NOTE 6 - CAPITAL ASSETS / RELATED PARTY TRANSACTION

Governmental Funds

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

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

Depreciation was charged to governmental functions as follows:

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

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

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

Electric Department

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

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

Water Department

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

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

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

Emergency Communications District

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

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

NOTE 7 - RESTRICTED CASH

Governmental Funds

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

Electric Department and Water Department

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

NOTE 8 - LONG-TERM DEBT

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

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

NOTE 8 - LONG-TERM DEBT (Continued)

Governmental Funds

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

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

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

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

Electric Department

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

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

NOTE 8 - LONG-TERM DEBT (Continued)

Electric Department (Continued)

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

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

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

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

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

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

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

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

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

NOTE 8 - LONG-TERM DEBT (Continued)

Water Department

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

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

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

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

NOTE 8 - LONG-TERM DEBT (Continued)

Water Department (Continued)

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

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

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

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

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

NOTE 9 - OTHER LONG-TERM LIABILITIES

Governmental Funds

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

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

Electric Department

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

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

NOTE 9 - OTHER LONG-TERM LIABILITIES (Continued)

Water Department

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

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

NOTE 10 - RETIREMENT PLANS

Governmental Funds Pension Plan

Plan Description

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

Benefits Provided

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

Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than ½%. A 1% COLA is granted if the CPI change is between ½% and 1%. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

Employees Covered by Benefit Terms

At the measurement date of June 30, 2015, the following numbers of employees were covered by the benefit terms:

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

NOTE 10 - RETIREMENT PLANS (Continued)

Governmental Funds Pension Plan (Continued)

Contributions

Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5% of salary. The City makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2015, the Actuarially Determined Contribution (ADC) for the City was $257,236 based on a rate of 9.77% of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept the City's state shared taxes if required employer contributions are not remitted. The employer's ADC and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Liability

The City's net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The total pension liability as of the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0%
Salary Increases	Graded salary ranges from 8.97% to 3.71% based on age, including inflation, averaging 4.25%
Investment Rate of Return	7.5%, net of pension plan investment expenses, including inflation
Cost-of-Living Adjustment	2.5%

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

The actuarial assumptions used in the June 30, 2015 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3%. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

NOTE 10 - RETIREMENT PLANS (Continued)

Governmental Funds Pension Plan (Continued)

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5% based on a blending of the three factors described above.

Discount Rate

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

Changes in the Net Pension Liability

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

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

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

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

Negative Pension Expense

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

Deferred Outflows of Resources and Deferred Inflows of Resources

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

NOTE 10 - RETIREMENT PLANS (Continued)

Governmental Funds Pension Plan (Continued)

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

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

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

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

Payable to the Pension Plan

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

Electric and Water Department Pension Plan

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

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

NOTE 10 - RETIREMENT PLANS (Continued)

Electric and Water Department Pension Plan

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

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

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

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

Electric and Water Department 401(k) Plan

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

NOTE 11 - POST-RETIREMENT HEALTHCARE PLANS

Governmental Funds

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

NOTE 11 - POST-RETIREMENT HEALTHCARE PLANS (Continued)

Governmental Funds (Continued)

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

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

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

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

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

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

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

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

NOTE 11 - POST-RETIREMENT HEALTHCARE PLANS (Continued)

Governmental Funds (Continued)

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

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

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

Electric Department and Water Department

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

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

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

NOTE 11 - POST-RETIREMENT HEALTHCARE PLANS (Continued)

Electric Department and Water Department (Continued)

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

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

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

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

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

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

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

NOTE 11 - POST-RETIREMENT HEALTHCARE PLANS (Continued)

Electric Department and Water Department (Continued)

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

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

NOTE 12 - FAIR VALUE OF INVESTMENTS

Fair Value Measurements

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

Level 1: Quoted prices in active markets for the identical assets.

Level 2: Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

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

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

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

NOTE 12 - FAIR VALUE OF INVESTMENTS (Continued)

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

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

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

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

NOTE 13 - RISK MANAGEMENT

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

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

NOTE 14 - CONTINGENCIES

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

NOTE 15 - COMMITMENTS

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

NOTE 16 - LEASE OF HOSPITAL FACILITIES

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

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

NOTE 17 - CAPITAL CONTRIBUTIONS

Water Department

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