NOTE 6 - CAPITAL ASSETS / RELATED PARTY TRANSACTION

Governmental Activities

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

	Balance June 30, 2016	Increases	Decreases	Balance June 30, 2017
Capital Assets, Not Being Depreciated:				
Land	$ 577,099	$ 0	$ 0	$ 577,099
Construction In Progress	0	75,417	0	75,417
Total Capital Assets, Not Being Depreciated	577,099	75,417	0	652,516
Capital Assets, Being Depreciated:				
Land Improvements	951,566	0	0	951,566
Buildings and Improvements	3,501,945	0	0	3,501,945
Equipment, Furniture and Fixtures	1,405,531	94,052	0	1,499,583
Vehicles	3,311,209	373,075	(34,778)	3,649,506
Infrastructure	14,687,282	6,591	0	14,693,873
Total Capital Assets, Being Depreciated	23,857,533	473,718	(34,778)	24,296,473
Less Accumulated Depreciation for:				
Land Improvements	380,406	45,211	0	425,617
Buildings and Improvements	1,186,742	119,641	0	1,306,383
Equipment, Furniture and Fixtures	907,238	104,000	0	1,011,238
Vehicles	1,967,738	240,171	(34,778)	2,173,131
Infrastructure	9,206,403	307,337	0	9,513,740
Total Accumulated Depreciation	13,648,527	816,360	(34,778)	14,430,109
Total Capital Assets, Being Depreciated, Net	10,209,006	(342,642)	0	9,866,364
Governmental Activities Capital Assets, Net	$ 10,786,105	$ (267,225)	$ 0	$ 10,518,880

Depreciation was charged to governmental functions as follows:

Administration and Finance	$ 100,214
Police Protection	108,653
Fire Protection	105,252
Animal and Infectious Disease Control	1,576
Streets and Highways and General Public Works	411,028
Recreation Center and Library	89,637
	$ 816,360

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

Electric Department

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

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

Water Department

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

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

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

Emergency Communications District

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

	Balance June 30, 2016	Increases	Decreases	Balance June 30, 2017
Capital Assets, Not Being Depreciated:				
Land and Land Rights	$ 4,000	$ 0	$ 0	$ 4,000
Capital Assets, Being Depreciated:				
Equipment, Furniture and Fixtures	649,903	36,857	(75,206)	611,554
Less Accumulated Depreciation for:				
Equipment, Furniture and Fixtures	547,549	30,755	(75,206)	503,098
Total Capital Assets, Being Depreciated, Net	102,354	6,102	0	108,456
Capital Assets, Net	$ 106,354	$ 6,102	$ 0	$ 112,456

NOTE 7 - RESTRICTED CASH

Governmental Funds

Restricted cash and cash equivalents in the General Fund consists of an escrow deposit of $1,516,647 related to the HMA hospital facilities lease (see Note 15) and monies set aside for special contracts of $34,696. The remaining restricted cash and cash equivalents totaling $407,582 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, 2017 are as follows:

	Balance June 30, 2016	Increases	Decreases	Balance June 30, 2017	Current Portion
Governmental Activities:					
General Obligation:					
Capital Outlay Note	$ 119,000	$ 0	$ (119,000)	$ 0	$ 0
Capital Outlay Note	807,000	0	(152,000)	655,000	157,000
Capital Outlay Note	0	1,500,000	0	1,500,000	132,000
	$ 926,000	$ 1,500,000	$ (271,000)	$ 2,155,000	$ 289,000
Business-Type Activities:					
General Obligation:					
Loans Payable to PBA Clarksville, Series 2003, 2004, 2008 and 2010	$ 8,372,000	$ 0	$ (718,000)	$ 7,654,000	$ 737,000
Loan Payable to PBA Montgomery County, Series 2006	7,943,000	0	(405,000)	7,538,000	426,000
TLDA Loans	6,290,139	0	(441,492)	5,848,647	444,989
Series 2014A	8,700,587	139,895	(1,305,042)	7,535,440	1,270,000
Refunding, Series 2015A	5,610,000	0	(380,000)	5,230,000	380,000
Refunding, Series 2015B	3,975,000	0	(250,000)	3,725,000	255,000
Series 2017	0	8,360,000	0	8,360,000	0
Rural Development Revenue and Tax Bonds	1,745,571	0	(31,157)	1,714,414	31,965
	$ 42,636,297	$ 8,499,895	$ (3,530,691)	$ 47,605,501	$ 3,544,954

NOTE 8 - LONG-TERM DEBT (Continued)

Governmental Activities

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

	Interest Rates	Date Issued	Final Maturity Date	Amount of Original Issue	Balance June 30, 2017
General Obligation Capital Outlay Note	2.94%	10/27/10	10/01/20	$ 1,500,000	$ 655,000
General Obligation Capital Outlay Note	2.81%	04/12/17	03/01/27	1,500,000	1,500,000
					$ 2,155,000

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

Year Ending June 30,	Principal	Interest
2018	289,000	45,167
2019	297,000	50,715
2020	306,000	42,087
2021	314,000	33,199
2022	147,000	26,667
2023	152,000	22,536
2024	156,000	18,265
2025	160,000	13,881
2026	165,000	9,385
2027	169,000	4,749
Total	$ 2,155,000	$ 266,651

Electric Department

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

	Balance June 30, 2016	Increases	Decreases	Balance June 30, 2017	Amounts Due Within One Year
Loan Payable to the Public Building Authority of the City of Clarksville, Tennessee - Series 2004 (PBA Clarksville, Series 2004) - Variable Rate based on Bank of America Daily Rate	$ 4,352,970	$ 0	$ (438,883)	$ 3,914,087	$ 449,129
Loan Payable to the Public Building Authority of the County of Montgomery, Tennessee - Series 2006 (PBA Montgomery County, Series 2006) - Variable Rate based on Bank of America Daily Rate	7,943,000	0	(405,000)	7,538,000	426,000
Loan Payable to the Public Building Authority of the City of Clarksville, Tennessee - Series 2008 (PBA Clarksville, Series 2008) - Variable Rate based on Bank of America Daily Rate	1,482,941	0	(76,839)	1,406,102	79,453
GO Bonds Series 2014A, 2.0% to 4.0%	7,870,000	0	(1,230,000)	6,640,000	1,230,000
GO Refunding Bonds Series 2015A, 2.0%	5,610,000	0	(380,000)	5,230,000	380,000
GO Refunding Bonds Series 2015B, 2.0% to 2.75%	3,975,000	0	(250,000)	3,725,000	255,000
GO Bonds Series 2017, 2.0% to 3.25%	0	8,360,000	0	8,360,000	0
	31,233,911	8,360,000	(2,780,722)	36,813,189	2,819,582
Plus Unamortized Premiums on Issuance	361,875	139,895	(34,225)	467,545	0
	$ 31,595,786	$ 8,499,895	$ (2,814,947)	$ 37,280,734	$ 2,819,582

NOTE 8 - LONG-TERM DEBT (Continued)

Electric Department (Continued)

The bonds and loans payable outstanding as of June 30, 2017 are as follows:

	Interest Rates	Date Issued	Final Maturity Date	Amount of Original Issue	Balance June 30, 2017
Loan Payable to PBA - Clarksville, Series 2004	Variable	5/24/2005	5/25/2025	$ 8,538,600	$ 3,914,087
Loan Payable to PBA - Montgomery County - Series 2006	Variable	3/3/2008	5/25/2030	10,000,000	7,538,000
Loan Payable to PBA - Clarksville, Series 2008	Variable	10/31/2008	5/25/2031	1,829,500	1,406,102
Electric System General Obligation Bonds, Series 2014A	2.00% - 4.00%	12/5/2014	3/1/2035	9,075,000	6,640,000
Electric System General Obligation Refunding Bonds, Series 2015A	2.00%	2/27/2015	3/1/2022	5,990,000	5,230,000
Electric System General Obligation Refunding Bonds, Series 2015B	2.00% - 2.75%	3/31/2015	3/1/2030	4,225,000	3,725,000
Electric System General Obligation Bonds, Series 2017	2.00% to 3.25%	5/25/2017	3/1/2037	8,360,000	8,360,000
					$ 36,813,189

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

	Principal	Interest
2018	$ 2,819,582	$ 721,152
2019	2,884,295	743,865
2020	2,995,532	690,334
2021	3,433,769	634,731
2022	3,502,859	566,622
2023-2027	9,909,096	2,091,023
2028-2032	7,463,056	1,125,948
2033-2037	3,805,000	354,938
Total	$ 36,813,189	$ 6,928,613

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

On December 5, 2014, the Electric Department issued $9,075,000 in General Obligation Bonds (Series 2014A) to advance refund portions of its 2005 Series bonds. The advance refunding of debt included a partial defeasance of the 2005 Series bonds for $2,095,000. The bond principal and accrued interest will be called and redeemed on March 1, 2018 and March 1, 2019. The advance refunding resulted in an accounting loss which is being deferred and amortized on a straight-line basis over the weighted average life of the bonds defeased in accordance with GASB No. 23. Amortization of the deferred amount on the refunding bonds for the year ended June 30, 2017 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 of debt included a partial defeasance of the 2006 Series bonds for $5,365,000. The bond principal and accrued interest will be called and redeemed on March 1, 2018 – March 1, 2022. The advance refunding resulted in an accounting loss which is being deferred and amortized on a straight-line basis over the weighted average life of the bonds defeased in accordance with GASB No. 23. Amortization of the deferred amount on the refunding of bonds for the year ended June 30, 2017 of $60,373 is included in interest expense in the statements of revenues, expenses and changes in net position.

NOTE 8 - LONG-TERM DEBT (Continued)

Electric Department (Continued)

The bonds and loans payable outstanding as of June 30, 2017 are as follows:

On March 31, 2015, the Electric Department issued $4,225,000 in General Obligation Refunding Bonds (Series 2015B) to advance refund portions of its 2010 Series loan payable. The advance refunding of debt included a partial defeasance of the 2010 Series bonds for $3,727,000. The bond principal and accrued interest will be called and redeemed on June 30, 2018 – June 30, 2030. The advance refunding did not result in an accounting loss.

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

On May 25, 2017, the Electric Department issued $8,360,000 in General Obligation Bonds (Series 2017) to provide funds for the acquisition of land and construction, renovation, extension and equipping of site improvements, facilities and equipment for the City's electric system. The bonds are secured by a pledge of the Electric Department's revenues. The full faith and credit of the City of LaFollette is pledged as collateral for these bonds.

Water Department

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

	Balances June 30, 2016	Increases	Decreases	Balances June 30, 2017	Amounts Due Within One Year
Loan Payable to the Public Building Authority of the City of Clarksville, Tennessee - Series 2003 (PBA Clarksville, Series 2003) - Variable Rate (Based on Bank of America Daily Rate)	$ 437,000	$ 0	$ (57,000)	$ 380,000	$ 59,000
Loan Payable to the Public Building Authority of the City of Clarksville, Tennessee - Series 2004 (PBA Clarksville, Series 2004) - Variable Rate (Based on Bank of America Daily Rate)	745,030	0	(75,117)	669,913	76,871
State Revolving Fund Loan Payable to the Tennessee Local Development Authority - Series 2003 (TLDA, Series 2003)	526,703	0	(53,304)	473,399	53,681
State Revolving Fund Loan Payable to the Tennessee Local Development Authority Series 2006 (TLDA, Series 2006)	5,763,436	0	(388,188)	5,375,248	391,308
Loan Payable to the Public Building Authority of the City of Clarksville, Tennessee - Series 2008 (PBA Clarksville, Series 2008) - Variable Rate (Based on Bank of America Daily Rate)	1,354,059	0	(70,161)	1,283,898	72,547
Rural Development Water and Sewer Revenue and Tax Bonds - Series 2012 - Fixed Rate of 2.5%	1,745,571	0	(31,157)	1,714,414	31,965
Water System General Obligation Bonds, Series 2014A, 2.00% to 2.75%	460,000	0	(40,000)	420,000	40,000
	11,031,799	0	(714,927)	10,316,872	725,372
Plus: Unamortized Premiums on Issuance	8,712	0	(817)	7,895	0
	$ 11,040,511	$ 0	$ (715,744)	$ 10,324,767	$ 725,372

NOTE 8 - LONG-TERM DEBT (Continued)

Water Department (Continued)

The bonds, loans and notes payable outstanding as of June 30, 2017 are as follows:

	Interest Rates	Date Issued	Final Maturity Date	Amount of Original Issue	Balance June 30, 2017
Loan Payable to PBA - Clarksville, Series 2003	Variable	12/29/2003	5/25/2023	$ 1,000,000	$ 380,000
Loan Payable to PBA - Clarksville, Series 2004	Variable	5/24/2005	5/25/2025	1,461,400	669,913
Loan Payable to TLDA, Series 2003	0.71%	6/23/2003	6/30/2026	1,060,000	473,399
Loan Payable to TLDA, Series 2006	0.80%	6/25/2007	2/20/2030	7,997,945	5,375,248
Loan Payable to PBA - Clarksville, Series 2008	Variable	10/31/2008	5/25/2031	1,670,500	1,283,898
Rural Development Water and Sewer Revenue and Tax Bonds, Series 2012	2.50%	12/4/2012	6/30/2051	1,825,000	1,714,414
Water System General Obligation Bonds, Series 2014A	2.00% to 2.75%	12/5/2014	3/1/2027	500,000	420,000
					$ 10,316,872

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
2018	$ 725,372	$ 130,520
2019	735,982	125,707
2020	746,127	117,015
2021	757,319	108,183
2022	768,719	99,180
2023-2027	3,477,824	362,997
2028-2032	1,965,511	190,693
2033-2037	244,508	127,792
2038-2042	277,030	95,270
2043-2047	313,874	58,426
2048-2052	304,606	17,062
Total	$ 10,316,872	$ 1,432,845

The future net revenues of the Water Department, the general taxing authority of the City of LaFollette, and the City's state-shared tax revenues are pledged as collateral for the loans payable to TLDA and Rural Development. Proceeds from these loans provided financing for certain construction projects. The debt for which revenues have been pledged is payable through 2051. Annual principal and interest payments on the debt are expected to require less than 9% of annual net revenues of the Water Department. The total principal and interest remaining to be paid on the debt is $8,706,839 based on rates in effect as of June 30, 2017. Principal and interest paid for the current year and total net revenues of the Water Department were $564,204 and $6,546,942, 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 Activities

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

	Balance June 30, 2016	Increases	Decreases	Balance June 30, 2017	Amounts Due Within One Year
Accrued Compensated Absences	$ 265,177	$ 278,918	$ (265,177)	$ 278,918	$ 278,918
Accrued Post-Retirement Plan	932,014	101,800	(23,161)	1,010,653	30,320
	$ 1,197,191	$ 380,718	$ (288,338)	$ 1,289,571	$ 309,238

Electric Department

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

	Balance June 30, 2016	Increases	Decreases	Balance June 30, 2017	Amounts Due Within One Year
Customer Deposits	$ 2,005,891	$ 582,444	$ (435,024)	$ 2,153,311	$ 424,693
Accrued Compensated Absences	1,079,814	553,872	(556,389)	1,077,297	559,778
Accrued Retirement Plan	602,492	109,586	(81,685)	630,393	85,338
Accrued Post-Retirement Plan	574,478	8,274	(8,274)	574,478	0
	$ 4,262,675	$ 1,254,176	$ (1,081,372)	$ 4,435,479	$ 1,069,809

Water Department

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

	Balance June 30, 2016	Increases	Decreases	Balance June 30, 2017	Amounts Due Within One Year
Accrued Compensated Absences	$ 660,962	$ 242,424	$ (224,889)	$ 678,497	$ 200,869
Accrued Retirement Plan	258,211	0	(35,008)	223,203	35,008
Accrued Post-Retirement Plan	246,208	4,263	(4,263)	246,208	0
	$ 1,165,381	$ 246,687	$ (264,160)	$ 1,147,908	$ 235,877

NOTE 10 - RETIREMENT PLANS

Governmental Activities Pension Plan

Plan Description

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

NOTE 10 - RETIREMENT PLANS (Continued)

Governmental Activities Pension Plan (Continued)

Benefits Provided (Continued)

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, 2016, the following numbers of employees were covered by the benefit terms:

Inactive Employees or Beneficiaries Currently Receiving Benefits	61
Inactive Employees Entitled to but not yet Receiving Benefits	93
Active Employees	87
Total	241

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, 2017, the Actuarially Determined Contribution (ADC) for the City was $277,044 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, 2016, 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, 2016 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, 2016 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

NOTE 10 - RETIREMENT PLANS (Continued)

Governmental Activities 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, 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%

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.

NOTE 10 - RETIREMENT PLANS (Continued)

Governmental Activities Pension Plan (Continued)

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at June 30, 2015	$ 12,109,189	$ 11,666,988	$ 442,201
Changes for the Year			
Service Cost	215,302	0	215,302
Interest	894,840	0	894,840
Difference between Expected and Actual Experience	125,278	0	125,278
Contribution - Employer	0	277,044	(277,044)
Contribution - Employee	0	141,783	(141,783)
Net Investment Income	0	304,499	(304,499)
Benefit Payments, including Refunds of Employee Contributions	(786,582)	(786,582)	0
Administrative Expense	0	(6,438)	6,438
Net Changes	448,838	(69,694)	518,532
Balance at June 30, 2016	$ 12,558,027	$ 11,597,294	$ 960,733

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)	$ 2,415,374	$ 960,733	$ (258,613)

Pension Expense

For the year ended June 30, 2017, the City recognized pension expense of $134,314.

NOTE 10 - RETIREMENT PLANS (Continued)

Governmental Activities Pension Plan (Continued)

Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to this Pension Plan in the statement of net position from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Sources that will be Recognized as an Increase or Decrease in Pension Expense in Subsequent Years:		
Differences Between Expected and Actual Experience	$ 107,381	$ 132,650
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	383,492	0
Total	490,873	132,650
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, 2016	275,096	0
Totals on the Statement of Net Position-Governmental Activities	$ 765,969	$ 132,650

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,	
2018	$ 20,509
2019	20,509
2020	203,022
2021	101,914
2022	(5,622)
Thereafter	17,891

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, 2017, the City did not have any outstanding accrued contributions to the pension plan, so there is no payable reported in the governmental activities column of the statement of net position.

Electric and Water Department Pension Plan

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

NOTE 10 - RETIREMENT PLANS (Continued)

<u>Electric and Water Department Pension Plan</u> (Continued)

The Plan provides defined benefit pension retirement benefits to covered employees. Members are eligible to retire at age 62 or after 30 years of service, beginning in 1970. Benefits are determined by a formula using the member's final average effective salary for each of their years of benefit service. Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. As of June 30, 2017, 70 of the Electric Department's employees and 16 of the Water Department's employees were covered under the RS Plan. The Electric Department and Water Department may amend certain terms of the Plan, including benefit levels provided for each year of service, normal retirement age, cost-of-living (COLA) adjustments to retiree annuity payments, eligibility for participation, and required employee contributions to the plan. Other plan terms, such as vesting periods, forms of payment, and factors used to reduce benefits for early retirement and conversion of benefits to optional forms of payment, are governed at the overall plan level and cannot be adjusted by individual employers (such provisions require approval by the NRECA board of directors). Each employer elects to participate in the Plan.

Plan participants do not contribute to the Plan, and the Electric Department and Water Department are required to contribute annually in accordance with the terms of the RS Plan. The total annual contribution is determined actuarially to be sufficient in funding the benefits of the RS Plan as a level percentage of covered payroll over the average expected remaining working lifetime of its participants. The amount is determined annually. This total annual contribution is allocated based on each employer's RS Plan provisions and participant demographics (in particular, the average age of participants and each participant's pay level). The Electric Department and Water Department may amend certain benefit provisions, changing the corresponding contribution level after the effective date of the amendment. For the year ended June 30, 2017, required employer contributions for the Electric Department were $838,903 based on a rate of 25.80% of covered payroll and required employer contributions for the Water Department were $432,162 based on a rate of 25.80% of covered payroll. These amounts represent all of the required contributions for the year, and no amounts are included in accounts payable at year end. The RS Plan must meet minimum funding requirements under ERISA, as determined by Internal Revenue Service regulations. The Electric Department and Water Department can choose to withdraw from the RS Plan, subject to plan provisions that require the departments to fully fund its share of RS Plan liabilities before withdrawing.

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

	Electric Department	Water Department
Contractual Liability - Beginning of Year	$ 602,492	$ 258,211
Past Service Cost Adjustment	109,586	0
Amounts Remitted to the NRECA	(81,685)	(35,008)
Contractual Liability - End of Year	630,393	223,203
Less Current Portion of Accrued Liability	(85,338)	(35,008)
Long-Term Portion of Accrued Liability	$ 545,055	$ 188,195

<u>Electric and Water Department Defined Contribution 401(k) Plan</u>

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 $230,051 for the Electric Department and $118,511 for the Water Department for the year ended June 30, 2017. Contributions by the Electric Department totaled $138,514 and contributions by the Water Department totaled $71,356 for the year ended June 30, 2017.

NOTE 11 - POST-RETIREMENT HEALTHCARE PLANS

Governmental Activities

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.

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, 2017 are as follows:

	Amount	%
Retiree Contributions	$ 21,178	48%
City Contributions	$ 23,161	52%

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	$ 168,985
City Contributions Made	(23,161)
Implicit Rate Subsidy	(67,185)
Increase in Net OPEB Obligations	78,639
Net OPEB Obligations - Beginning of Year	932,014
Net OPEB Obligations - End of Year	$ 1,010,653
OPEB Plan Liability:	
Current	$ 30,320
Long-Term	980,333
Total Net OPEB Plan Liability	$ 1,010,653

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 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
2017	$ 168,985	13.7%	$ 1,010,653
2016	$ 137,462	24.0%	$ 932,014
2015	$ 140,737	18.8%	$ 887,567

NOTE 11 - POST-RETIREMENT HEALTHCARE PLANS (Continued)

Governmental Activities (Continued)

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	$	212,307
Interest on Net OPEB Obligation		37,280
Adjustment to Annual Required Contribution		(80,602)
Annual OPEB Cost	$	168,985

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

Plan Description. 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, 2017 are as follows:

		Amount	%
Retiree Contributions	$	24,585	66%
Department Contributions	$	12,537	34%

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, 2017, the amount actually contributed to the plan, and changes in the net OPEB obligation:

Annual OPEB Cost	$	12,537
Company Contributions Made		(12,537)
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	$	574,478
Water Department		246,208
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 2017 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
2017	$	12,537	100.0%	$	820,686
2016		3,746	100.0%		820,686
2015		22,336	7.8%		820,686

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	$	70,918
Interest on Net OPEB Obligation		32,640
Adjustment to Annual Required Contribution		(91,021)
Annual OPEB Cost	$	12,537

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 - 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 13 - 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 14 - COMMITMENTS

The Electric Department and the Water Department periodically enter into work plans for various system improvements. As of June 30, 2017, the Electric Department and the Water Department have approximately $328,000 and $491,000, respectively in contractual construction commitments.

NOTE 15 - 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, 2017, the City held $1,516,647 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 16 - CAPITAL CONTRIBUTIONS

Water Department

Capital contributions in 2017 in the Water Department consist of contributions from Campbell County totaling $781,546 of water lines.