

**NOTE 4 - CAPITAL ASSETS (Continued)**

**Electric Department**

Capital asset activity for the year ended June 30, 2020 is as follows:

|   | Balance<br>June 30, 2019 | Increases           | Decreases             | Balance<br>June 30, 2020 |
|---|--------------------------|---------------------|-----------------------|--------------------------|
| <b>Capital Assets, Not Being Depreciated:</b>       |                          |                     |                       |                          |
| Land and Land Rights                                | \$ 1,075,346             | \$ 0                | \$ 0                  | \$ 1,075,346             |
| Construction Work in Progress                       | 2,090,802                | 4,258,531           | (5,179,952)           | 1,169,381                |
| <b>Total Capital Assets, Not Being Depreciated</b>  | <b>3,166,148</b>         | <b>4,258,531</b>    | <b>(5,179,952)</b>    | <b>2,244,727</b>         |
| <b>Capital Assets, Being Depreciated:</b>           |                          |                     |                       |                          |
| Structures and Improvements                         | 5,192,648                | 5,485               | 0                     | 5,198,133                |
| Poles, Towers, and Transmission Assets              | 86,598,589               | 2,825,406           | (870,982)             | 88,553,013               |
| Street Lighting Systems                             | 4,283,371                | 469,514             | (151,429)             | 4,601,456                |
| Equipment, Furniture and Fixtures                   | 31,061,618               | 2,969,082           | (147,594)             | 33,883,106               |
| <b>Total Capital Assets, Being Depreciated</b>      | <b>127,136,226</b>       | <b>6,269,487</b>    | <b>(1,170,005)</b>    | <b>132,235,708</b>       |
| <b>Less Accumulated Depreciation for:</b>           |                          |                     |                       |                          |
| Structures and Improvements                         | 1,248,390                | 105,440             | 0                     | 1,353,830                |
| Poles, Towers, and Transmission Assets              | 38,076,562               | 2,585,459           | (853,198)             | 39,808,823               |
| Street Lighting Systems                             | 3,041,413                | 219,218             | (172,378)             | 3,088,253                |
| Equipment, Furniture and Fixtures                   | 19,084,765               | 837,802             | (119,918)             | 19,802,649               |
| <b>Total Accumulated Depreciation</b>               | <b>61,451,130</b>        | <b>3,747,919</b>    | <b>(1,145,494)</b>    | <b>64,053,555</b>        |
| <b>Total Capital Assets, Being Depreciated, Net</b> | <b>65,685,096</b>        | <b>2,521,568</b>    | <b>(24,511)</b>       | <b>68,182,153</b>        |
| <b>Capital Assets, Net</b>                          | <b>\$ 68,851,244</b>     | <b>\$ 6,780,099</b> | <b>\$ (5,204,463)</b> | <b>\$ 70,426,880</b>     |

**Water Department**

Capital asset activity for the year ended June 30, 2020 is as follows:

|   | Balance<br>June 30, 2019 | Increases           | Decreases             | Balance<br>June 30, 2020 |
|---|--------------------------|---------------------|-----------------------|--------------------------|
| <b>Capital Assets, Not Being Depreciated:</b>       |                          |                     |                       |                          |
| Land and Land Rights                                | \$ 169,537               | \$ 0                | \$ 0                  | \$ 169,537               |
| Construction Work in Progress                       | 149,961                  | 1,363,358           | (1,113,372)           | 399,947                  |
| <b>Total Capital Assets, Not Being Depreciated</b>  | <b>319,498</b>           | <b>1,363,358</b>    | <b>(1,113,372)</b>    | <b>569,484</b>           |
| <b>Capital Assets, Being Depreciated:</b>           |                          |                     |                       |                          |
| Structures and Improvements                         | 17,466,454               | 699,128             | 0                     | 18,165,582               |
| Furniture, Fixtures and Equipment                   | 8,018,550                | 451,939             | (64,014)              | 8,406,475                |
| Distribution Reservoir and Standpipes               | 2,390,701                | 74,988              | 0                     | 2,465,689                |
| Transmission and Distribution Mains                 | 30,071,443               | 6,928               | 0                     | 30,078,371               |
| Service Installations                               | 7,486,303                | 233,339             | (15,030)              | 7,704,612                |
| <b>Total Capital Assets, Being Depreciated</b>      | <b>65,433,451</b>        | <b>1,466,322</b>    | <b>(79,044)</b>       | <b>66,820,729</b>        |
| <b>Less Accumulated Depreciation for:</b>           |                          |                     |                       |                          |
| Structures and Improvements                         | 7,347,491                | 434,833             | 0                     | 7,782,324                |
| Furniture, Fixtures and Equipment                   | 6,182,967                | 344,691             | (59,169)              | 6,468,489                |
| Distribution Reservoir and Standpipes               | 1,073,970                | 47,814              | 0                     | 1,121,784                |
| Transmission and Distribution Mains                 | 12,431,518               | 599,294             | 0                     | 13,030,812               |
| Service Installations                               | 4,482,007                | 284,401             | 0                     | 4,766,408                |
| <b>Total Accumulated Depreciation</b>               | <b>31,517,953</b>        | <b>1,711,033</b>    | <b>(59,169)</b>       | <b>33,169,817</b>        |
| <b>Total Capital Assets, Being Depreciated, Net</b> | <b>33,915,498</b>        | <b>(244,711)</b>    | <b>(19,875)</b>       | <b>33,650,912</b>        |
| <b>Capital Assets, Net</b>                          | <b>\$ 34,234,996</b>     | <b>\$ 1,118,647</b> | <b>\$ (1,133,247)</b> | <b>\$ 34,220,396</b>     |

**NOTE 4 - CAPITAL ASSETS (Continued)**

**Emergency Communications District**

Capital asset activity for the component unit for the year ended June 30, 2020 is as follows:

|   | Balance<br>June 30, 2019 | Increases         | Decreases          | Balance<br>June 30, 2020 |
|---|--------------------------|-------------------|--------------------|--------------------------|
| <b>Capital Assets, Not Being Depreciated:</b>       |                          |                   |                    |                          |
| Land and Land Rights                                | \$ 4,000                 | \$ 0              | \$ 0               | \$ 4,000                 |
| Construction In Progress                            | 51,380                   | 0                 | (51,380)           | 0                        |
| <b>Total Capital Assets, Not Being Depreciated</b>  | <b>55,380</b>            | <b>0</b>          | <b>(51,380)</b>    | <b>4,000</b>             |
| <b>Capital Assets, Being Depreciated:</b>           |                          |                   |                    |                          |
| Equipment, Furniture and Fixtures                   | 796,460                  | 301,658           | 0                  | 1,098,118                |
| <b>Less Accumulated Depreciation for:</b>           |                          |                   |                    |                          |
| Equipment, Furniture and Fixtures                   | 533,040                  | 87,677            | 0                  | 620,717                  |
| <b>Total Capital Assets, Being Depreciated, Net</b> | <b>263,420</b>           | <b>213,981</b>    | <b>0</b>           | <b>477,401</b>           |
| <b>Capital Assets, Net</b>                          | <b>\$ 318,800</b>        | <b>\$ 213,981</b> | <b>\$ (51,380)</b> | <b>\$ 481,401</b>        |

**NOTE 5 - LONG-TERM OBLIGATIONS**

**(A) LONG-TERM DEBT**

Changes in long-term debt for the year ended June 30, 2020 are as follows:

|   | Balance<br>June 30, 2019 | Increases            | Decreases              | Balance<br>June 30, 2020 | Current<br>Portion  |
|---|--------------------------|----------------------|------------------------|--------------------------|---------------------|
| <b>Governmental Activities:</b>                                       |                          |                      |                        |                          |                     |
| <b>Notes Payable (Direct Borrowings):</b>                             |                          |                      |                        |                          |                     |
| Capital Outlay Note   | \$ 337,000               | \$ 0                 | \$ (166,000)           | \$ 171,000               | \$ 171,000          |
| Capital Outlay Note   | 1,232,000                | 0                    | (140,000)              | 1,092,000                | 143,000             |
|   | <u>\$ 1,569,000</u>      | <u>\$ 0</u>          | <u>\$ (306,000)</u>    | <u>\$ 1,263,000</u>      | <u>\$ 314,000</u>   |
| <b>Business-Type Activities:</b>                                      |                          |                      |                        |                          |                     |
| <b>Notes Payable (Direct Borrowings):</b>                             |                          |                      |                        |                          |                     |
| Loans Payable to PBA Clarksville,<br>Series 2003, 2004, 2008 and 2010 | \$ 6,159,999             | \$ 0                 | \$ (6,159,999)         | \$ 0                     | \$ 0                |
| Loan Payable to PBA Montgomery County,<br>Series 2006                 | 6,665,000                | 0                    | (6,665,000)            | 0                        | 0                   |
| TLDA Loans  | 4,955,163                | 0                    | (452,052)              | 4,503,111                | 455,645             |
| <b>Total Notes Payable (Direct Borrowings)</b>                        | <b>17,780,162</b>        | <b>0</b>             | <b>(13,277,051)</b>    | <b>4,503,111</b>         | <b>455,645</b>      |
| <b>General Obligation Bonds:</b>                                      |                          |                      |                        |                          |                     |
| Rural Development Revenue and Tax Bonds<br>Series 2014A               | 1,649,675                | 0                    | (33,602)               | 1,616,073                | 34,452              |
| Refunding, Series 2015A   | 4,887,769                | 1,805,793            | (370,258)              | 6,323,304                | 260,000             |
| Refunding, Series 2015B   | 4,470,000                | 0                    | (1,490,000)            | 2,980,000                | 1,490,000           |
| Series 2017   | 3,210,000                | 0                    | (265,000)              | 2,945,000                | 270,000             |
| Series 2019   | 8,360,000                | 0                    | 0                      | 8,360,000                | 390,000             |
|   | 0                        | 13,465,000           | (1,250,000)            | 12,215,000               | 1,000,000           |
| <b>Total General Obligation Bonds</b>                                 | <b>22,577,444</b>        | <b>15,270,793</b>    | <b>(3,408,860)</b>     | <b>34,439,377</b>        | <b>3,444,452</b>    |
|   | <u>\$ 40,357,606</u>     | <u>\$ 15,270,793</u> | <u>\$ (16,685,911)</u> | <u>\$ 38,942,488</u>     | <u>\$ 3,900,097</u> |

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

**Governmental Activities**

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

|                     | Interest Rates | Date Issued | Final Maturity Date | Amount of Original Issue | Balance June 30, 2020 |
|---------------------|----------------|-------------|---------------------|--------------------------|-----------------------|
| Capital Outlay Note | 2.94%          | 10/27/10    | 10/01/20            | \$ 1,500,000             | \$ 171,000            |
| Capital Outlay Note | 2.81%          | 04/12/17    | 03/01/27            | 1,500,000                | 1,092,000             |
|                     |                |             |                     |                          | <u>\$ 1,263,000</u>   |

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

| Year Ending June 30, | Notes from Direct Borrowings |                   |
|----------------------|------------------------------|-------------------|
|                      | Principal                    | Interest          |
| 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            |
| 2026-2027            | 334,000                      | 14,135            |
| Total                | <u>\$ 1,263,000</u>          | <u>\$ 128,683</u> |

**Electric Department**

Changes in long-term obligations for the year ended June 30, 2020 are as follows:

|   | Balance June 30, 2019 | Increases            | Decreases              | Balance June 30, 2020 | Amounts Due Within One Year |
|---|-----------------------|----------------------|------------------------|-----------------------|-----------------------------|
| <b>Notes Payable (Direct Borrowings):</b>   |                       |                      |                        |                       |                             |
| Loan Payable to the Public Building Authority of the City of Clarksville, Tennessee - Series 2004 (PBA Clarksville, Series 2004) - Variable Rate based on Bank of America Daily Rate        | \$ 3,004,729          | \$ 0                 | \$ (3,004,729)         | \$ 0                  | \$ 0                        |
| Loan Payable to the Public Building Authority of the County of Montgomery, Tennessee - Series 2006 (PBA Montgomery County, Series 2006) - Variable Rate based on Bank of America Daily Rate | 6,665,000             | 0                    | (6,665,000)            | 0                     | 0                           |
| 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        | 1,244,583             | 0                    | (1,244,583)            | 0                     | 0                           |
| Total Notes Payable (Direct Borrowings)   | <u>10,914,312</u>     | <u>0</u>             | <u>(10,914,312)</u>    | <u>0</u>              | <u>0</u>                    |
| <b>General Obligation Bonds:</b>  |                       |                      |                        |                       |                             |
| Electric System General Obligation Bonds, Series 2014A, 2.0% to 4.0%  | 4,155,000             | 0                    | (215,000)              | 3,940,000             | 220,000                     |
| Electric System General Obligation Refunding Bonds, Series 2015A, 2.0%  | 4,470,000             | 0                    | (1,490,000)            | 2,980,000             | 1,490,000                   |
| Electric System General Obligation Refunding Bonds, Series 2015B, 2.0% to 2.75%   | 3,210,000             | 0                    | (265,000)              | 2,945,000             | 270,000                     |
| Electric System General Obligation Bonds, Series 2017, 2.0% to 3.25%  | 8,360,000             | 0                    | 0                      | 8,360,000             | 390,000                     |
| Electric System General Obligation Refunding Bonds, Series 2019, 2.25% to 5.00%   | 0                     | 11,740,000           | (1,050,000)            | 10,690,000            | 800,000                     |
| Total General Obligation Bonds  | <u>20,195,000</u>     | <u>11,740,000</u>    | <u>(3,020,000)</u>     | <u>28,915,000</u>     | <u>3,170,000</u>            |
| Total Electric Department Debt  | <u>31,109,312</u>     | <u>11,740,000</u>    | <u>(13,934,312)</u>    | <u>28,915,000</u>     | <u>3,170,000</u>            |
| Plus Unamortized Premiums on Issuance   | <u>386,507</u>        | <u>1,593,837</u>     | <u>(105,765)</u>       | <u>1,874,579</u>      | <u>0</u>                    |
|   | <u>\$ 31,495,819</u>  | <u>\$ 13,333,837</u> | <u>\$ (14,040,077)</u> | <u>\$ 30,789,579</u>  | <u>\$ 3,170,000</u>         |

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

**Electric Department (Continued)**

The bonds and loans payable outstanding as of June 30, 2020 are as follows:

|   | <u>Interest Rates</u> | <u>Date Issued</u> | <u>Final<br/>Maturity Date</u> | <u>Amount of<br/>Original Issue</u> | <u>Balance<br/>June 30, 2020</u> |
|---|-----------------------|--------------------|--------------------------------|-------------------------------------|----------------------------------|
| Electric System General Obligation Bonds,<br>Series 2014A           | 2.00% - 4.00%         | 12/5/2014          | 3/1/2035                       | \$ 9,075,000                        | \$ 3,940,000                     |
| Electric System General Obligation Refunding<br>Bonds, Series 2015A | 2.00%                 | 2/27/2015          | 3/1/2022                       | 5,990,000                           | 2,980,000                        |
| Electric System General Obligation Refunding<br>Bonds, Series 2015B | 2.00% - 2.75%         | 3/31/2015          | 3/1/2030                       | 4,225,000                           | 2,945,000                        |
| Electric System General Obligation<br>Bonds, Series 2017            | 2.00% to 3.25%        | 5/25/2017          | 3/1/2037                       | 8,360,000                           | 8,360,000                        |
| Electric System General Obligation<br>Bonds, Series 2019            | 2.25% to 5.00%        | 11/25/2019         | 3/1/2034                       | 11,740,000                          | 10,690,000                       |
|   |                       |                    |                                |                                     | <u>\$ 28,915,000</u>             |

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

|           | <u>Principal</u>     | <u>Interest</u>     |
|-----------|----------------------|---------------------|
| 2021      | \$ 3,170,000         | \$ 971,738          |
| 2022      | 3,200,000            | 880,438             |
| 2023      | 2,060,000            | 788,338             |
| 2024      | 2,130,000            | 708,888             |
| 2025      | 2,165,000            | 630,301             |
| 2026-2030 | 9,865,000            | 2,041,583           |
| 2031-2035 | 5,120,000            | 677,600             |
| 2036-2037 | 1,205,000            | 58,988              |
| Total     | <u>\$ 28,915,000</u> | <u>\$ 6,757,875</u> |

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

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

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

On November 25, 2019, the Electric Department issued \$13,150,000 in General Obligation Refunding Bonds (Series 2019) to provide funds to refinance all of the variable rate loans payable to the Public Building Authorities of the City of Clarksville, TN and the County of Montgomery, Tennessee. The refunding did not result in an accounting loss. These bonds also resulted in approximately \$2,260,000 in additional proceeds to provide financing for certain construction projects. The 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 5 - LONG-TERM OBLIGATIONS (Continued)**

**Water Department**

Changes in long-term obligations for the year ended June 30, 2020 are as follows:

|  | Balances<br>June 30, 2019 | Increases           | Decreases             | Balances<br>June 30, 2020 | Amounts<br>Due Within<br>One Year |
|--|---------------------------|---------------------|-----------------------|---------------------------|-----------------------------------|
| <b>Notes Payable (Direct Borrowings):</b>  |                           |                     |                       |                           |                                   |
| 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) | \$ 260,000                | \$ 0                | \$ (260,000)          | \$ 0                      | \$ 0                              |
| Loan Payable to the Public Building Authority of the City of Clarksville, Tennessee - Series 2004 (PBA Clarksville, Series 2004) - Variable Rate (Based on Bank of America Daily Rate) | 514,270                   | 0                   | (514,270)             | 0                         | 0                                 |
| State Revolving Fund Loan Payable to the Tennessee Local Development Authority - Series 2003 (TLDA, Series 2003)   | 365,663                   | 0                   | (54,444)              | 311,219                   | 54,845                            |
| State Revolving Fund Loan Payable to the Tennessee Local Development Authority Series 2006 (TLDA, Series 2006)   | 4,589,500                 | 0                   | (397,608)             | 4,191,892                 | 400,800                           |
| 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) | 1,136,417                 | 0                   | (1,136,417)           | 0                         | 0                                 |
| <b>Total General Obligation (Direct Borrowings)</b>  | <b>6,865,850</b>          | <b>0</b>            | <b>(2,362,739)</b>    | <b>4,503,111</b>          | <b>455,645</b>                    |
| <b>General Obligation Bonds:</b>   |                           |                     |                       |                           |                                   |
| Rural Development Water and Sewer Revenue and Tax Bonds - Series 2012 - Fixed Rate of 2.5%   | 1,649,675                 | 0                   | (33,602)              | 1,616,073                 | 34,452                            |
| Water System General Obligation Bonds, Series 2014A, 2.00% to 2.75%  | 340,000                   | 0                   | (40,000)              | 300,000                   | 40,000                            |
| Water System General Obligation Refunding Bonds, Series 2019, 3.0% to 5.0%   | 0                         | 1,725,000           | (200,000)             | 1,525,000                 | 200,000                           |
| <b>Total General Obligation Bonds</b>  | <b>1,989,675</b>          | <b>1,725,000</b>    | <b>(273,602)</b>      | <b>3,441,073</b>          | <b>274,452</b>                    |
| <b>Total Water Department Debt</b>   | <b>8,855,525</b>          | <b>1,725,000</b>    | <b>(2,636,341)</b>    | <b>7,944,184</b>          | <b>730,097</b>                    |
| Plus: Unamortized Premiums on Issuance   | 6,262                     | 211,956             | (9,493)               | 208,725                   | 0                                 |
|  | <b>\$ 8,861,787</b>       | <b>\$ 1,936,956</b> | <b>\$ (2,645,834)</b> | <b>\$ 8,152,909</b>       | <b>\$ 730,097</b>                 |

The bonds, loans and notes payable outstanding as of June 30, 2020 are as follows:

|  | Interest Rates | Date Issued | Final<br>Maturity Date | Amount of<br>Original Issue | Balance<br>June 30, 2020 |
|--|----------------|-------------|------------------------|-----------------------------|--------------------------|
| Loan Payable to PBA - Clarksville, Series 2003                       | Variable       | 12/29/2003  | 5/25/2023              | \$ 1,000,000                | \$ 0                     |
| Loan Payable to PBA - Clarksville, Series 2004                       | Variable       | 5/24/2005   | 5/25/2025              | 1,461,400                   | 0                        |
| Loan Payable to TLDA, Series 2003                                    | 0.71%          | 6/23/2003   | 6/30/2026              | 1,060,000                   | 311,219                  |
| Loan Payable to TLDA, Series 2006                                    | 0.80%          | 6/25/2007   | 2/20/2030              | 7,997,945                   | 4,191,892                |
| Loan Payable to PBA - Clarksville, Series 2008                       | Variable       | 10/31/2008  | 5/25/2031              | 1,670,500                   | 0                        |
| Rural Development Water and Sewer Revenue and Tax Bonds, Series 2012 | 2.50%          | 12/4/2012   | 6/30/2051              | 1,825,000                   | 1,616,073                |
| Water System General Obligation Bonds, Series 2014A                  | 2.00% to 2.75% | 12/5/2014   | 3/1/2027               | 500,000                     | 300,000                  |
| Water System General Obligation Refunding Bonds, Series 2019         | 3.0% to 5.0%   | 11/25/2019  | 3/1/2031               | 1,725,000                   | 1,525,000                |
|  |                |             |                        |                             | <b>\$ 7,944,184</b>      |

**NOTE 5 - LONG-TERM OBLIGATIONS (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:

|             | Notes from Direct Borrowings |            | Bonds        |              |
|-------------|------------------------------|------------|--------------|--------------|
|             | Principal                    | Interest   | Principal    | Interest     |
| 2021        | \$ 455,645                   | \$ 34,107  | \$ 274,452   | \$ 119,158   |
| 2022        | 459,255                      | 30,489     | 275,323      | 107,487      |
| 2023        | 462,889                      | 26,855     | 276,216      | 95,793       |
| 2024        | 466,561                      | 23,183     | 247,132      | 84,078       |
| 2025        | 470,248                      | 19,496     | 243,071      | 73,877       |
| 2026 - 2030 | 2,152,641                    | 44,912     | 795,293      | 250,606      |
| 2031 - 2035 | 35,872                       | 0          | 332,596      | 142,701      |
| 2036 - 2040 | 0                            | 0          | 263,532      | 108,765      |
| 2041 - 2045 | 0                            | 0          | 298,582      | 73,715       |
| 2046 - 2050 | 0                            | 0          | 338,295      | 34,004       |
| 2051 - 2052 | 0                            | 0          | 96,581       | 1,707        |
| Total       | \$ 4,503,111                 | \$ 179,042 | \$ 3,441,073 | \$ 1,091,891 |

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 2052. 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 \$7,014,229 based on rates in effect as of June 30, 2020. Principal and interest paid for the current year and total net revenues of the Water Department were \$564,204 and \$6,826,068, respectively.

The general taxing authority of the City of LaFollette is pledged as collateral for the Revenue and Tax Bonds.

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.

On November 25, 2019, the Water Department issued \$1,750,000 in General Obligation Refunding Bonds (Series 2019) to provide funds to refinance all of the variable rate loans payable to the Public Building Authorities of the City of Clarksville, Tennessee and the County of Montgomery, Tennessee. The refunding did not result in an accounting loss. These 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.

**(B) CAPITAL LEASE OBLIGATIONS**

On December 6, 2018, the City entered into a capital lease to purchase a breathing apparatus system for an emergency vehicle. The City is required to make annual lease payments of \$22,432 plus interest at 4.47% set to mature August 2024. Title to the equipment will transfer to the City at the end of the lease.

On April 25, 2019, the City entered into a capital lease to purchase a fire apparatus system for an emergency vehicle. The City is required to make annual lease payments of \$40,979 plus interest at 4.15% set to mature August 2025. Title to the equipment will transfer to the City at the end of the lease.

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

**(B) CAPITAL LEASE OBLIGATIONS (Continued)**

Changes in capital lease obligations for the year ended June 30, 2020 are as follows:

|                                 | Balance<br>June 30, 2019 | Increases   | Decreases          | Balance<br>June 30, 2020 | Current<br>Portion |
|---------------------------------|--------------------------|-------------|--------------------|--------------------------|--------------------|
| <b>Governmental Activities:</b> |                          |             |                    |                          |                    |
| Capital Lease Obligations:      |                          |             |                    |                          |                    |
| Breathing Apparatus             | \$ 100,000               | \$ 0        | \$ (19,475)        | \$ 80,525                | \$ 18,830          |
| Fire Apparatus                  | 251,945                  | 0           | (38,136)           | 213,809                  | 32,117             |
|                                 | <u>\$ 351,945</u>        | <u>\$ 0</u> | <u>\$ (57,611)</u> | <u>\$ 294,334</u>        | <u>\$ 50,947</u>   |

The following is a summary of the City's payments of capitalized lease obligations in five-year increments:

| Year Ending June 30, | Capital Lease Obligations |                  |
|----------------------|---------------------------|------------------|
|                      | Principal                 | Interest         |
| 2021                 | \$ 50,947                 | \$ 12,465        |
| 2022                 | 53,120                    | 10,291           |
| 2023                 | 55,387                    | 8,025            |
| 2024                 | 57,749                    | 5,661            |
| 2025                 | 37,782                    | 3,197            |
| 2026-2027            | 39,349                    | 1,631            |
| Total                | <u>\$ 294,334</u>         | <u>\$ 41,270</u> |

**NOTE 6 - OTHER LONG-TERM LIABILITIES**

Other long-term liabilities activity during the year ended June 30, 2020 consists of the following:

|                                     | Balance<br>June 30, 2019 | Increases           | Decreases             | Balance<br>June 30, 2020 | Amounts Due<br>Within One Year |
|-------------------------------------|--------------------------|---------------------|-----------------------|--------------------------|--------------------------------|
| <b>Governmental Activities:</b>     |                          |                     |                       |                          |                                |
| Accrued Compensated Absences        | \$ 309,166               | \$ 291,542          | \$ (309,166)          | \$ 291,542               | \$ 291,542                     |
| Accrued Post-Retirement Plan (OPEB) | 1,125,632                | 383,482             | (80,650)              | 1,428,464                | 0                              |
|                                     | <u>\$ 1,434,798</u>      | <u>\$ 675,024</u>   | <u>\$ (389,816)</u>   | <u>\$ 1,720,006</u>      | <u>\$ 291,542</u>              |
| <b>Business-Type Activities:</b>    |                          |                     |                       |                          |                                |
| Customer Deposits                   | \$ 2,316,789             | \$ 482,316          | \$ (371,110)          | \$ 2,427,995             | \$ 386,573                     |
| Accrued Compensated Absences        | 1,758,492                | 702,487             | (482,866)             | 1,978,113                | 667,592                        |
| Accrued Retirement Plan             | 618,106                  | 0                   | (117,870)             | 500,236                  | 117,960                        |
| Accrued Post-Retirement Plan (OPEB) | 725,381                  | 317,734             | (49,238)              | 993,877                  | 0                              |
|                                     | <u>\$ 5,418,768</u>      | <u>\$ 1,502,537</u> | <u>\$ (1,021,084)</u> | <u>\$ 5,900,221</u>      | <u>\$ 1,172,125</u>            |

**NOTE 7 - RETIREMENT PLANS**

**Governmental Activities Pension Plan**

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

*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, 2019, the following numbers of employees were covered by the benefit terms:

|  |     |
|--|-----|
| Inactive Employees or Beneficiaries Currently Receiving Benefits | 66  |
| Inactive Employees Entitled to but not yet Receiving Benefits    | 92  |
| Active Employees   | 92  |
| Total  | 250 |

*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, 2020, the employer contributions for the City were \$284,578 based on a rate of 9.78% 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.



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

**Net Pension Liability**

The City's net pension liability was measured as of June 30, 2019, 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, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

|                           |   |
|---------------------------|---|
| Inflation                 | 2.5%  |
| Salary Increases          | Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4.00% |
| Investment Rate of Return | 7.25%, net of pension plan investment expenses, including inflation                         |
| Cost-of-Living Adjustment | 2.25%   |

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

The actuarial assumptions used in the June 30, 2019 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012 through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

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

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

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

*Discount Rate* -The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the City will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

**Governmental Activities Pension Plan (Continued)**

**Changes in the Net Pension Liability (Asset)**

|  | Increase (Decrease)        |                                |                                  |
|--|----------------------------|--------------------------------|----------------------------------|
|  | Total Pension<br>Liability | Plan Fiduciary<br>Net Position | Net Pension<br>Liability (Asset) |
|  | (a)                        | (b)                            | (a) - (b)                        |
| <b>Balance at June 30, 2018</b>                                  | \$ 13,324,095              | \$ 13,294,376                  | \$ 29,719                        |
| <b>Changes for the Year</b>                                      |                            |                                |                                  |
| Service Cost   | 260,139                    | 0                              | 260,139                          |
| Interest   | 954,588                    | 0                              | 954,588                          |
| Difference between Expected and Actual Experience                | 93,274                     | 0                              | 93,274                           |
| Changes in Assumptions   | 0                          | 0                              | 0                                |
| Contribution - Employer  | 0                          | 308,832                        | (308,832)                        |
| Contribution - Employee  | 0                          | 157,890                        | (157,890)                        |
| Net Investment Income  | 0                          | 975,887                        | (975,887)                        |
| Benefit Payments, including Refunds of<br>Employee Contributions | (835,016)                  | (835,016)                      | 0                                |
| Administrative Expense   | 0                          | (7,966)                        | 7,966                            |
| <b>Net Changes</b>   | <u>472,985</u>             | <u>599,627</u>                 | <u>(126,642)</u>                 |
| <b>Balance at June 30, 2019</b>                                  | <u>\$ 13,797,080</u>       | <u>\$ 13,894,003</u>           | <u>\$ (96,923)</u>               |

*Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate* -The following presents the net pension liability (asset) of the City calculated using the discount rate of 7.25%, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

|   | 1% Decrease<br>(6.25%) | Current<br>Discount Rate<br>(7.25%) | 1% Increase<br>(8.25%) |
|---|------------------------|-------------------------------------|------------------------|
| 2020 City's Net Pension Liability (Asset) | \$ 1,531,955           | \$ (96,923)                         | \$ (1,449,982)         |

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

*Pensions Expense* - For the year ended June 30, 2020, the City recognized pension expense of \$193,257.

*Deferred Outflows of Resources and Deferred Inflows of Resources* - For the year ended June 30, 2020, 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:

| <u>2020</u>   | <u>Deferred Outflows<br/>of Resources</u> | <u>Deferred Inflows<br/>of Resources</u> |
|---|---|--|
| Differences Between Expected and Actual Experience                                  | \$ 133,639                                | \$ 324,525                               |
| Net Difference Between Projected and Actual Earnings on<br>Pension Plan Investments | 0   | 162,961                                  |
| Changes in Assumptions  | 179,150                                   | 0  |
| Contributions Subsequent to the Measurement Date of June 30, 2019                   | 284,578                                   | 0  |
| <b>Total</b>  | <u>\$ 597,367</u>                         | <u>\$ 487,486</u>                        |

\*The amount show above for "Contributions subsequent to the measurement date of June 30, 2019", will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period.