debt can be found in Note 8 on pages 35-38 of this report.

Economic Factors and Next Year's Budgets and Rates

The following economic factors currently affect the City of Morristown and were considered in developing the 2018-2019 fiscal year budget.

- As previously discussed, the continued retail development that the City of Morristown is currently experiencing. Several major developments are under construction that will continue to bring regional sales tax dollars to the City of Morristown. Van Hool NV recently announced plans to locate their North America Headquarters and manufacturing facility in the East Tennessee Progress Center. Plans are to invest \$50 million to construct a new facility that will create around 600 jobs.
- The unemployment rate for the City of Morristown as of June 30, 2018, was 4.4% which remains unchanged compared to a year ago. The state's average unemployment rate as of June 30, 2018, was 3.5% and the national average was 4.0%.
- The City of Morristown was proactive in that it increased the property tax rate five cents for the 2018 tax year. This strategic planning allowed the City of Morristown to provide additional funding to complete the Public Works Compound, allow for needed repairs to the City Center Plaza/Garage, and will help with planning/design of the Community Center.

During the current fiscal year, the assigned fund balance in the General Fund was \$7,699,910. The City of Morristown has appropriated \$3,600,000 of this amount for spending in the 2018-2019 fiscal year budget. This action was taken to address the need for improving the City of Morristown's capital assets without having to issue long-term debt and is not spent on reoccurring operating expenditures.

Requests for Information

This financial report is designed to provide a general overview of the City of Morristown's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for addition financial information should be addressed to the City of Morristown, Office of Finance, P.O. Box 1499, Morristown, Tennessee 37816-1499.

**BASIC FINANCIAL
STATEMENTS**

CITY OF MORRISTOWN, TENNESSEE

STATEMENT OF NET POSITION

June 30, 2018

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents (Note 3)	\$ 22,944,230	\$ 27,772,877	\$ 50,717,107
Receivables, net (Note 4)	17,500,295	11,663,983	29,164,278
Due from other governmental units	6,759	618,273	625,032
Inventories	58,948	1,983,686	2,042,634
Other current assets	27,631	173,501	201,132
Restricted assets:			
Cash and cash equivalents (Note 3)	-	787,770	787,770
Capital assets: (Note 7)			
Non-depreciable	19,392,720	32,376,475	51,769,195
Depreciable, net	44,763,812	194,351,715	239,115,527
Land held for sale (Note 6)	9,526,872	-	9,526,872
Other assets	-	355,297	355,297
Total assets	114,221,267	270,083,577	384,304,844
DEFERRED OUTFLOWS OF RESOURCES			
Pension related deferred outflows (Note 10)	3,658,552	50,746	3,709,298
OPEB related deferred outflows (Note 12)	11,894	-	11,894
Total deferred outflows of resources	3,670,446	50,746	3,721,192
LIABILITIES			
Accounts payable and accrued liabilities	874,430	11,170,310	12,044,740
Accrued payroll and related liabilities	712,989	2,195,305	2,908,294
Accrued interest payable	40,416	33,147	73,563
Customer deposits	-	4,404,031	4,404,031
Unearned revenue (Note 4)	796,250	259,656	1,055,906
Long-term liabilities:			
Due within one year (Note 8)	2,042,488	7,647,398	9,689,886
Due in more than one year (Note 8)	24,437,999	109,158,453	133,596,452
Net OPEB liability (Notes 12 and 13)	4,295,731	1,805,844	6,101,575
Net pension liability (Note 10)	8,516,520	128,542	8,645,062
Total liabilities	41,716,823	136,802,686	178,519,509
DEFERRED INFLOWS OF RESOURCES			
Property taxes (Note 4)	11,670,724	-	11,670,724
OPEB related deferred inflows (Notes 12 and 13)	-	24,287	24,287
Pension related deferred inflows (Note 10)	1,712,594	25,873	1,738,467
Total deferred inflows of resources	13,383,318	50,160	13,433,478
NET POSITION			
Net investment in capital assets	44,366,928	110,725,993	155,092,921
Restricted for:			
Narcotics	243,424	-	243,424
E-Citation	13,114	-	13,114
Public health and welfare	219,405	-	219,405
Gas tax	92,456	-	92,456
Airport	41,001	-	41,001
Unrestricted	17,815,244	22,555,484	40,370,728
Total net position	\$ 62,791,572	\$ 133,281,477	\$ 196,073,049

The Notes to Financial Statements are an integral part of this statement.

CITY OF MORRISTOWN, TENNESSEE

STATEMENT OF ACTIVITIES
Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Governmental activities:							
General government	\$ 5,565,353	\$ 650,780	\$ -	\$ -	\$ (4,914,573)	\$ -	\$ (4,914,573)
Public safety	15,198,313	571,333	191,531	-	(14,435,449)	-	(14,435,449)
Public works	9,749,660	1,438,504	-	701,821	(7,609,335)	-	(7,609,335)
Culture and recreation	2,196,230	115,340	-	-	(2,080,890)	-	(2,080,890)
Civic support	1,565,036	-	-	-	(1,565,036)	-	(1,565,036)
Interest on long-term debt	643,818	-	-	-	(643,818)	-	(643,818)
Total governmental activities	<u>34,918,410</u>	<u>2,775,957</u>	<u>191,531</u>	<u>701,821</u>	<u>(31,249,101)</u>	<u>-</u>	<u>(31,249,101)</u>
Business-type activities:							
Water	6,791,455	7,005,669	-	89,100	-	303,314	303,314
Wastewater	12,957,929	14,128,788	-	174,500	-	1,345,359	1,345,359
Stormwater	1,078,566	1,345,299	-	-	-	266,733	266,733
Power	76,594,389	78,262,760	-	-	-	1,668,371	1,668,371
Broadband	7,653,604	8,360,510	-	-	-	706,906	706,906
Total business-type activities	<u>105,075,943</u>	<u>109,103,026</u>	<u>-</u>	<u>263,600</u>	<u>-</u>	<u>4,290,683</u>	<u>4,290,683</u>
Total	<u>\$ 139,994,353</u>	<u>\$ 111,878,983</u>	<u>\$ 191,531</u>	<u>\$ 965,421</u>	<u>(31,249,101)</u>	<u>4,290,683</u>	<u>(26,958,418)</u>
		General revenues:					
		Property taxes			11,133,574	-	11,133,574
		Local sales taxes			12,405,158	-	12,405,158
		Franchise taxes			708,339	-	708,339
		Alcohol beverage tax			1,330,498	-	1,330,498
		Business and gross receipts tax			1,091,623	-	1,091,623
		Lodging tax			745,950	-	745,950
		Litigation tax			47,432	-	47,432
		Intergovernmental revenue-unrestricted			6,074,849	-	6,074,849
		Unrestricted investment earnings			-	186,200	186,200
		Other			811,649	3,008,322	3,819,971
		Transfers (Note 5)			<u>1,928,844</u>	<u>(1,928,844)</u>	<u>-</u>
		Total general revenues and transfers			<u>36,277,916</u>	<u>1,265,678</u>	<u>37,543,594</u>
		Change in net position			5,028,815	5,556,361	10,585,176
		Net position at July 1 as restated (Note 15)			<u>57,762,757</u>	<u>127,725,116</u>	<u>185,487,873</u>
		Net position at June 30			<u>\$ 62,791,572</u>	<u>\$ 133,281,477</u>	<u>\$ 196,073,049</u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF MORRISTOWN, TENNESSEE

**BALANCE SHEET –
GOVERNMENTAL FUNDS
June 30, 2018**

	<u>General</u>	<u>Solid Waste</u>	<u>Capital Projects</u>	<u>Non-major Governmental</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and cash equivalents	\$ 13,521,815	\$ 92,889	\$ 7,539,896	\$ 308,294	\$ 21,462,894
Receivables, net	16,476,972	202,168	739,116	812	17,419,068
Due from other governmental units	-	-	-	6,759	6,759
Prepaid	2,042	-	-	-	2,042
Inventories	58,948	-	-	-	58,948
Land held for sale	9,526,872	-	-	-	9,526,872
Total assets	<u>\$ 39,586,649</u>	<u>\$ 295,057</u>	<u>\$ 8,279,012</u>	<u>\$ 315,865</u>	<u>\$ 48,476,583</u>
LIABILITIES					
Accounts payable and accrued liabilities	\$ 369,812	\$ 51,131	\$ 255,427	\$ 1,458	\$ 677,828
Accrued payroll and related liabilities	688,468	24,521	-	-	712,989
Unearned revenue	796,250	-	-	-	796,250
Total liabilities	<u>1,854,530</u>	<u>75,652</u>	<u>255,427</u>	<u>1,458</u>	<u>2,187,067</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable/unearned taxes	12,828,516	-	-	57,869	12,886,385
Total deferred inflows of resources	<u>12,828,516</u>	<u>-</u>	<u>-</u>	<u>57,869</u>	<u>12,886,385</u>
FUND BALANCES					
Nonspendable	9,587,862	-	-	-	9,587,862
Restricted	133,457	219,405	5,163,645	256,538	5,773,045
Committed	-	-	2,859,940	-	2,859,940
Assigned	7,699,910	-	-	-	7,699,910
Unassigned	7,482,374	-	-	-	7,482,374
Total fund balances	<u>24,903,603</u>	<u>219,405</u>	<u>8,023,585</u>	<u>256,538</u>	<u>33,403,131</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 39,586,649</u>	<u>\$ 295,057</u>	<u>\$ 8,279,012</u>	<u>\$ 315,865</u>	<u>\$ 48,476,583</u>

(Continued)

The Notes to Financial Statements are an integral part of this statement.

CITY OF MORRISTOWN, TENNESSEE

**BALANCE SHEET –
GOVERNMENTAL FUNDS
June 30, 2018**

Total Fund Balance	\$ 33,403,131
 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 in the funds.	\$ 64,156,532
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	1,215,661
Long-term liabilities, including bonds payable, compensated absences, and accrued interest, are not due and payable in the current period and therefore are not reported in the funds.	
Bonds and notes payable	(24,953,248)
Accrued interest payable	(40,416)
Compensated absences	(1,527,239)
Deferred amounts:	
Deferred outflows of resources for change in pension assumptions.	1,572,410
Deferred outflows of resources for 2018 employer pension plan contributions.	2,086,142
Deferred inflows of resources for the difference between actual and expected experience related to the pension plan.	(1,712,594)
Deferred outflows of resources for OPEB.	11,894
Net pension liability	(8,516,520)
Net OPEB Liability	(4,295,731)
 The internal service fund is used by management to account for the claims and premiums for employee health insurance. Its assets and liabilities are included in the governmental activities' statement of net position.	 <u>1,391,550</u>
Net position of governmental activities	<u><u>\$ 62,791,572</u></u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF MORRISTOWN, TENNESSEE

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
Year Ended June 30, 2018**

	<u>General</u>	<u>Solid Waste</u>	<u>Capital Projects</u>	<u>Non-major Governmental</u>	<u>Total Governmental Funds</u>
REVENUES					
General property taxes	\$ 11,209,575	\$ -	\$ -	\$ -	\$ 11,209,575
Sales tax	12,405,158	\$ -	\$ -	\$ -	12,405,158
Other local taxes	3,923,842	-	-	-	3,923,842
Licenses, permits, and fines	376,870	-	-	152,279	529,149
Charges for services	808,304	1,438,504	-	-	2,246,808
Other	689,957	-	51,927	69,765	811,649
Intergovernmental	5,656,207	-	1,311,994	-	6,968,201
Total revenues	<u>35,069,913</u>	<u>1,438,504</u>	<u>1,363,921</u>	<u>222,044</u>	<u>38,094,382</u>
EXPENDITURES					
Current:					
General government	4,151,784	-	1,163,588	-	5,315,372
Public safety	16,318,178	-	1,567,496	89,937	17,975,611
Public works	6,702,363	1,641,021	150,883	-	8,494,267
Culture and recreation	2,049,579	-	343,641	-	2,393,220
Civic support	1,554,393	-	2,101,515	-	3,655,908
Retiree health insurance	463,208	-	-	-	463,208
Debt service:					
Principal retirement	1,629,183	26,480	-	-	1,655,663
Interest and fiscal charges	652,047	6,442	-	-	658,489
Total expenditures	<u>33,520,735</u>	<u>1,673,943</u>	<u>5,327,123</u>	<u>89,937</u>	<u>40,611,738</u>
Excess (deficiency) of revenues over expenditures	<u>1,549,178</u>	<u>(235,439)</u>	<u>(3,963,202)</u>	<u>132,107</u>	<u>(2,517,356)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	1,928,844	-	1,801,666	-	3,730,510
Transfers out	(1,801,666)	-	-	-	(1,801,666)
Total other financing sources (uses)	<u>127,178</u>	<u>-</u>	<u>1,801,666</u>	<u>-</u>	<u>1,928,844</u>
Net change in fund balance	1,676,356	(235,439)	(2,161,536)	132,107	(588,512)
FUND BALANCES AT JULY 1	<u>23,227,247</u>	<u>454,844</u>	<u>10,185,121</u>	<u>124,431</u>	<u>33,991,643</u>
FUND BALANCES AT JUNE 30	<u>\$ 24,903,603</u>	<u>\$ 219,405</u>	<u>\$ 8,023,585</u>	<u>\$ 256,538</u>	<u>\$ 33,403,131</u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF MORRISTOWN, TENNESSEE

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2018**

Net changes in fund balances	\$ (588,512)
Adjustments for the statement of activities:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets.	
Capital outlay	6,025,985
Loss on disposal of assets	(1,596)
Depreciation expense	(3,774,776)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(76,001)
Governmental funds report employer OPEB contributions as expenditures. However, in the statement of activities, the cost of OPEB benefits earned net of employee contributions is reports as OPEB expense.	(429,291)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.	
Principal repayment	1,655,663
Amortization of premium	11,315
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Accrued interest payable	3,356
Change in compensated absences	(130,671)
Governmental funds report employer pension contributions as expenditures. However, in the statement of activities, the cost of pension benefits earned net of employee contributions is reports as pension expense.	1,336,469
The internal service fund is used by management to account for the claims and premiums for employee health insurance. The change in net position of internal service funds is reported with governmental activities.	996,874
Change in net position of governmental activities	<u><u>\$ 5,028,815</u></u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF MORRISTOWN, TENNESSEE

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET AND ACTUAL – GENERAL FUND (BUDGETARY BASIS)
Year Ended June 30, 2018**

	Budgeted Amounts		Actual Amounts	Encumbrances	Budgetary Basis Expenditures	Variance with Final Budget Positive (Negative)
	Original	Final				
REVENUES						
Taxes:						
General property	\$ 10,643,000	\$ 10,643,000	\$ 11,209,575	\$ -	\$ 11,209,575	\$ 566,575
Sales tax	12,575,000	12,575,000	\$ 12,405,158	-	12,405,158	(169,842)
Other local taxes	3,600,000	3,600,000	3,923,842	-	3,923,842	323,842
Licenses and permits	269,000	269,000	376,870	-	376,870	107,870
Charges for services	962,000	962,000	808,304	-	808,304	(153,696)
Other	368,250	368,250	689,957	-	689,957	321,707
Intergovernmental	7,083,704	6,168,718	5,656,207	-	5,656,207	(512,511)
Total revenues	35,500,954	34,585,968	35,069,913	-	35,069,913	483,945
EXPENDITURES						
General government:						
Mayor and City Council	302,908	302,908	205,041	-	205,041	97,867
Council elections	17,655	17,655	-	-	-	17,655
City administrator	811,032	761,032	698,272	(6,000)	692,272	68,760
Finance department	1,036,960	979,825	842,372	1,416	843,788	136,037
Purchasing department	67,421	67,421	62,981	-	62,981	4,440
Computer operations	257,466	257,466	217,287	12,751	230,038	27,428
Human resources	218,071	218,071	199,114	-	199,114	18,957
Legal	253,236	253,236	148,141	-	148,141	105,095
Community and economic affairs	808,870	879,670	788,983	174	789,157	90,513
Engineering	242,290	272,290	220,348	6,488	226,836	45,454
GIS	279,916	279,916	231,307	(14,522)	216,785	63,131
Inspections	548,466	565,566	537,938	-	537,938	27,628
Total general government	4,844,291	4,855,056	4,151,784	307	4,152,091	702,965
Public safety:						
Police supervision	674,523	674,523	604,902	-	604,902	69,621
Patrol and traffic	5,911,039	5,911,039	5,653,097	8,267	5,661,364	249,675
Police investigation	1,570,274	1,570,274	1,500,897	-	1,500,897	69,377
Narcotics	666,981	695,481	671,793	-	671,793	23,688
Code enforcement	228,994	228,994	206,313	-	206,313	22,681
Fire supervision	725,254	725,254	715,143	-	715,143	10,111
Fire inspection	272,756	207,676	123,682	-	123,682	83,994
Fire stations	200,875	200,875	165,981	750	166,731	34,144
Firefighting	6,788,358	6,898,452	6,676,370	(6,269)	6,670,101	228,351
Total public safety	17,039,054	17,112,568	16,318,178	2,748	16,320,926	791,642

(Continued)

The Notes to Financial Statements are an integral part of this statement.

CITY OF MORRISTOWN, TENNESSEE

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET AND ACTUAL – GENERAL FUND (BUDGETARY BASIS)
Year Ended June 30, 2018**

	Budgeted Amounts		Actual Amounts	Encumbrances	Budgetary Basis Expenditures	Variance with Final Budget Positive (Negative)
	Original	Final				
EXPENDITURES (Continued)						
Public works:						
Public works supervision	\$ 385,038	\$ 387,938	\$ 376,870	\$ (322)	\$ 376,548	\$ 11,390
Building and grounds	678,485	678,485	617,036	(55,813)	561,223	117,262
Equipment shop	566,252	566,252	526,370	-	526,370	39,882
Repairs and maintenance	1,413,389	1,413,389	1,067,997	(1,684)	1,066,313	347,076
Street lighting and signs	790,769	790,769	760,324	320	760,644	30,125
Brush pick-up and snow removal	1,753,862	1,689,622	1,382,019	228,824	1,610,843	78,779
Sidewalks	180,000	180,000	114,174	41,033	155,207	24,793
Traffic devices	247,000	247,000	222,444	311	222,755	24,245
Communication shop	184,922	206,997	306,680	(116,348)	190,332	16,665
Pavement management system	2,100,000	1,140,000	659,164	121,528	780,692	359,308
Airport	1,317,306	1,317,306	669,285	27,594	696,879	620,427
Total public works	9,617,023	8,617,758	6,702,363	245,443	6,947,806	1,669,952
Culture and recreations:						
Parks and recreation supervision	476,634	476,634	443,480	-	443,480	33,154
Playgrounds and programs	557,255	557,255	495,235	(2,091)	493,144	64,111
Parks and maintenance	1,170,263	1,170,263	1,110,864	1,283	1,112,147	58,116
Total culture and recreation	2,204,152	2,204,152	2,049,579	(808)	2,048,771	155,381
Civic support:						
Contributions to local agencies	250,000	250,000	244,019	-	244,019	5,981
Animal control	137,890	137,890	137,880	-	137,880	10
E-911 district	265,472	265,472	265,472	-	265,472	-
Economic development	271,500	273,500	298,610	-	298,610	(25,110)
Emergency management agency	45,000	45,000	29,965	-	29,965	15,035
Library	277,250	277,250	277,250	-	277,250	-
TIF payments	300,000	298,000	268,394	-	268,394	29,606
LAMTPO Local Match	25,000	25,000	25,303	-	25,303	(303)
Crockett Tavern Association	7,500	7,500	7,500	-	7,500	-
Workforce development	-	-	-	-	-	-
Total civic support	1,579,612	1,579,612	1,554,393	-	1,554,393	25,219

(Continued)

The Notes to Financial Statements are an integral part of this statement.

CITY OF MORRISTOWN, TENNESSEE

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET AND ACTUAL – GENERAL FUND (BUDGETARY BASIS)
Year Ended June 30, 2018**

	Budgeted Amounts		Actual Amounts	Encumbrances	Budgetary Basis Expenditures	Variance with Final Budget Positive (Negative)
	Original	Final				
EXPENDITURES (Continued)						
Retiree health insurance	\$ 500,000	\$ 500,000	\$ 463,208	\$ -	\$ 463,208	\$ 36,792
Debt service:						
Principal	1,630,025	1,630,025	1,629,183	-	1,629,183	842
Interest	1,018,644	1,018,644	572,070	-	572,070	446,574
Paying agent fees	100,000	100,000	79,977	-	79,977	20,023
Total debt service	2,748,669	2,748,669	2,281,230	-	2,281,230	467,439
Total expenditures	38,532,801	37,617,815	33,520,735	247,690	33,768,425	3,849,390
Excess (deficiency) of revenues over expenditures	(3,031,847)	(3,031,847)	1,549,178	(247,690)	1,301,488	4,333,335
OTHER FINANCING SOURCES (USES)						
Transfers in	2,023,767	2,023,767	1,928,844	-	1,928,844	(94,923)
Transfers out	(1,380,000)	(2,744,600)	(1,801,666)	-	(1,801,666)	942,934
Net other financing sources (uses)	643,767	(720,833)	127,178	-	127,178	848,011
Net change in fund balance	(2,388,080)	(3,752,680)	1,676,356	(247,690)	1,428,666	5,181,346
Fund balance, July 1, 2017	-	-	23,227,247	-	23,227,247	-
Fund balance, June 30, 2018	\$ (2,388,080)	\$ (3,752,680)	\$ 24,903,603	\$ (247,690)	\$ 24,655,913	\$ 5,181,346

The Notes to Financial Statements are an integral part of this statement.

CITY OF MORRISTOWN, TENNESSEE

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET AND ACTUAL – SOLID WASTE FUND (BUDGETARY BASIS)
Year Ended June 30, 2018**

	Budgeted Amounts		Actual Amounts	Encumbrances	Budgetary Basis Expenditures	Variance with Final Budget Positive (Negative)
	Original	Final				
REVENUES						
Charges for services	\$ 1,365,000	\$ 1,365,000	\$ 1,438,504	\$ -	\$ 1,438,504	\$ 73,504
Total revenues	1,365,000	1,365,000	1,438,504	-	1,438,504	73,504
EXPENDITURES						
Current:						
Sanitation department	1,453,954	1,453,954	1,399,009	(1,135)	1,397,874	56,080
Curbside recycle	291,324	290,324	242,012	(263)	241,749	48,575
Debt service:						
Principal	25,639	26,639	26,480	-	26,480	159
Interest	6,535	6,535	6,442	-	6,442	93
Paying agent fees	500	500	-	-	-	500
Total expenditures	1,777,952	1,777,952	1,673,943	(1,398)	1,672,545	105,407
Deficiency of revenues over expenditures	(412,952)	(412,952)	(235,439)	1,398	(234,041)	178,911
OTHER FINANCING SOURCES						
Transfers in	-	-	-	-	-	-
Total other financing sources	-	-	-	-	-	-
Net change in fund balance	(412,952)	(412,952)	(235,439)	1,398	(234,041)	178,911
Fund balance, July 1, 2017	-	-	454,844	-	454,844	-
Fund balance, June 30, 2018	\$ (412,952)	\$ (412,952)	\$ 219,405	\$ 1,398	\$ 220,803	\$ 178,911

The Notes to Financial Statements are an integral part of this statement.

CITY OF MORRISTOWN, TENNESSEE

**STATEMENT OF NET POSITION –
PROPRIETARY FUNDS
Year Ended June 30, 2018**

	Business-Type Activities – Enterprise Funds						Governmental Activities – Internal Service Fund	
	Wastewater System	Stormwater System	Power System	Water System	Broadband	Eliminations		Total
ASSETS								
Current assets:								
Cash and cash equivalents	\$ 9,116,748	\$ 2,486,472	\$ 11,428,663	\$ 3,053,849	\$ 1,687,145	\$ -	\$ 27,772,877	\$ 1,481,336
Receivables, net	667,683	167,386	10,602,162	226,752	-	-	11,663,983	81,227
Due from other funds	-	-	1,076,375	30,338	-	(1,106,713)	-	-
Due from other governmental units	103,377	-	462,134	13,417	39,345	-	618,273	-
Other current assets	19,295	-	-	8,637	145,569	-	173,501	25,589
Inventories	241,595	89,328	1,304,340	348,423	-	-	1,983,686	-
Total current assets	10,148,698	2,743,186	24,873,674	3,681,416	1,872,059	(1,106,713)	42,212,320	1,588,152
Noncurrent assets:								
Cash and cash equivalents, restricted	728,870	-	-	58,900	-	-	787,770	-
Advances from other funds	-	-	2,112,203	-	-	(2,112,203)	-	-
Other assets	2,684	85,537	267,076	-	-	-	355,297	-
Capital assets:								
Non-depreciable	21,464,155	251,352	4,013,578	3,125,397	3,521,993	-	32,376,475	-
Depreciable, net	82,677,552	5,767,385	59,985,938	37,448,034	8,472,806	-	194,351,715	-
Total noncurrent assets	104,873,261	6,104,274	66,378,795	40,632,331	11,994,799	(2,112,203)	227,871,257	-
Total assets	115,021,959	8,847,460	91,252,469	44,313,747	13,866,858	(3,218,916)	270,083,577	1,588,152
DEFERRED OUTFLOWS OF RESOURCES								
Pension related deferred outflows	-	50,746	-	-	-	-	50,746	-
LIABILITIES								
Current liabilities:								
Accounts payable and accrued liabilities	3,047,832	31,945	7,258,933	351,646	479,954	-	11,170,310	196,602
Accrued payroll and related liabilities	201,273	9,233	1,393,947	410,749	180,103	-	2,195,305	-
Accrued interest payable	-	33,147	-	-	-	-	33,147	-
Customer deposits	-	-	4,285,231	-	118,800	-	4,404,031	-

(Continued)

The Notes to Financial Statements are an integral part of this statement.

CITY OF MORRISTOWN, TENNESSEE

STATEMENT OF NET POSITION –
PROPRIETARY FUNDS
Year Ended June 30, 2018

	Business-Type Activities – Enterprise Funds						Governmental Activities – Internal Service Fund	
	Wastewater System	Stormwater System	Power System	Water System	Broadband	Eliminations		Total
LIABILITIES (Continued)								
Current liabilities: (Continued)								
Due to other funds	\$ 61,016	\$ -	\$ -	\$ -	\$ 1,045,697	\$ (1,106,713)	\$ -	\$ -
Compensated absences	-	4,764	-	-	-	-	4,764	-
Unearned revenues	-	-	-	-	259,656	-	259,656	-
Bonds, leases, and contracts payable	4,908,343	211,734	896,879	962,275	663,403	-	7,642,634	-
Total current liabilities	8,218,464	290,823	13,834,990	1,724,670	2,747,613	(1,106,713)	25,709,847	196,602
Noncurrent liabilities:								
Advances to other funds	-	-	-	-	2,112,203	(2,112,203)	-	-
Compensated absences	-	11,115	-	-	-	-	11,115	-
Other post-employment benefits	100,055	-	1,101,624	419,030	185,135	-	1,805,844	-
Net pension liability	-	128,542	-	-	-	-	128,542	-
Bonds, leases, and contracts payable	74,347,035	3,967,952	15,400,293	9,833,013	5,599,045	-	109,147,338	-
Total noncurrent liabilities	74,447,090	4,107,609	16,501,917	10,252,043	7,896,383	(2,112,203)	111,092,839	-
Total liabilities	82,665,554	4,398,432	30,336,907	11,976,713	10,643,996	(3,218,916)	136,802,686	196,602
DEFERRED INFLOWS OF RESOURCES								
Unearned revenues	-	-	-	-	-	-	-	-
OPEB related deferred inflows	1,890	-	14,038	5,548	2,811	-	24,287	-
Pension related deferred inflows	-	25,873	-	-	-	-	25,873	-
Total deferred inflows of resources	1,890	25,873	14,038	5,548	2,811	-	50,160	-
NET POSITION								
Net investment in capital assets	25,615,199	1,839,051	47,702,344	29,837,043	5,732,356	-	110,725,993	-
Unrestricted	6,739,316	2,634,850	13,199,180	2,494,443	(2,512,305)	-	22,555,484	1,391,550
Total net position	\$ 32,354,515	\$ 4,473,901	\$ 60,901,524	\$ 32,331,486	\$ 3,220,051	\$ -	\$ 133,281,477	\$ 1,391,550

The Notes to Financial Statements are an integral part of this statement.

CITY OF MORRISTOWN, TENNESSEE

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET FUND POSITION –
 PROPRIETARY FUNDS
 Year Ended June 30, 2018**

	Business-Type Activities – Enterprise Funds						Governmental Activities – Internal Service Fund	
	Wastewater System	Stormwater System	Power System	Water System	Broadband	Eliminations		Total
OPERATING REVENUES								
Charges for services	\$ 14,128,788	\$ 1,345,299	\$ 78,262,760	\$ 7,005,669	\$ 8,360,510	\$ -	\$ 109,103,026	\$ 5,260,362
Interfund services	9,132	-	1,260,322	518,723	1,767,600	(3,555,777)	-	-
Other	1,252,969	20,265	1,573,883	28,986	132,219	-	3,008,322	-
Total operating revenues	<u>15,390,889</u>	<u>1,365,564</u>	<u>81,096,965</u>	<u>7,553,378</u>	<u>10,260,329</u>	<u>(3,555,777)</u>	<u>112,111,348</u>	<u>5,260,362</u>
OPERATING EXPENSES								
Operations	5,253,552	531,550	5,363,763	4,175,419	6,367,804	-	21,692,088	-
Maintenance	1,190,344	70,949	2,622,173	680,709	412,377	-	4,976,552	-
Power purchased	-	-	62,696,950	-	-	-	62,696,950	-
Depreciation and amortization	4,429,897	349,285	5,200,118	1,671,278	691,538	-	12,342,116	-
Interfund services	537,747	-	1,446,055	452,533	1,119,442	(3,555,777)	-	-
Other	-	-	375,016	-	29,500	-	404,516	-
Insurance claims and expenses	-	-	-	-	-	-	-	4,263,488
Total operating expenses	<u>11,411,540</u>	<u>951,784</u>	<u>77,704,075</u>	<u>6,979,939</u>	<u>8,620,661</u>	<u>(3,555,777)</u>	<u>102,112,222</u>	<u>4,263,488</u>
Operating income	<u>3,979,349</u>	<u>413,780</u>	<u>3,392,890</u>	<u>573,439</u>	<u>1,639,668</u>	<u>-</u>	<u>9,999,126</u>	<u>996,874</u>
NONOPERATING REVENUES (EXPENSES)								
Interest income	47,022	15,976	95,895	26,186	1,121	-	186,200	-
Interest expense	(2,084,136)	(126,782)	(336,369)	(264,049)	(152,385)	-	(2,963,721)	-
Total nonoperating expenses	<u>(2,037,114)</u>	<u>(110,806)</u>	<u>(240,474)</u>	<u>(237,863)</u>	<u>(151,264)</u>	<u>-</u>	<u>(2,777,521)</u>	<u>-</u>
Income before contributions and transfers	1,942,235	302,974	3,152,416	335,576	1,488,404	-	7,221,605	996,874
Capital contributions	174,500	-	-	89,100	-	-	263,600	-
Transfers out	(571,815)	(29,187)	(1,291,722)	(36,120)	-	-	(1,928,844)	-
Change in net position	<u>1,544,920</u>	<u>273,787</u>	<u>1,860,694</u>	<u>388,556</u>	<u>1,488,404</u>	<u>-</u>	<u>5,556,361</u>	<u>996,874</u>
NET POSITION AT JULY 1, as restated (Note 15)	<u>30,809,595</u>	<u>4,200,114</u>	<u>59,040,830</u>	<u>31,942,930</u>	<u>1,731,647</u>	<u>-</u>	<u>127,725,116</u>	<u>394,676</u>
NET POSITION AT JUNE 30	<u>\$ 32,354,515</u>	<u>\$ 4,473,901</u>	<u>\$ 60,901,524</u>	<u>\$ 32,331,486</u>	<u>\$ 3,220,051</u>	<u>\$ -</u>	<u>\$ 133,281,477</u>	<u>\$ 1,391,550</u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF MORRISTOWN, TENNESSEE

**STATEMENT OF CASH FLOWS –
PROPRIETARY FUNDS
Year Ended June 30, 2018**

	Business-Type Activities – Enterprise Funds						Governmental Activities – Internal Service Fund	
	Wastewater System	Stormwater System	Power System	Water System	Broadband	Eliminations		Total
OPERATING ACTIVITIES								
Receipts from customers	\$ 15,407,214	\$ 1,340,355	\$ 78,606,056	\$ 7,536,446	\$ 10,244,928	\$ (3,555,777)	\$ 109,579,222	\$ 5,243,083
Payments to suppliers	(5,936,218)	(47,185)	(65,871,425)	(3,352,776)	(6,312,928)	3,555,777	(77,964,755)	(4,244,615)
Payments to employees	(1,684,552)	(541,685)	(6,477,163)	(1,659,101)	(1,572,554)	-	(11,935,055)	-
Other receipts	-	20,265	1,616,901	-	-	-	1,637,166	-
Net cash provided by operating activities	<u>7,786,444</u>	<u>771,750</u>	<u>7,874,369</u>	<u>2,524,569</u>	<u>2,359,446</u>	<u>-</u>	<u>21,316,578</u>	<u>998,468</u>
NONCAPITAL FINANCING ACTIVITIES								
Transfers to other funds	(571,815)	(29,187)	(1,282,279)	(36,120)	-	-	(1,919,401)	-
Interfund borrowing (repayments)	(236,405)	-	833,694	(141,043)	(456,246)	-	-	-
Net cash (used in) noncapital financing activities	<u>(808,220)</u>	<u>(29,187)</u>	<u>(448,585)</u>	<u>(177,163)</u>	<u>(456,246)</u>	<u>-</u>	<u>(1,919,401)</u>	<u>-</u>
CAPITAL AND RELATED FINANCING ACTIVITIES								
Purchases of capital assets	(15,798,932)	(111,680)	(6,636,914)	(3,318,917)	(2,522,336)	-	(28,388,779)	-
Contribution of capital by other governments	174,500	-	-	89,100	-	-	263,600	-
Proceeds from issuance of long-term debt	11,665,000	-	-	-	-	-	11,665,000	-
Principal paid on debt and contractual obligations	(4,878,929)	(224,136)	(1,173,375)	(964,383)	(652,622)	-	(7,893,445)	-
Financing cost paid on long-term debt	(86,196)	-	-	-	(27,551)	-	(113,747)	-
Interest paid on capital debt	(1,997,940)	(128,355)	(336,369)	(264,049)	(124,834)	-	(2,851,547)	-
Net cash used in capital and related financing activities	<u>(10,922,497)</u>	<u>(464,171)</u>	<u>(8,146,658)</u>	<u>(4,458,249)</u>	<u>(3,327,343)</u>	<u>-</u>	<u>(27,318,918)</u>	<u>-</u>
INVESTING ACTIVITIES								
Interest received	47,022	15,976	95,895	26,186	1,121	-	186,200	-
Net cash provided by investing activities	<u>47,022</u>	<u>15,976</u>	<u>95,895</u>	<u>26,186</u>	<u>1,121</u>	<u>-</u>	<u>186,200</u>	<u>-</u>
Net (decrease) increase in cash and cash equivalents	(3,897,251)	294,368	(624,979)	(2,084,657)	(1,423,022)	-	(7,735,541)	998,468

(Continued)

The Notes to Financial Statements are an integral part of this statement.

CITY OF MORRISTOWN, TENNESSEE

STATEMENT OF CASH FLOWS –
PROPRIETARY FUNDS
Year Ended June 30, 2018

	Business-Type Activities – Enterprise Funds						Governmental Activities – Internal Service Fund	
	Wastewater System	Stormwater System	Power System	Water System	Broadband	Eliminations		Total
CASH AND CASH EQUIVALENTS								
Beginning at July 1	\$ 13,742,869	\$ 2,192,104	\$ 12,053,642	\$ 5,197,406	\$ 3,110,167	\$ -	\$ 36,296,188	\$ 482,868
Ending at June 30	\$ 9,845,618	\$ 2,486,472	\$ 11,428,663	\$ 3,112,749	\$ 1,687,145	\$ -	\$ 28,560,647	\$ 1,481,336
RECONCILIATION TO STATEMENT OF NET POSITION:								
Cash and cash equivalents	\$ 9,116,748	\$ 2,486,472	\$ 11,428,663	\$ 3,053,849	\$ 1,687,145	\$ -	\$ 27,772,877	\$ 1,481,336
Cash and cash equivalents, restricted	728,870	-	-	58,900	-	-	787,770	-
	\$ 9,845,618	\$ 2,486,472	\$ 11,428,663	\$ 3,112,749	\$ 1,687,145	\$ -	\$ 28,560,647	\$ 1,481,336
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES								
Operating income	\$ 3,979,349	\$ 413,780	\$ 3,392,890	\$ 573,439	\$ 1,639,668	\$ -	\$ 9,999,126	\$ 996,874
Adjustments to reconcile operating income to net cash provided by operating activities:								
Depreciation and amortization	4,547,644	349,285	5,216,710	1,724,725	750,263	-	12,588,627	-
Pension expense net of employer contributions	-	(14,072)	-	-	-	-	(14,072)	-
Change in assets and liabilities:								
(Increase) decrease in:								
Receivables, net	(1,226)	(4,944)	(849,740)	(10,368)	(30,068)	-	(896,346)	(17,279)
Unbilled/unearned revenues	17,551	-	(18,842)	(6,564)	-	-	(7,855)	-
Inventories	18,039	(971)	(201,052)	33,212	-	-	(150,772)	-
Other current assets	5,447	8,553	4,347	2,181	20,782	-	41,310	1,046
(Decrease) increase in:								
Accounts payable and accrued liabilities	(837,348)	16,182	261,431	182,703	1,792	-	(375,240)	17,827
Accrued payroll and related liabilities	-	3,937	-	-	-	-	3,937	-
Customer deposits	-	-	(9,773)	-	12,300	-	2,527	-
Total OPEB liability	30,261	-	66,744	13,252	27,611	-	137,868	-
Deferred inflows of resources	1,890	-	14,038	5,548	2,811	-	24,287	-
Other liabilities	24,837	-	(2,384)	6,441	(65,713)	-	(36,819)	-
Net cash provided by operating activities	\$ 7,786,444	\$ 771,750	\$ 7,874,369	\$ 2,524,569	\$ 2,359,446	\$ -	\$ 21,316,578	\$ 998,468
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES								
Capital asset purchases financed by accounts payable	\$ 1,643,209	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,643,209	\$ -

The Notes to Financial Statements are an integral part of this statement.

CITY OF MORRISTOWN, TENNESSEE

STATEMENTS OF FIDUCIARY NET POSITION
June 30, 2018

	Fiduciary Funds	
	Trust Funds	LAMTPO Agency Fund
ASSETS		
Cash and cash equivalents	\$ 43,228	\$ 221,417
Investments	579,892	-
Grants receivable	-	84,223
Total assets	<u>623,120</u>	<u>305,640</u>
LIABILITIES		
Accounts payable	-	46,932
Accrued payroll and related liabilities	-	2,885
Amounts held for others	-	255,823
Total liabilities	<u>-</u>	<u>305,640</u>
NET POSITION		
Held in trust for post-employment benefits	<u>\$ 623,120</u>	<u>\$ -</u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF MORRISTOWN, TENNESSEE

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
June 30, 2018

	<u>Trust Funds</u>
ADDITIONS	
Employer contributions	\$ 166,889
Investment earnings:	
Dividends and capital gains	8,402
Net increase in fair value of investments	<u>25,671</u>
Total additions	<u>200,962</u>
DEDUCTIONS	
Benefits	65,323
Administrative expenses	<u>3,000</u>
Total deductions	<u>68,323</u>
Change in net position	132,639
Net position – beginning of the year	<u>490,481</u>
Net position – end of the year	<u><u>\$ 623,120</u></u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF MORRISTOWN, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 1. Summary of Significant Accounting Policies

A. The Financial Reporting Entity

The City of Morristown, Tennessee (the “City”) was incorporated in 1855. The City operates on a Council-Administrator form of government and provides municipal services to its residents including fire and police protection, planning, engineering, inspections, public works, parks, and general government. The City also provides water, wastewater, power, refuse collection, and broadband services to its citizens. The water, wastewater, power, and broadband systems are operated by a separate board, Morristown Utilities Commission (the “Commission”), whose members are appointed by the Mayor and approved by City Council. The financial statements present the City as the primary government.

A blended component unit is an entity, that while legally separate, is in substance, part of the City’s operations, and so its financial information is combined with the financial statements of the City. The Commission as discussed in the preceding paragraph is a blended component unit of the City.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

CITY OF MORRISTOWN, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 1. Summary of Significant Accounting Policies (Continued)

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary 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.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available. Accordingly, real and personal property taxes are recorded as deferred revenue and receivables when levied, net of allowances for uncollectible amounts. Real and personal property taxes recorded at June 30 and received within the first 60 days after year end are included in tax revenues, with the related amount reduced from deferred revenues. Franchise licenses, sales and use taxes, other local licenses and fees, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Intergovernmental revenues, consisting primarily of federal, state, and other grants for the purpose of specific funding are recognized when earned or at the time of the specific reimbursable expenditure. Revenues from general purpose grants are recognized in the period in which the grant applies. All other revenue items are considered to be measurable and available only when the government receives cash.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. However, debt service expenditures as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

Agency funds are unlike all other fund types, reporting only assets and liabilities; therefore, agency funds do not have a measurement focus. The agency funds utilize the accrual basis of accounting to recognize receivables and payables.

The City reports the following major governmental funds:

The *general fund* is the government'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 *solid waste fund* accounts for the revenue and expenditure activity relating to operation of refuse collection activities. Solid waste revenues are provided through monthly charges to customers and garbage can purchases, with transfers from the general fund covering deficits.

The *capital projects fund* accounts for financial resources to be used for the construction of major capital facilities, other than those financed by proprietary funds.

CITY OF MORRISTOWN, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 1. Summary of Significant Accounting Policies (Continued)

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

The City reports the following non-major governmental funds:

The *narcotics fund* accounts for fines and forfeitures collected and used to support the City police department's drug investigations and enforcement programs.

The *e-citation fund* accounts for electronic citation fees associated with each conviction from law enforcement citations.

The City reports the following major proprietary funds:

The *power system fund* accounts for the activities of the City's electric distribution activities.

The *water system fund* accounts for the activities of the City's water distribution activities.

The *wastewater system fund* accounts for the activities of the government's sewage treatment operations.

The *broadband system fund* accounts for the activities of the government's cable and telephone services.

The City reports the following nonmajor proprietary fund:

The *stormwater system fund* accounts for infrastructure maintenance and improvements to the City's stormwater infrastructure.

Additionally, the City reports the following fund types:

The *internal service fund* accounts for the City's health insurance services.

The *fiduciary funds* are used to account for monies held by the City in a trustee capacity or as an agent or custodian for others. The City's Other Post-Employment Benefits (OPEB) Trust fund accounts for assets held in trust and the related contributions and expense for OPEB administration. The employee benefits trust fund is used to account for operations of the flexible benefits program for City of Morristown employees. The LAMPTO fund is used to account for the City's role of fiscal agent of the Lakeway Area Metropolitan Transportation Planning Organization (LAMTPO).

During the course of operations, the government has activity between funds for various purposes. As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's proprietary funds 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.

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, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

CITY OF MORRISTOWN, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 1. Summary of Significant Accounting Policies (Continued)

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

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 sales and services. The City also recognizes as revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service 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.

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.

D. Cash and Cash Equivalents

The City considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

E. Accounts Receivable

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds". All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances" and are eliminated in the government-wide statement of net position.

All trade and property tax receivables are shown net of an allowance for uncollectibles. The property tax receivable and trade receivables allowance accounts are based on prior years' collection experience.

All property values are assessed and related taxes levied on January 1 of each year. Property taxes receivable are recorded at this lien date. All real and personal property taxes are due and payable December 1st. Bills for taxes are usually mailed on July 1st. A 2% discount is offered for payment within 30 days after bills are mailed. All unpaid property taxes become delinquent on December 1st. A penalty of 4.5% is imposed on unpaid property taxes as of December 1st an additional penalty of 1% is imposed for each month thereafter until paid. After one year and eleven months, any unpaid taxes are sent to the City Clerk and Master for collection.

F. Inventories

Inventories are stated at cost (first-in, first-out) or market for enterprise and internal service funds and at cost for the general fund. Inventories consist of parts and materials held for consumption, which are recorded as an expenditure or expense when used.

CITY OF MORRISTOWN, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 1. Summary of Significant Accounting Policies (Continued)

G. Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are recorded at estimated acquisition value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest was capitalized during the current year in the stormwater fund.

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Buildings and improvements	15-50 years
Machinery and equipment	5-25 years
Transmission equipment, fixtures, and devices	25-50 years
Infrastructure (roads and streets)	20 years
Distribution transformers, meters, fixtures, and devices	5-50 years

H. Deferred Outflows/Inflows of Resources

In addition to assets, the statements which present financial position report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has five items that qualify for reporting in this category, which consist of contributions subsequent to the measurement date for pensions, which will be applied to the net pension liability in the next fiscal year; pension change in assumptions which will be recognized in expense over a closed five year period, the net difference between projected and actual earnings on OPEB plan investments which will be recognized in expense over a close five year period; the difference between expected and actual experience on OPEB plan investments, and contributions subsequent to the measurement date for OPEB, which will be applied to the net OPEB liability in the next fiscal year.

CITY OF MORRISTOWN, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 1. Summary of Significant Accounting Policies (Continued)

H. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statements that present financial 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 that time. The City has six items reported as deferred inflows of resources. One item occurs only under a modified accrual basis of accounting. The item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from property taxes and other receivables not collected within 60 days of year end and property taxes levied to fund future years. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The second item represents tax collections received before the period in which they are eligible for use (unearned revenue). The third item is the difference between actual and expected experience related to the pension plan. This difference will be recognized in pension expense over a closed five year period. The fourth item is the difference between actual and expected experience related to the OPEB plan. This difference will be recognized in OPEB expense over a closed five year period. The fifth item is a change in assumptions related to the OPEB liability. This will be recognized in OPEB expense over a closed five year period. The sixth item is the net difference between projected and actual earning on pension plan investments, which will be recognized in expense over a closed five year period.

I. Compensated Absences

It is the government's policy to permit employees to accumulate earned but not used sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

The Commission's policy is to recognize the cost of both vacation pay and sick leave benefits as earned. In the event of termination or retirement, an employee is reimbursed for accumulated vacation days. In general, accumulated vacation days are limited to 30 days. Employees are reimbursed for accumulated sick leave upon retirement or termination at an equivalent salary rate of 100%, 50%, or 33-1/3% depending on the date earned. Sick leave accumulation is limited to 90 days.

J. Long-Term Obligations

In the government-wide financial statements, and proprietary fund type financial statements, *long-term debt* and other long-term obligations are reported as liabilities in the applicable fund-type statements of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

CITY OF MORRISTOWN, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 1. Summary of Significant Accounting Policies (Continued)

J. Long-Term Obligations (Continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the period of debt issuance. The face amount of debt issued and premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

K. Pensions and OPEB

For purposes of measuring the net pension and OPEB liabilities, financial statement elements related to pensions and OPEB, and pension and OPEB 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) Retirement Plan and the additions to/deductions from the City's Retirement Plan's fiduciary net position have been determined on the same basis as they were reported by the TCRS for the Public Employee Retirement Plan and as reported in the City's trust fund. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

L. Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources. The classifications are as follows:

- **Nonspendable** – Amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash such as prepaid expenses, inventories, long-term interfund loans, and noncurrent notes receivable.
- **Restricted** – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- **Committed** – Amounts constrained to specific purposes by the City, using its highest level of decision making authority (City Council); to be reported as committed, amounts cannot be used for any other purposes unless the same highest level of action is taken to remove or change the constraint.
- **Assigned** – Amounts the City intends to use for a specified purpose; intent can be expressed by the governing body or by the City Manager which has been designated this authority.
- **Unassigned** – Amounts that are available for any purpose; positive amounts are reported only in the general fund.

Council establishes fund balance commitments by passage of an ordinance. This is typically done through adoption and amendment of the budget. Assigned fund balance is established by Council through adoption or amendment of the budget as intended for specific purpose (such as the purchase of capital assets, construction, debt service, or for other purposes).

CITY OF MORRISTOWN, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 1. Summary of Significant Accounting Policies (Continued)

M. Net Position

Net Investment in Capital Assets: Consists of capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets. When debt has been incurred, but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.

Restricted Net Position: Restricted net position reflects the resources that are subject to restricted use and have been externally imposed by creditors, grantors or contributors, or by law through constitutional provisions or enabling legislation.

Unrestricted Net Position: Unrestricted net position includes resources that are available for transactions relating to the general operations of the City and may be used at the discretion of the City to meet current expenses for any purpose.

N. Estimates

Management uses estimates and assumptions in preparing its financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities, and reported revenues, expenditures, and expenses. Actual results could differ from those estimates.

O. Reclassifications

Certain 2018 amounts have been reclassified to conform with 2017 presentation.

Note 2. Stewardship, Compliance, and Accountability

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

Around the first of March, the budget process begins, with the City Administrator giving direction to department heads. Toward the end of March, Department heads submit their proposed budgets, and these are reviewed by the City Administrator, who makes the final decisions before submission to City Council. City Council has work sessions and makes their revisions and publishes the proposed budget in the local newspaper. Before June 30, City Council adopts the budget ordinance with two readings.

The appropriated budget is prepared by fund, function, and department, but the budget ordinance is on the fund level. The government's department heads may make transfers of appropriations within their department. The legal level of budgetary control is the fund level. Management can transfer amounts between departments. City Council amended the original budget, and the original and final amounts are presented in the financial statements included in this report.

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

CITY OF MORRISTOWN, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 2. Stewardship, Compliance, and Accountability (Continued)

B. Excess of Expenditure over Appropriations

For the fiscal year ended June 30, 2018, there were no instances of expenditures by function exceeding appropriations in any funds.

C. Deficit Fund Equity

There were no instances of deficit fund equity in any City funds at June 30, 2018.

Note 3. Deposits and Investments

Deposits

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and/or collateralized as required by *Tennessee Code Annotated* (TCA) 9-1-118. Demand deposits are held in financial institutions which are members of the Tennessee Bank Collateral Pool (the "Pool") administered by the State of Tennessee Treasurer. The Pool is a multiple financial institution collateral pool in which member financial institutions holding public funds pledge collateral securities. In the event any member financial institution fails, the entire collateral Pool becomes available to satisfy the claims of governmental entities. The pool also has the ability to make additional assessments on a pro rata basis to the Pool if the value of collateral is inadequate to cover a loss. Accordingly, all deposits are considered fully collateralized.

At June 30, 2018, the City's cash consisted of:

Cash on hand	\$ 5,680
Deposits	<u>51,499,197</u>
Total deposits and investments	<u>\$ 51,504,877</u>
Reconciliation of deposits and investments to Exhibit 1:	
Cash and cash equivalents	\$ 50,717,107
Cash and cash equivalents, restricted	<u>787,770</u>
Total deposits and investments	<u>\$ 51,504,877</u>

Restricted cash and cash equivalents consist of funds restricted for a construction escrow and unspent bond proceeds.

CITY OF MORRISTOWN, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 4. Receivables, Net

Receivables are as follows:

Governmental Activities						
	General	Solid Waste	Capital Projects	Narcotics	Internal Service	Total
Receivables:						
Taxes	\$ 13,094,603	\$ -	\$ -	\$ -	\$ -	\$ 13,094,603
Accounts	3,710,711	219,958	739,116	812	-	4,670,597
Other	-	-	-	-	81,227	81,227
	<u>16,805,314</u>	<u>219,958</u>	<u>739,116</u>	<u>812</u>	<u>81,227</u>	<u>17,846,427</u>
Less: allowance for uncollectibles	<u>(328,342)</u>	<u>(17,790)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(346,132)</u>
Receivables, net	<u>\$ 16,476,972</u>	<u>\$ 202,168</u>	<u>\$ 739,116</u>	<u>\$ 812</u>	<u>\$ 81,227</u>	<u>\$ 17,500,295</u>

Business-Type Activities					
	Wastewater	Stormwater	Power	Water	Total
Receivables:					
Accounts	\$ 667,683	\$ 523,821	\$ 10,890,404	\$ 226,752	\$ 12,308,660
	<u>667,683</u>	<u>523,821</u>	<u>10,890,404</u>	<u>226,752</u>	<u>12,308,660</u>
Less: allowance for uncollectibles	<u>-</u>	<u>(356,435)</u>	<u>(288,242)</u>	<u>-</u>	<u>(644,677)</u>
Receivables, net	<u>\$ 667,683</u>	<u>\$ 167,386</u>	<u>\$ 10,602,162</u>	<u>\$ 226,752</u>	<u>\$ 11,663,983</u>

Governmental funds report *unavailable revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental and proprietary funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At June 30, the components of *unavailable/unearned revenue* reported in the governmental funds were as follows:

	Unavailable/ Unearned	Unearned
Included in receivables:		
Property taxes	\$ 12,712,364	\$ 11,612,855
Other taxes	116,152	-
	<u>12,828,516</u>	<u>11,612,855</u>
Included in cash:		
Unearned lease proceeds	796,250	796,250
Seized funds escrow	57,869	57,869
	<u>854,119</u>	<u>854,119</u>
Total unavailable/unearned revenue for governmental funds	<u>\$ 13,682,635</u>	<u>\$ 12,466,974</u>

CITY OF MORRISTOWN, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 5. Interfund Receivables, Payables, and Transfers

Amounts due from/to other funds consist of the following at June 30:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Purpose</u>	<u>Amount</u>
Power System	Broadband	Interfund loan	\$ 2,756,498
Power System	Broadband	Operating and maintenance costs	401,402
Water System	Power System	Operating and maintenance costs	30,338
Power System	Wastewater System	Operating and maintenance costs	61,016
			<u>\$ 3,249,254</u>

Interfund transfers are as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
Funds:		
General	\$ 1,928,844	\$ (1,801,666)
Solid Waste	-	-
Capital Projects	1,801,666	-
Water System	-	(36,120)
Power System	-	(1,291,722)
Stormwater System	-	(29,187)
Wastewater System	-	(571,815)
	<u>\$ 3,730,510</u>	<u>\$ (3,730,510)</u>

Transfers are used to (1) 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 (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

All items represent duly appropriated operating transfers. The transfers from the power fund, water fund, and wastewater fund to the general fund are in lieu of tax payments that are required to be accounted for as transfers by the Government Accounting Standards Board. Transfers from the stormwater fund were in lieu of tax payments and reimbursement of administrative costs. Transfers from the general fund to the capital projects fund were to fund capital project costs.

CITY OF MORRISTOWN, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 6. Land Held for Sale

Land held for sale consists of land located in industrial parks held for resale. At June 30, 2018, the balance was \$9,526,872.

Note 7. Capital Assets

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

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not depreciated				
Land	\$ 14,098,563	\$ -	\$ -	\$ 14,098,563
Construction in progress	709,705	4,705,770	121,318	5,294,157
Total capital assets, not depreciated	<u>14,808,268</u>	<u>4,705,770</u>	<u>121,318</u>	<u>19,392,720</u>
Capital assets, depreciated				
Buildings	19,879,981	-	-	19,879,981
Improvements other than buildings	14,098,218	437,944	-	14,536,162
Infrastructure	51,660,574	292,524	-	51,953,098
Motor vehicles	4,480,517	590,936	6,060	5,065,393
Machinery and equipment	14,387,663	120,129	263,111	14,244,681
Total capital assets depreciated	<u>104,506,953</u>	<u>1,441,533</u>	<u>269,171</u>	<u>105,679,315</u>
Less accumulated depreciation for:				
Buildings	(8630,002)	(375,936)	-	(9,005,938)
Improvements other than buildings	(11,558,199)	(224,512)	-	(11,782,711)
Infrastructure	(25,658,178)	(2,215,252)	-	(27,873,430)
Motor vehicles	(2,205,440)	(558,778)	4,464	(2,759,754)
Machinery and equipment	(9,356,483)	(400,298)	263,111	(9,493,670)
Total accumulated depreciation	<u>(57,408,302)</u>	<u>(3,774,776)</u>	<u>267,575</u>	<u>(60,915,503)</u>
Total capital assets, depreciated, net	<u>47,098,651</u>	<u>(2,333,243)</u>	<u>1,596</u>	<u>44,763,812</u>
Governmental activities, capital activities, capital	<u>\$ 61,906,919</u>	<u>\$ 2,372,527</u>	<u>\$ 122,914</u>	<u>\$ 64,156,532</u>

CITY OF MORRISTOWN, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 7. Capital Assets (Continued)

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not depreciated				
Land	\$ 2,659,859	\$ -	\$ -	\$ 2,659,859
Construction in progress	13,939,049	30,527,454	14,749,887	29,716,616
Total capital assets, not depreciated	<u>16,598,908</u>	<u>30,527,454</u>	<u>14,749,887</u>	<u>32,376,475</u>
Capital assets, depreciated				
Buildings and improvements	23,094,297	1,994,539	71,800	25,017,036
Transmission and distribution	276,195,611	10,858,571	653,626	286,400,556
Machinery and equipment	41,347,066	1,641,060	203,678	42,784,448
Total capital assets depreciated	<u>340,636,974</u>	<u>14,494,170</u>	<u>929,104</u>	<u>354,202,040</u>
Less accumulated depreciation for:				
Buildings and improvements	(7,621,551)	(456,592)	18,787	(8,059,356)
Transmission and distribution	(116,866,456)	(9,506,743)	542,768	(125,830,431)
Machinery and equipment	(23,525,661)	(2,557,972)	123,095	(25,960,538)
Total accumulated depreciation	<u>(148,013,668)</u>	<u>(12,521,307)</u>	<u>684,650</u>	<u>(159,850,325)</u>
Total capital assets, depreciated, net	<u>192,623,306</u>	<u>1,972,863</u>	<u>244,454</u>	<u>194,351,715</u>
Business-type activities, capital activities, capital	<u>\$ 209,222,214</u>	<u>\$ 32,500,317</u>	<u>\$ 14,994,341</u>	<u>\$ 226,728,190</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 445,149
Public safety	553,480
Public works	2,643,010
Parks and recreation	133,137
	<u>\$ 3,774,776</u>
Business-type activities:	
Stormwater	\$ 344,580
Water	1,724,725
Power	5,154,095
Wastewater	4,547,644
Broadband	750,263
	<u>\$ 12,521,307</u>

CITY OF MORRISTOWN, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 7. Capital Assets (Continued)

The provision for depreciation does not include depreciation on transportation equipment. Those amounts are reported as operations expenses in the statements of revenues, expenses, and changes in net position. The depreciation on transportation equipment not included in depreciation expense previously noted was \$117,747 for the wastewater system, \$16,592 for the power system, \$53,447 for the water system and \$58,725 for the broadband system.

Note 8. Long-Term Liabilities

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

The following is a summary of changes in long-term liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities</u>					
General obligation bonds	\$ 24,012,340	\$ -	\$ 1,320,663	\$ 22,691,677	\$ 1,249,316
Net discounts/premiums	282,886	-	11,315	271,571	-
Notes payable	2,325,000	-	335,000	1,990,000	335,000
Compensated absences	1,396,568	2,343,491	2,212,820	1,527,239	458,172
	<u>\$ 28,016,794</u>	<u>\$ 2,343,491</u>	<u>\$ 3,879,798</u>	<u>\$ 26,480,487</u>	<u>\$ 2,042,488</u>
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Business-Type Activities</u>					
General obligation bonds	\$ 43,289,673	\$ -	\$ 2,407,351	\$ 40,882,322	\$ 2,194,370
Net discounts/premiums	1,200,477	-	65,829	1,134,648	-
Total bonds payable	44,490,150	-	2,473,180	42,016,970	2,194,730
Notes payable	66,205,439	11,665,000	5,242,249	72,628,190	5,341,073
Contractual obligations	2,230,902	-	96,372	2,134,530	96,549
Capital leases	28,133	-	17,851	10,282	10,282
Compensated absences	17,355	29,671	31,147	15,879	4,764
	<u>\$ 112,971,179</u>	<u>\$ 11,694,671</u>	<u>\$ 7,860,799</u>	<u>\$ 116,805,851</u>	<u>\$ 7,647,398</u>

CITY OF MORRISTOWN, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 8. Long-Term Liabilities (Continued)

Governmental activities compensated absences and other post-employment benefits liabilities are generally liquidated by the general fund.

The annual requirements to amortize long-term debt and related interest are as follows:

Year Ending June 30,	Governmental Activities					
	General Obligation Bonds		Notes Payable		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 1,249,316	\$ 921,620	\$ 335,000	\$ 40,003	\$ 1,584,316	\$ 961,623
2020	1,307,635	866,715	335,000	51,101	1,642,635	917,816
2021	1,359,589	809,153	330,000	25,427	1,689,589	834,580
2022	1,421,147	749,161	330,000	18,221	1,751,147	767,382
2023	1,513,239	684,000	330,000	13,596	2,148,465	697,596
2024-2028	8,434,667	2,356,787	660,000	1,125	8,459,441	2,357,912
2029-2033	2,767,164	1,033,955	-	-	2,767,164	1,033,955
2034-2038	2,558,922	640,115	-	-	2,558,922	640,115
2039-2041	2,079,998	233,370	-	-	2,079,998	232,144
	<u>\$ 22,691,677</u>	<u>\$ 8,294,876</u>	<u>\$ 1,990,000</u>	<u>\$ 149,473</u>	<u>\$ 24,681,677</u>	<u>\$ 8,444,349</u>

Year Ending June 30,	Business-Type Activities							
	General Obligation Bonds		Notes Payable		Capital Leases Payable		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 2,194,730	\$ 1,031,136	\$ 5,341,073	\$ 1,765,700	\$ 10,282	\$ 2,070	\$ 7,546,085	\$ 2,798,906
2020	2,234,464	981,380	5,625,071	1,634,871	-	-	7,859,535	2,616,251
2021	2,275,197	929,312	5,765,413	1,499,887	-	-	8,040,610	2,429,199
2022	2,319,701	876,670	5,909,125	1,362,724	-	-	8,228,826	2,239,394
2023	2,366,226	829,662	4,861,957	1,226,710	-	-	7,228,183	2,056,372
2024-2028	11,649,255	3,225,740	25,308,076	4,228,957	-	-	36,957,331	7,454,022
2029-2033	10,697,165	1,706,152	14,837,719	1,647,870	-	-	25,534,884	3,354,022
2034-2038	7,145,584	398,901	4,979,756	149,389	-	-	12,125,340	548,290
	<u>\$ 40,882,322</u>	<u>\$ 9,978,953</u>	<u>\$ 72,628,190</u>	<u>\$ 13,516,108</u>	<u>\$ 10,282</u>	<u>\$ 2,070</u>	<u>\$ 113,520,794</u>	<u>\$ 23,497,131</u>

CITY OF MORRISTOWN, TENNESSEE

**NOTES TO FINANCIAL STATEMENTS
June 30, 2018**

Note 8. Long-Term Liabilities (Continued)

Details of long-term indebtedness are as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Year Issued</u>	<u>Final Maturity</u>	<u>Original Issue</u>	<u>Balance June 30, 2018</u>
<u>Governmental Activities</u>					
General long-term debt					
2008 Public Improvement (\$8M)	Variable	5/5/2008	2009-2028	\$ 4,000,000	\$ 2,478,500
2008 Public Improvement (\$3M)	Variable	11/26/2008	2009-2029	1,290,000	860,000
2008 Public Improvement (\$20M)	Variable	7/9/2008	2009-2035	9,204,865	5,706,095
2008 Public Improvement (\$5.035M)	Variable	9/11/2008	2009-2028	3,272,750	2,047,500
2009 Public Improvement and Refunding (\$5M)	2.91%	12/21/2009	2009-2034	2,848,203	2,151,555
Capital Outlay Note	2.06%	2011	2011-2024	3,750,000	1,865,625
Capital projects					
2017 GO (\$9.71M)	Variable	3/30/2017	2018-2042	9,710,000	9,325,000
Solid waste					
2009 Public Improvement and Refunding (\$5M)	2.91%	12/21/2009	2009-2034	162,919	123,027
Capital Outlay Note	0.50%	2011	2011-2024	250,000	124,375
Total governmental activities				<u>\$ 34,488,737</u>	<u>\$ 24,681,677</u>
<u>Enterprise Funds</u>					
Wastewater system					
2008 Public Improvement (\$8M)	Variable	5/5/2008	2009-2028	\$ 4,000,000	\$ 2,478,500
2008 Public Improvement (\$3M)	Variable	11/26/2008	2009-2029	1,710,000	1,140,000
2008 Public Improvement (\$20M)	Variable	7/9/2008	2009-2035	10,795,135	6,691,904
State Revolving Fund 07-203	2.06%	2007	Various	12,500,000	7,184,824
State Revolving Fund 09-229	2.73%	2009	Various	5,000,000	996,235
2008 Public Improvement (\$5.035M)	Variable	9/11/2008	2009-2028	1,762,250	1,102,500
2009 Public Improvement and Refunding (\$5M)	2.91%	12/21/2009	2009-2034	1,907,419	1,440,916
General Obligation Bonds	2.00-4.00%	2012	2012-2037	26,000,000	20,567,734
2013 Public Improvement (\$20M)	3.65%	2013	2013-2033	20,000,000	16,000,000
2013 CWSRF Promissory Note (\$5M)	1.51%	2013	2015-2032	5,000,000	4,509,857
2015 Promissory Note (\$10M)	2.74%	2016	2017-2037	10,000,000	9,547,000
2016 Promissory Note (\$15M)	2.27%	2017	2018-2037	15,060,000	4,489,000
Power system					
2008 TML Bonds	Variable	2008	2011-2035	15,186,961	12,151,834
2013 Promissory Note	Variable	2013	2013-2028	7,000,000	4,145,338
Water system					
DWSRF Promissory Note	2.61%	2002	2007-2026	10,492,582	4,792,152
Water System Bonds Series 2010	3.38%	2009	2010-2029	7,500,000	5,095,000
2011 DWSRF Note	2.83%	2011	2011-2032	2,000,000	908,136

CITY OF MORRISTOWN, TENNESSEE

NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 8. Long-Term Liabilities (Continued)

<u>Description</u>	<u>Interest Rate</u>	<u>Year Issued</u>	<u>Final Maturity</u>	<u>Original Issue</u>	<u>Balance June 30, 2018</u>
Enterprise Funds (Continued)					
Broadband system					
Telecom System 2008 TML Bonds	Variable	2008	2016-2030	20,115,000	3,943,166
First Tennessee Bank Promissory Note	2.59%	2014	2014-2024	1,000,000	693,000
First Tennessee Bank Promissory Note	2.00%	2017	2018-2022	2,000,000	1,616,000
Stormwater system					
2009 Public Improvement and Refunding (\$5M)	2.91%	2009	2009-2034	81,459	61,502
General Obligation Bonds	2.00-4.00%	2012	2012-2037	5,000,000	3,955,914
Total enterprise funds				<u>184,110,806</u>	<u>113,510,512</u>
				<u>\$ 218,599,543</u>	<u>\$ 138,192,189</u>
Capital leases					
Broadband	4.99%	2014	2019	\$ 98,112	\$ 10,282
Total capital leases				<u>\$ 98,112</u>	<u>\$ 10,282</u>

The broadband system leases certain equipment with an original cost of \$98,112 under a capital lease agreement expiring in 2019. Amortization of the asset is included with depreciation expense.

Future minimum lease payments under the capital lease, together with the net present value of the minimum lease payments, is as follows:

<u>Business-Type</u>	
2019	<u>\$ 12,352</u>
Total future minimum lease payments	12,352
Less amounts representing interest	<u>2,070</u>
Present value of future minimum lease payments	<u>\$ 10,282</u>

CITY OF MORRISTOWN, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 9. Fund Balance

Fund balance is classified based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The constraints placed on fund balances are presented below:

	General Fund	Other Governmental Funds
	<u> </u>	<u> </u>
Nonspendable:		
Prepays	\$ 2,042	\$ -
Inventories	58,948	-
Land held for sale	<u>9,526,872</u>	<u>-</u>
Total nonspendable	<u>9,587,862</u>	<u>-</u>
Restricted for:		
Narcotics	-	243,424
E-Citation	-	13,114
Capital projects	-	5,163,645
Public works – gas tax	92,456	-
Other operations – airport	41,001	-
Solid Waste	<u>-</u>	<u>219,405</u>
Total restricted	<u>133,457</u>	<u>5,639,588</u>
Committed to:		
Capital projects	<u>-</u>	<u>2,859,940</u>
Total committed	<u>-</u>	<u>2,859,940</u>
Assigned to:		
General government	12,971	-
Finance	50,799	-
Public safety	32,330	-
Public works	1,045,079	-
Social, cultural, and recreational	4,891	-
Capital projects	5,042,702	-
Other purposes	<u>1,511,138</u>	<u>-</u>
Total assigned	<u>7,699,910</u>	<u>-</u>
Unassigned	<u>7,482,374</u>	<u>-</u>
Total fund balance	<u>\$ 24,903,603</u>	<u>\$ 8,499,528</u>

CITY OF MORRISTOWN, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 10. Defined Benefit Pension Plan

Plan Description

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

Benefits Provided

Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Members are eligible to retire with an unreduced benefit at age 60 with five years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Reduced benefits for early retirement are available 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 for all members of the TCRS plan.

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 3.00%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A 1.00% COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

Employees Covered by Benefit Terms

At the measurement date of June 30, 2017, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	154
Inactive employees entitled to but not yet receiving benefits	103
Active employees	285
	<hr/>
Total covered employees	542
	<hr/> <hr/>

CITY OF MORRISTOWN, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 10. Defined Benefit Pension Plan (Continued)

Contributions

Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5.00% 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, employer contributions for the City were \$2,114,896 based on a rate of 14.86% 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 actuarially determined contribution (ADC) and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Liability

The City's net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The total pension liability as of June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases, including inflation	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%

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 changes: decreased inflation rate from 3% to 2.5%; decreased the investment rate of return from 7.5% to 7.25%; decreased the cost-of-living adjustment from 2.5% to 2.25%; decreased salary growth graded ranges from an average of 4.25% to an average of 4%; and modified mortality assumptions.

CITY OF MORRISTOWN, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 10. Defined Benefit Pension Plan (Continued)

Actuarial Assumptions (Continued)

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 inflation of 2.50%.

The best-estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	5.69 %	31.00 %
Developed market international equity	5.29 %	14.00 %
Emerging market international equity	6.36 %	4.00 %
Private equity and strategic lending	5.79 %	20.00 %
U.S. fixed income	2.01 %	20.00 %
Real estate	4.32 %	10.00 %
Short-term securities	0.00 %	1.00 %
		100.00 %

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 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.

CITY OF MORRISTOWN, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 10. Defined Benefit Pension Plan (Continued)

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2016	\$ 70,942,847	\$ 60,084,552	\$ 10,858,295
Changes for the year:			
Service cost	1,133,722	-	1,133,722
Interest	5,262,280	-	5,262,280
Differences between expected and actual experience	(943,037)	-	(943,037)
Changes in Assumptions	1,860,136	-	1,860,136
Contributions – employer	-	2,087,774	(2,087,774)
Contributions – employee	-	703,035	(703,035)
Net investment income	-	6,759,639	(6,759,639)
Benefit payments, including refunds of employee contributions	(3,825,670)	(3,825,670)	-
Administrative expenses	-	(24,114)	24,114
Net changes	3,487,431	5,700,664	(2,213,233)
Balances at June 30, 2017	\$ 74,430,278	\$ 65,785,216	\$ 8,645,062

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the City calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

	1.00% Decrease (6.25%)	Current Discount Rate (7.25%)	1.00% Increase (8.25%)
City's net pension liability	\$ 18,233,388	\$ 8,645,062	\$ 661,702

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

Pension expense:

For the year ended June 30, 2018, the City recognized pension expense of \$845,068.

CITY OF MORRISTOWN, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 10. Defined Benefit Pension Plan (Continued)

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 pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 1,721,723
Net difference between projected and actual earnings on pension plan investments	-	16,744
Changes in Assumptions	1,594,402	-
Contributions subsequent to the measurement date of June 30, 2017	2,114,896	-
	\$ 3,709,298	\$ 1,738,467

The amount shown above for contributions subsequent to the measurement date of June 30, 2017, will be recognized as a reduction (increase) to net pension liability in the following measurement period.

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

Year Ending June 30,	
2019	\$ (405,383)
2020	516,443
2021	2,897
2022	(496,619)
2023	107,582
Thereafter	131,015

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 reported a payable of \$362,209 for the outstanding amount of contributions to the pension plan required at the ended June 30, 2018.

CITY OF MORRISTOWN, TENNESSEE

NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 11. Morristown Utilities Commission’s Retirement Plan

The Commission’s systems share in a defined contribution retirement plan, the Morristown Utilities Retiree Benefit Plan (the Retirement Plan), covering substantially all employees. The Commission is the administrator of the Retirement Plan and is responsible for establishing or amending the Retirement Plan provisions and contribution requirements.

	<u>Total Payroll</u>	<u>Covered Payroll</u>	<u>Employer Contributions</u>	<u>% of Covered Payroll</u>	<u>Employee Contributions</u>	<u>% of Covered Payroll</u>
<u>Power system</u>						
2018	\$ 6,477,368	\$ 6,036,752	\$ 893,135	15 %	\$ 391,543	6.00 %
2017	6,111,363	5,881,850	705,822	15	377,248	6.00
2016	6,260,687	5,881,940	870,587	15	367,676	6.00
<u>Water system</u>						
2018	1,665,933	1,628,461	241,677	15	101,077	6.00
2017	1,618,187	1,591,175	190,941	15	108,231	7.00
2016	1,663,147	1,649,644	244,255	15	109,179	7.00
<u>Broadband system</u>						
2018	1,603,631	1,483,120	222,066	15	65,876	4.00
2017	1,388,146	1,325,350	159,042	15	56,142	4.00
2016	1,236,036	1,193,252	178,001	15	52,463	4.00
<u>Wastewater system</u>						
2018	1,692,847	1,639,469	242,825	15	122,477	7.00
2017	1,460,078	1,410,292	169,235	15	98,289	7.00
2016	1,310,427	1,047,942	155,819	15	81,756	8.00

Under the Retirement Plan terms, the Commission will match participant contributions up to 3% of the participant’s salary and may also contribute an additional amount to the Plan at its discretion. During 2018, the discretionary contribution amounted to 12% of the participants’ salary. Participants are not required but may contribute up to a total of 75% of their salary subject to IRS limitations. All employees who have completed six months of service as defined by the Retirement Plan and who have attained the age of 21 are eligible to participate in the Retirement Plan. Participants are 100% vested in the employer contributions when they are made.

CITY OF MORRISTOWN, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 12. Other Postemployment Benefits Liability – Local Plan

Plan Description

The City provides post-employment health benefits for retired employees through a single-employer defined benefit plan. The City may change, add, or delete health insurance benefits as the City deems appropriate with City Council approval. The plan does not grant retirees vested health coverage benefits.

The cost of post-employment healthcare benefits are associated with the periods in which the cost occurs, rather than in the future years when it will be paid. Recognition of the liability accumulated from years prior to adoption will be phased in over 30 years, and commenced with the 2009 liability. A trust fund was established by the City with Commercial Bank and Trust Company (the “Trust Fund”). The Trust Fund is established as an investment vehicle for participating employers to accumulate assets to fund OPEB. Plan assets for purposes of GASB Statement No. 75 are usually in the form of stocks, bonds, and other classes of investments, that have been segregated and restricted in a trust, in which (a) contributions to the plan are irrevocable, (b) assets are dedicated to providing benefits to retirees and their beneficiaries, and (c) assets are legally protected from creditors of the employer or plan administrator, for the payment of benefits in accordance with the terms of the plan.

Benefits Provided

The City provides medical, dental, and vision benefits to retirees and their spouse. The City also pays 85% of medical, dental, and vision premiums. All full-time, active employees who retire or are disabled directly from the City and meet the eligibility criteria may participate.

Employees Covered by Benefit Terms

As of the June 30, 2018 actuarial valuation, the following employees were covered by the benefit terms of the plan:

	<u>Number</u>
Inactive employees or beneficiaries:	
Currently receiving benefits	37
Entitled to but not yet receiving benefits	-
	<hr/>
Total inactive employees	37
Active plan members	<hr/>
	291
	<hr/>
	328
	<hr/> <hr/>

Contributions

The City pays 85% of the medical, dental, and vision insurance premiums for all retirees.

CITY OF MORRISTOWN, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 12. Other Postemployment Benefits Liability – Local Plan (Continued)

Net OPEB Liability

The City's total net OPEB liability of \$4,295,731 was measured as of June 30, 2018 and was determined by an actuarial valuation performed as of June 30, 2018.

Actuarial Assumptions and Other Inputs

The total OPEB liability was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Discount rate	7.0%
Inflation	2.5%
Salary increases, including inflation	4.0%
Payroll Growth Rate:	2.50%
Investment rate of return	7%
Retirees' share of benefit-related costs	15%

Mortality rates: The mortality rates are from the RP-2000 Combined Fully Generational Mortality Table with projection scale AA.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2017 through June 30, 2018.

Long-Term Expected Rate of Return

The long-term expected rate of return on OPEB investments was determined using the annual money-weighted rate of return on investments for each asset class, asset allocation percentages and a 2.5% inflation rate. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

CITY OF MORRISTOWN, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 12. Other Postemployment Benefits Liability – Local Plan (Continued)

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Large Cap	34.00 %	6.62 %	2.25 %
Small/Mid Cap	23.00	7.83	1.80
Core Fixed Income	29.00	2.09	0.61
High Yield Fixed Income	9.00	4.30	0.39
US Treasuries	5.00	0.75	0.04
Total	100.00 %		5.09 %
	Inflation		2.50 %

Discount Rate

The discount rate used to measure the net OPEB liability was 7%. The projection of cash flows used to determine the discount rate assumed that the City's contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total OPEB liability.

CITY OF MORRISTOWN, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 12. Other Postemployment Benefits Liability – Local Plan (Continued)

Changes in Net OPEB Liability

	Total OPEB Liability (a)	Increase (Decrease)		Net OPEB Liability (a) – (b)
		Plan Fiduciary Net Position (b)	Non Trust Activity (b)	
Balances at June 30, 2017	\$ 4,893,160	\$ 475,406	\$ -	\$ 4,417,754
Changes for the year:				
Service cost	125,354	-	-	125,354
Interest	335,358	-	-	335,358
Benefit changes	-	-	-	-
Differences between expected and actual experience	11,546	(2,206)	-	13,752
Assumption changes	-	-	-	-
Contributions – employer	-	100,000	(463,208)	(563,208)
Net investment income	-	33,279	-	(33,279)
Benefit payments	(463,208)	-	463,208	-
Administrative expenses	-	-	-	-
Other changes	-	-	-	-
Net changes	9,050	131,073	-	(122,023)
Balances at June 30, 2018	\$ 4,902,210	\$ 606,479	\$ -	\$ 4,295,731

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current discount rate:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Net OPEB liability	\$ 4,711,082	\$ 4,295,731	\$ 3,921,886

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates:

CITY OF MORRISTOWN, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 12. Other Postemployment Benefits Liability – Local Plan (Continued)

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates (Continued)

	1.00% Decrease (8.00% decreasing to 4.00%)	Current Healthcare Cost Trend Rates (9.00% decreasing to 5.00%)	1.00% Increase (10.00% decreasing to 6.00%)
Net OPEB liability	\$ 3,771,482	\$ 4,295,731	\$ 4,911,885

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

For the year ended June 30, 2018, the City recognized OPEB expense of \$429,291. At June 30, 2018, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 9,986	\$ -
Change in assumptions	-	-
Net difference between projected and actual earnings on OPEB plan investments	1,908	-
Employer contributions subsequent to the measurement date	-	-
Total	\$ 11,894	\$ -

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

Year Ending June 30,	Increase (Reduction) to OPEB Expense
2019	\$ 1,858
2020	1,858
2021	1,858
2022	1,858
2023	1,858
Thereafter	2,604

CITY OF MORRISTOWN, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 13. Post-Employment Health Insurance Benefits – Morristown Utilities Commission

Plan Description

The Systems provide post-employment benefits (OPEB) through the Morristown Utilities Retiree Benefit Plan to all eligible retirees. The OPEB is administered by the Systems, is a single employer defined benefit plan and is not required to issue a separate financial report. There are no assets accumulated in a trust and the Systems fund the Plan on a pay-as-you-go basis.

In fiscal year 2018, the Commission adopted GASB Statements No. 75. The amounts reported as of June 30, 2018 are based on an actuarial valuation performed as of July 1, 2017 and updated to June 30, 2018.

The systems provide medical, dental and life insurance benefits to retirees. Employees who retire at age 55 with 10 years of service are eligible to participate for five years or until the age of 65. The Systems pay the same monthly premium amount that is paid for active employees of the retiree’s medical, dental and life insurance premiums.

In addition, the Systems pay 60% of the monthly premium amount that is paid for active employees of the retiree’s dependent’s medical premiums. The retiree’s spouse is also eligible for medical benefits (same as retiree) as long as the retiree is eligible (there are no surviving spouse benefits). The life insurance benefit available to retirees is \$5,000.

Participants in the OPEB consisted of the following as of July 1, 2017:

	Actives	Inactives Receiving Benefits	Total
Male	126	3	129
Female	32	-	32
Total	158	3	161

Total OPEB Liability

Total OPEB liability of the Commission is as follows as of June 30, 2018:

	Power System	Water System	Wastewater System	Broadband System	Total Commission
Total OPEB liability	<u>\$1,101,624</u>	<u>\$419,030</u>	<u>\$100,055</u>	<u>\$185,135</u>	<u>\$1,805,844</u>

CITY OF MORRISTOWN, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 13. Post-Employment Health Insurance Benefits – Morristown Utilities Commission (Continued)

Changes in Total OPEB Liability

The changes in the total OPEB liability are as follows for 2018:

	Power System	Water System	Wastewater System	Broadband System
Total OPEB liability at beginning of year	\$1,034,880	\$405,778	\$69,794	\$157,524
Changes for the year:				
Service cost	82,420	21,309	28,813	26,621
Interest	39,303	14,992	3,530	6,549
Changes in assumptions and other inputs	(15,758)	(6,273)	(2,082)	(3,088)
Benefit payments	(39,221)	(16,776)	-	(2,471)
Net changes for the year	66,744	13,252	30,261	27,611
Total OPEB liability at end of year	\$1,101,624	\$419,030	\$100,055	\$185,135

Actuarial Methods and Assumptions

The actuarial methods and assumptions used were applied consistently for the Power, Water, Wastewater and Broadband Systems. A discount rate of 3.87% was used for the year ending June 30, 2018, based on the Bond Buyer's 20 Bond Index. A discount rate of 3.58% was used for the year ending June 30, 2017. The mortality rates are from the RP-2000 Combined Fully Generational Mortality Table with projection scale AA.

It was assumed that the following percentages of eligible employees would retire each year:

<u>Age</u>	<u>Rate</u>
55-59	3%
60-64	20%
65-69	15%
70+	100%

CITY OF MORRISTOWN, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 13. Post-Employment Health Insurance Benefits – Morristown Utilities Commission (Continued)

Actuarial Methods and Assumptions (continued)

It was also assumed that employees would terminate employment with the rate in the following table:

Age	Male	Female
20	6.3%	7.5%
25	5.0%	6.0%
30	3.6%	4.4%
35	2.3%	2.9%
40	1.0%	1.4%
45	0.9%	1.2%
50	0.8%	1.0%
55	0.6%	0.7%

It was assumed that health care cost would increase in accordance with the trend rates in the following table:

Year	Medical Rate	Dental Rates
2017	9%	5%
2018	8%	5%
2019	7%	5%
2020	6%	5%
2021	5%	5%

It was assumed that 100% of the current active employees covered under the active plan on the day before retirement would enroll in the retiree medical plan upon retirement. It was also assumed that 10% of the male and 10% of the female employees who elect retiree health coverage for themselves would also elect coverage for their spouse upon retirement. It was assumed that male spouses are three years older than their wives and female spouses are three years younger than the retiree. For current retirees, actual census information was used. It was assumed that 80% of adults are non-smokers and 20% are smokers.

The preparation of the actuarial liabilities calculated requires management to make assumptions discussed above. Due to the use of these assumptions, actual results may differ from the estimates. The discount rate considers inflationary rate adjustments.

CITY OF MORRISTOWN, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 13. Post-Employment Health Insurance Benefits – Morristown Utilities Commission (Continued)

Sensitivity of the Total OPEB Liability

The following presents the total pension liability of the Systems calculated using the discount rate of 3.87%, as well as what the total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.87%) or 1-percentage-point higher (4.87%) than the current rate:

1% Decrease (2.87%)	Discount Rate (3.87)	1% Increase (4.87%)
\$1,899,201	\$1,805,844	\$1,712,021

The following presents the total pension liability of the Systems as of June 30, 2018, as well as what the total pension liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

1% Decrease (7.00% decreasing to 4.00%)	Healthcare Cost Trend Rates (8.00% decreasing to 5.00%)	1% Increase (9.00% decreasing to 6.00%)
\$1,615,640	\$1,805,844	\$2,028,818

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2018, the Power, Water, Wastewater and Broadband Systems recognized OPEB expense of \$120,003, \$35,576, \$32,151, and \$32,893, respectively. At June 30, 2018, the Commission did not report any deferred outflows. At June 30, 2018, the Commission reported deferred inflows of resources related to OPEB from the following sources:

	Deferred Inflows of Resources			
	Power	Water	Wastewater	Broadband
Change in assumptions	\$14,038	\$5,548	\$1,890	\$2,811
Total	\$14,038	\$5,548	\$1,890	\$2,811

CITY OF MORRISTOWN, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 13. Post-Employment Health Insurance Benefits – Morristown Utilities Commission (Continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources (continued)

Amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:	Deferred Inflows of Resources			
	Power	Water	Wastewater	Broadband
2019	\$ (1,720)	\$ (725)	\$ (192)	\$ (277)
2020	(1,720)	(725)	(192)	(277)
2021	(1,720)	(725)	(192)	(277)
2022	(1,720)	(725)	(192)	(277)
2023	(1,720)	(725)	(192)	(277)
Thereafter	(5,438)	(1,923)	(930)	(1,426)
Total	\$(14,038)	\$(5,548)	\$(1,890)	\$(2,811)

Note 14. Risk Management

The City is exposed to various risks of loss related to the following: torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City carries commercial insurance for risks of loss. There have been no significant reductions in insurance coverage from the prior year. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

Note 15. Prior Period Restatement

In the current year the City adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This standard replaces the requirements of GASB Statement No. 45 as it relates to governments that provide postemployment benefits other than pensions. The new Statement requires governments providing defined benefit postemployment benefits to recognize the long-term obligation for those benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of other postemployment benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information, including disclosing descriptive information about the types of benefits provided, how contributions to the plans are determined, and assumptions and methods used to calculate the liability. Comparative prior year information, to the extent presented, has not been restated because the necessary information is not available.

CITY OF MORRISTOWN, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 15. Prior Period Restatement (Continued)

The following is a summary of the restatement to net position:

	Governmental Activities	Wastewater System	Power System	Water System	Broadband
Net position, June 30, 2017, as previously stated	\$ 61,679,006	\$ 30,856,595	\$ 59,491,885	\$ 32,207,614	\$ 1,669,605
GASB 75 implementation	(3,916,249)	(47,000)	(451,055)	(264,684)	62,042
Net position, June 30, 2017, as restated	<u>\$ 57,762,757</u>	<u>\$ 30,809,595</u>	<u>\$ 59,040,830</u>	<u>\$ 31,942,930</u>	<u>\$ 1,731,647</u>

Note 16. Commitments and Contingencies

Special Purpose Grants

Special Purpose Grants are subject to audit to determine compliance with their requirements. City officials believe that if any refunds are required, they will be immaterial.

Self-Insurance

The City is self-insured for employee medical benefits which are administered by Blue Cross Blue Shield of Tennessee, Inc. The rate of the premiums paid into the fund is based on prior experience and insurance company recommendations. Claims in excess of a self-insured aggregate limit of \$5,000,839 and specific underlying coverage of \$100,000 per employee are covered through a stop loss coverage agreement with BlueRe of Tennessee, an affiliate of the claims administrator. The stop loss arrangement provides for 100% reimbursement of claims exceeding \$5,000,839, subject to contract provisions, up to a maximum aggregate reimbursement of \$1,000,000 per policy year.

Claims Liabilities

Liabilities of the self-insurance fund are reported when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated. The self-insurance fund establishes claims liabilities based on estimates of the ultimate cost of claims that have been reported but not settled. The process used to compute claims liabilities does not necessarily result in an exact amount. Claims incurred prior to June 30, 2018, and subsequently settled total approximately \$135,722, which is recorded as a payable in the self-insurance fund. Claims incurred but not reported are estimated to be insignificant as of June 30, 2018.

Commitments and Contingencies

At June 30, 2018, the City had the following commitments:

The City has a month-to-month contract with Morristown Air Service for fixed base operation of the airport.

CITY OF MORRISTOWN, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 16. Commitments and Contingencies (Continued)

Contingent liabilities:

The government is the defendant in various lawsuits. Although the outcome of these lawsuits are not presently determinable, in the opinion of the government's counsel the resolution of these matters will not have a material effect on the financial condition of the government.

Concentration of Credit Risk

The Morristown Utilities Commission provides electric power, water, wastewater, and broadband service to customers in the City of Morristown and Hamblen County, Tennessee. Customers include residential, commercial, and heavy industrial users. Residential customers for the power and broadband systems are required to place deposits that approximate one month's account balance. Loss experience has not been significant to the Systems' operations.

Litigation

During the ordinary course of business, the City is subject to various disputes and claims and there could be uncertainty relating to the resolution of these matters.

Note 17. Joint Ventures

Morristown-Hamblen County Library – The City of Morristown and Hamblen County jointly own the Morristown-Hamblen Library. Each appoints an equal number of members to its Board of Directors. The City contributed \$277,250 for the library's operations during the fiscal year ended June 30, 2018.

Hamblen County-Morristown Solid Waste Authority – The City of Morristown and Hamblen County jointly own the Hamblen County-Morristown Landfill. Each appoints an equal number of members to the Board of Directors. This operation is self-sufficient in that users are charged for services rendered. During the year ended June 30, 2018, the City was charged \$572,623.

City of Morristown does not have an equity interest in any of the above-noted joint ventures. Complete financial statements for the Morristown-Hamblen Library and Hamblen County-Morristown Solid Waste Disposal System can be obtained from their respective administrative offices at the following addresses:

Morristown-Hamblen Library
417 West Main Street
Morristown, TN 37814

Hamblen County-Morristown Solid
Waste Disposal System
P.O. Box 2108
Morristown, TN 37816

CITY OF MORRISTOWN, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 18. Subsequent Events

On August 7, 2018, the City approved an agreement between the City and Andrew & Hoskins Construction, Inc., for the Heritage Park Phase I in the amount of \$1,518,900.

On September 4, 2018, the City approved bids for phase two of the public works compound in the amount of \$12,000,000. The project is being funded with bond proceeds.

On October 2, 2018, the City approved an agreement between the City and Cumberland Securities for an amount not to exceed \$15,750,000 for the refunding of certain Morristown Utility Systems debt.

On October 24, 2018, the City issued Series 2018 general obligation bonds. Total bonds issued were in the amount of \$64,325,000. Issue broken down as follows: City of Morristown – New Bonds \$9,005,000, Refunded Debt \$10,185,000. Morristown Utility Systems – New Bonds \$14,435,000. Refunded Debt \$30,700,000.

Note 19. New Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued the following Statements which are not yet effective.

The GASB issued **Statement No. 83**, *Certain Asset Retirement Obligations* in November 2016. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The requirements of this Statement are effective for periods beginning after June 15, 2018.

The GASB issued **Statement No. 84**, *Fiduciary Activities* in January 2017. This Statement establishes standards of accounting and financial reporting for fiduciary activities. The requirements of this Statement are effective for periods beginning after December 15, 2018.

The GASB issued **Statement No. 87**, *Leases* in June 2017. This Statement establishes standards of accounting and financial reporting for leases by lessees and lessors. The requirements of this Statement are effective for periods beginning after December 15, 2019.

The GASB issued **Statement No. 88**, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* in March 2018. This Statement improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowing and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. The requirements of this Statement are effective for periods beginning after June 15, 2018.

CITY OF MORRISTOWN, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 19. New Accounting Standards (Continued)

The GASB issued **Statement No. 89**, *Accounting for Interest Cost Incurred before the End of a Construction Period* in June 2018. This Statement enhances the relevance and comparability of information about capital assets and the cost of borrowing for a period and simplifies accounting for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for periods beginning after December 15, 2019. The requirements of this Statement should be applied prospectively

The GASB issued **Statement No. 90**, *Majority Equity Interests*, an amendment of *GASB Statements No. 14 and No. 61* in August 2018. This Statement improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement are effective for periods beginning after December 15, 2018. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

Management has not determined the effects these new GASB Statements may have on prospective financial statements.

Copies of the complete financial statements of the City for the current Fiscal Year are available at <https://www.comptroller.tn.gov/office-functions/la/reports/audit-reports.html>.