

NOTE 7 - RETIREMENT PLANS (Continued)

Governmental Activities Pension Plan (Continued)

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

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

Year Ended June 30,		
2021	\$	(22,449)
2022		(129,985)
2023		(18,769)
2024		(10,560)
2025		(6,252)
Thereafter		13,318

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, 2020, 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.

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, 2020, 66 of the Electric Department's employees and 18 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, 2020, required employer contributions for the Electric Department were \$863,416 based on a rate of 27.17% of covered payroll. Required employer contributions for the Water Department were \$370,035 based on a rate of 27.17% of covered payroll. These amounts represent all of the required contributions for the year, and no amounts are included in accounts payable at year end. The RS Plan must meet minimum funding requirements under ERISA, as determined by Internal Revenue Service regulations. The Electric Department and Water Department can choose to withdraw from the RS Plan, subject to plan provisions that require the departments to fully fund its share of RS Plan liabilities before withdrawing.

NOTE 7 - RETIREMENT PLANS (Continued)

Electric and Water Department Pension Plan (Continued)

The Electric Department and Water Department have recorded a payable to NRECA related to contractual agreements for contributions to the RS Plan related to past service upon the Department's entrance into the Plan. This liability is to be repaid in annual installments, with final payment due in 2047. The Electric and Water Department's contractual liability for past service costs as of June 30, 2020 is as follows:

	Electric Department	Water Department
Contractual Liability - Beginning of Year	\$ 464,919	\$ 153,187
Amounts Remitted to the NRECA	(82,861)	(35,008)
Contractual Liability - End of Year	382,058	118,179
Less Current Portion of Accrued Liability	(82,952)	(35,008)
Long-Term Portion of Accrued Liability	<u>\$ 299,106</u>	<u>\$ 83,171</u>

Electric and Water Department Defined Contribution 401(k) Plan

The Electric Department and Water Department also have a defined contribution 401(k) plan through the NRECA which covers substantially all employees. The Electric Department and Water Department match up to 4% of participants' base pay each year. Voluntary participant contributions are allowed and totaled \$254,594 for the Electric Department and \$109,112 for the Water Department for the year ended June 30, 2020. Contributions by the Electric Department totaled \$158,373 and contributions by the Water Department totaled \$67,874 for the year ended June 30, 2020.

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The following information is provided to support the balances as of June 30, 2020 in the total column on the Statement of Net Position on pages 1 and 2 of the financial statements

	City	Electric	Water	All Plans
Accrued Post Retirement Plan	\$ 1,428,464	\$ 695,714	\$ 298,163	\$ 2,422,341
Deferred OPEB Outflows	\$ 219,507	\$ 205,553	\$ 78,051	\$ 503,111
Deferred OPEB Inflows	\$ 19,072	\$ 9,233	\$ 27,393	\$ 55,698

Governmental Activities

General Information About the OPEB Plan

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

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

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

Governmental Activities (Continued)

General Information About the OPEB Plan (Continued)

Employees Covered by Benefit Terms - At July 1, 2019, the following employees of the City were covered by the benefit terms of the Plan:

Retired Employees	3
Disabled Employees	0
Beneficiaries	0
Active Employees	<u>104</u>
Total Participants	<u><u>107</u></u>

The contribution requirements are established and may be amended by the City. The Plan is currently being funded on a pay-as-you-go basis. There are no assets accumulating in a trust that meets that criteria of paragraph 4 of GASB Statement No. 75. For the fiscal year ended June 30, 2020, the City paid \$54,538 to the Plan for OPEB benefits as they came due.

Total OPEB Liability

Actuarial Assumptions - The total OPEB liability in the July 1, 2019 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.00%
Healthcare Cost Trend Rates:	5.00% for 2020, remaining stagnant over the course of the next several periods.
Retiree's Share of Benefit-Related Costs	Members opting to receive full retirement benefits are not required to make monthly contributions to maintain their individual coverage. Members are required to make monthly contributions for dependents to maintain coverage. Members opting for early benefits are required to make monthly contributions of half their premiums to maintain coverage and full contributions to maintain dependent coverage.

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

The actuarial demographic assumptions used in the July 1, 2019 actuarial valuation were based on the results of past experience. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. The mortality rates employed in this valuation are taken from the Group Annuity 1983 Mortality Table.

Discount Rate - The discount rate used to measure the total OPEB liability as of June 30, 2020 was 2.21% (3.50% as of June 30, 2019). This rate reflects the interest rate derived from yields on 20-year, tax-exempt general obligation municipal bonds, prevailing on the measurement date, with an average rating of AA/Aa as shown on the Bond Buyer's 20-Year Municipal GO index.

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

Governmental Activities (Continued)

General Information About the OPEB Plan (Continued)

Changes in the Total OPEB Liability

	<u>Total OPEB Liability</u>
Balances at July 1, 2019	\$ <u>1,125,632</u>
Changes for the Year	
Service Cost	96,088
Interest	47,051
Change in Assumptions	214,231
Benefit Payments	<u>(54,538)</u>
Net Changes	<u>302,832</u>
Balances at June 30, 2020	\$ <u><u>1,428,464</u></u>

Changes in Assumptions - The discount rate was changed from 3.50% as of the beginning of the measurement period to 2.21% as of June 30, 2020. This change in assumption increased the total OPEB liability.

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

<u>Total OPEB Liability</u>	<u>1% Decrease (1.21%)</u>	<u>Discount Rate (2.21%)</u>	<u>1% Increase (3.21%)</u>
2020	\$ <u>1,589,471</u>	\$ <u>1,428,464</u>	\$ <u>1,286,232</u>

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

<u>Total OPEB Liability</u>	<u>1% Decrease (4.00%)</u>	<u>Healthcare Cost Trend Rates (5.00%)</u>	<u>1% Increase (6.00%)</u>
2020	\$ <u>1,247,411</u>	\$ <u>1,428,464</u>	\$ <u>1,649,408</u>

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

Governmental Activities (Continued)

General Information About the OPEB Plan (Continued)

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

OPEB Expense - For the fiscal year ended June 30, 2020, the City recognized OPEB expense of \$169,251.

Deferred Outflows of Resources and Deferred Inflows of Resources - For the fiscal year ended June 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB benefits from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Change in Assumptions	\$ 219,507	\$ 19,072

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

For the Years ended June 30:

2021	\$ 26,112
2022	26,112
2023	26,112
2024	26,112
2025	25,380
Thereafter	<u>70,607</u>
Total	<u>\$ 200,435</u>

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

Electric Department and Water Department

Plan Description - In addition to the retirement benefits described in Note 7, The City of LaFollette - Board of Public Utilities' board of commissioners approved a single-employer defined benefit healthcare plan that is self-administered. The Plan provides partial payment of health insurance premiums for eligible retirees and their dependents. The Plan provides for each Department to pay 2% per year of service up to a maximum of 50% of the employee premium for a total of 5 years. It also provides for each Department to pay 1% per year of service up to a maximum of 25% of the dependent and surviving spouse's premium for a total of 5 years.

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

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

Governmental Activities (Continued)

Electric Department and Water Department (Continued)

Employees Covered by Benefit Terms - At the measurement date of June 30, 2020, the following employees of the Electric Department were covered by the benefit terms of The Plan:

	<u>Electric Department</u>	<u>Water Department</u>
Retired Employees	4	2
Disabled Employees	3	1
Beneficiaries	1	0
Active Employees	<u>65</u>	<u>28</u>
Total Participants	<u><u>73</u></u>	<u><u>31</u></u>

The contribution requirements are established and may be amended by the board of commissioners. The Plan is currently being funded on a pay-as-you-go basis, whereby amounts paid to retirees and their matching payments are the only contributions. There are no assets accumulating in a trust that meet the criteria of paragraph 4 of GASB Statement No. 75. For the fiscal year ended June 30, 2020, the Electric Department paid \$34,467 and the Water Department paid \$14,754 to the Plan for OPEB benefits as they came due.

Total OPEB Liability

Actuarial Assumptions - The total OPEB liability in the July 1, 2019 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.00%
Healthcare Cost Trend Rates	5.00% for 2020, remaining stagnant over the course of the next several periods.
Retiree's Share of Benefit-Related Costs	Members are required to make monthly contributions in order to maintain their coverage. The Electric Department pays a portion of eligible retirees' and their dependents' medical premiums, for a total of five years. The portion paid amounts to 2% for each year of service, up to 50% of premiums for retirees and 1% for each year of service up to 25% of premiums for their dependents.

Actuarial valuations of an ongoing plan involve estimates of value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial demographic assumptions used in the July 1, 2019 actuarial valuation were based on the results of past experience. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. The mortality rates employed in this valuation are taken from the Group Annuity 1983 Mortality Table.

Discount Rate - The discount rate used to measure the total OPEB liability as of June 30, 2020 was 2.21%. This rate reflects the interest rate derived from yields on 20-year, tax-exempt general obligation municipal bonds, prevailing on the measurement date, with an average rating of AA/Aa as shown on the Bond Buyer's 20-Year Municipal GO index.

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

Governmental Activities (Continued)

Electric Department and Water Department (Continued)

Changes in the Total OPEB Liability

	<u>Electric Department</u>	<u>Water Department</u>
Balances at July 1, 2019	\$ 507,767	\$ 217,614
Changes for the Year		
Service Cost	11,757	5,039
Interest	21,959	9,411
Change in Assumptions	188,698	80,870
Benefit Payments	<u>(34,467)</u>	<u>(14,771)</u>
Net Changes	<u>187,947</u>	<u>80,549</u>
Balances at June 30, 2020	<u>\$ 695,714</u>	<u>\$ 298,163</u>

Changes in Assumptions - The discount rate was changed from 3.50% as of the beginning of the measurement period to 2.21% as of June 30, 2020. This change in assumption increased the total OPEB liability.

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

	<u>1% Decrease (1.21%)</u>	<u>Discount Rate (2.21%)</u>	<u>1% Increase (3.21%)</u>
2020 Total OPEB Liability			
Electric	\$ <u>758,754</u>	\$ <u>695,714</u>	\$ <u>638,723</u>
Water	\$ <u>325,180</u>	\$ <u>298,163</u>	\$ <u>273,738</u>

Changes in the Total OPEB Liability (Continued)

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

	<u>1% Decrease (4.00%)</u>	<u>Healthcare Cost Trend Rates (5.00%)</u>	<u>1% Increase (6.00%)</u>
2020 Total OPEB Liability			
Electric	\$ <u>622,999</u>	\$ <u>695,714</u>	\$ <u>782,254</u>
Water	\$ <u>266,999</u>	\$ <u>298,163</u>	\$ <u>335,252</u>

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

Electric Department and Water Department (Continued)

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

OPEB Expense/Benefit - For the fiscal year ended June 30, 2020, the Electric and Water Department recognized OPEB expense and benefit of \$57,804 and \$19,996, respectively.

Deferred Outflows of Resources and Deferred Inflows of Resources - For the fiscal year ended June 30, 2020, the Electric and Water Department reported deferred outflows of resources and deferred inflows of resources related to OPEB benefits from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Electric		
Changes in Assumptions	\$ 182,118	\$ 9,233
Change in Proportion	23,435	0
Totals as of June 30, 2020	<u>\$ 205,553</u>	<u>\$ 9,233</u>
Water		
Changes in Assumptions	\$ 78,051	\$ 3,958
Change in Proportion	0	23,435
Totals as of June 30, 2020	<u>\$ 78,051</u>	<u>\$ 27,393</u>

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

<u>For the Years Ended June 30:</u>	<u>Electric</u>	<u>Water</u>
2021	\$ 24,048	\$ 5,539
2022	24,048	5,539
2023	24,048	5,539
2024	24,048	5,539
2025	24,048	5,539
Thereafter	76,080	22,963
Total	<u>\$ 196,320</u>	<u>\$ 50,658</u>

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

NOTE 9 - RISK MANAGEMENT

The City of LaFollette and its funds purchase commercial insurance and participate in the Tennessee Municipal League Public Entity Partners (PEP) 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 PEP 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 PEP 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 PEP and enforcement of these rights by complying with all terms of the policy.

NOTE 10 - CONTINGENCIES

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

NOTE 11 - COMMITMENTS

The Electric Department and the Water Department periodically enter into work plans for various system improvements. As of June 30, 2020, the Electric Department and the Water Department have approximately \$1,898,000 and \$235,000, respectively in contractual construction commitments.

NOTE 12 - LEASE OF HOSPITAL FACILITIES

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

The agreement requires HMA to remit \$300,000 per year to the City for 8 years and the City is required to hold these funds and any related earnings thereon in an escrow account until either: (1) HMA constructs additional healthcare facilities and requests reimbursement from the escrowed funds, or (2) upon termination of the lease without construction of additional healthcare facilities by HMA, the City will be allowed to release the funds from escrow and utilize them for City government purposes. As of June 30, 2020, the City held \$2,517,443 in the escrow account, which is shown as restricted cash and deferred inflows of resources in the statement of net position and in the general fund balance sheet.

NOTE 13 - CAPITAL CONTRIBUTIONS

Water Department

Capital contributions in 2020 consist of contributions from the City of LaFollette totaling \$525,000 for a sewer system improvement project.

NOTE 14 - SUBSEQUENT EVENTS

In December 2020, the City approved the issuance of General Obligation Capital Outlay Note, Series 2020, totaling \$1,500,000. The note will bear interest at 2.090% and will mature February 2031. These funds will be used to finance capital projects.

Electric Department

In October 2020, the Board issued \$250,000 in Revenue Anticipation Notes, Series 2020. These notes will bear interest at 1.62% and have a final maturity of June 2025. These funds will be used to finance capital projects.