

**PRELIMINARY OFFICIAL STATEMENT**

**\$4,575,000\***

**CITY OF ALCOA, TENNESSEE**

**General Obligation Refunding Bonds, Series 2016B**

OFFERED FOR SALE NOT SOONER THAN

Wednesday, April 13, 2016 at 10:15 A.M. E.D.T.  
Through the Facilities of **PARITY**<sup>®</sup>  
and at the offices of  
Cumberland Securities Company, Inc.  
Knoxville, Tennessee

**Cumberland Securities Company, Inc.**  
Financial Advisor

March 29, 2016

\*Preliminary, subject to change.



# PRELIMINARY OFFICIAL STATEMENT DATED MARCH 29, 2016

## **NEW ISSUE**

BOOK-ENTRY-ONLY

Rating: Standard & Poor's: "AA-"

(See "MISCELLANEOUS-Rating")

*In the opinion of Bond Counsel, based on existing law and assuming compliance with certain tax covenants of the Municipality, interest on the Bonds will be excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account in determining the adjusted current earnings of certain corporations for purposes of the alternative minimum tax on corporations. For an explanation of certain tax consequences under federal law which may result from the ownership of the Bonds, see the discussion under the heading "LEGAL MATTERS - Tax Matters" herein. Under existing law, the Bonds and the income therefrom will be exempt from all state, county and municipal taxation in the State of Tennessee, except inheritance, transfer and estate taxes, and Tennessee franchise and excise taxes. (See "LEGAL MATTERS - Tax Matters" herein).*

## **\$4,575,000\***

## **CITY OF ALCOA, TENNESSEE**

### **General Obligation Refunding Bonds, Series 2016B**

Dated: Date of Delivery (assume May 13, 2016)

Due: June 1 (as indicated below)

The \$4,575,000\* General Obligation Refunding Bonds, Series 2016B (the "Bonds") shall be issued by the City of Alcoa, Tennessee (the "City") as book-entry-only Bonds in denominations of \$5,000 and authorized integral multiples thereof. The Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC") except as otherwise described herein. DTC will act as securities depository of the Bonds. So long as Cede & Co. is the registered owner of the Bonds, as the nominee for DTC, principal and interest with respect to the Bonds shall be payable to Cede & Co., as nominee for DTC, which will, in turn, remit such principal and interest to the DTC participants for subsequent disbursements to the beneficial owners of the Bonds. Individual purchases of the Bonds will be made in book-entry-only form, in denominations of \$5,000 or integral multiples thereof and will bear interest at the annual rates as shown below. Interest on the Bonds is payable semi-annually from the date thereof commencing on December 1, 2016 and thereafter on each June 1 and December 1 by check or draft mailed to the owners thereof as shown on the books and records of Regions Bank, Nashville, Tennessee, the registration and paying agent (the "Registration Agent"). In the event of discontinuation of the book-entry system, principal of and interest on the Bonds are payable at the designated corporate trust office of the Registration Agent.

The Bonds shall be payable from unlimited ad valorem taxes to be levied on all taxable property within the corporate limits of the City. For the prompt payment of principal and interest on the Bonds, the full faith and credit of the Issuer are irrevocably pledged.

The Bonds are not subject to optional redemption prior to maturity.

<b><u>Maturity</u></b> <b><u>(June 1)</u></b>	<b><u>Amount*</u></b>	<b><u>Interest</u></b> <b><u>Rate</u></b>	<b><u>Yield</u></b>	<b><u>CUSIPS **</u></b>	<b><u>Maturity</u></b> <b><u>(June 1)</u></b>	<b><u>Amount*</u></b>	<b><u>Interest</u></b> <b><u>Rate</u></b>	<b><u>Yield</u></b>	<b><u>CUSIPS **</u></b>
2017	\$720,000				2020	\$ 770,000			
2018	735,000				2021	795,000			
2019	760,000				2022	795,000			

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

The Bonds are offered when, as and if issued by the City, subject to the approval of the legality thereof by Robertson Overbey, Knoxville, Tennessee, bond counsel, whose opinion will be delivered with the Bonds. Certain legal matters will be passed upon from the City by Robertson Overbey, Counsel to the City. It is expected that the Bonds, will be available for delivery through the facilities of DTC, New York, New York, on or about May \_\_, 2016.

**Cumberland Securities Company, Inc.**

*Financial Advisor*

April \_\_, 2016

\*Preliminary, subject to change.

This Preliminary Official Statement speaks only as of its date, and the information contained herein is subject to change.

This Preliminary Official Statement may contain forecasts, projections, and estimates that are based on current expectations but are not intended as representations of fact or guarantees of results. If and when included in this Official Statement, the words "expects," "forecasts," "projects," "intends," "anticipates," "estimates," and analogous expressions are intended to identify forward-looking statements as defined in the Securities Act of 1933, as amended, and any such statements inherently are subject to a variety of risks and uncertainties, which could cause actual results to differ materially from those contemplated in such forward-looking statements. These forward-looking statements speak only as of the date of this Official Statement. The Issuer disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Issuer's expectations with regard thereto or any change in events, conditions, or circumstances on which any such statement is based.

This Preliminary Official Statement and the Appendices hereto contain brief descriptions of, among other matters, the Issuer, the Bonds, the Resolution, the Disclosure Certificate (as defined herein), and the security and sources of payment for the Bonds. Such descriptions and information do not purport to be comprehensive or definitive. The summaries of various constitutional provisions and statutes, the Resolution, the Disclosure Certificate, and other documents are intended as summaries only and are qualified in their entirety by reference to such documents and laws, and references herein to the Bonds are qualified in their entirety to the forms thereof included in the Resolution.

The Bonds have not been registered under the Securities Act of 1933, as amended, and the Resolution has not been qualified under the Trust Indenture Act of 1939, in reliance on exemptions contained in such Acts. This Preliminary Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation, or sale.

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

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

\*\* These CUSIP numbers have been assigned by Standard & Poor's CUSIP Service Bureau, a division of the McGraw-Hill Companies, Inc., and are included solely for the convenience of the Bond holders. The City is not responsible for the selection or use of these CUSIP numbers, nor is any representation made as to their correctness on the Bonds or as indicated herein.

# CITY OF ALCOA, TENNESSEE

## MEMBERS OF CITY COMMISSION

Donald R. Mull, *Mayor*

Clint Abbott, *Vice Mayor*

Vaughn D. Belcher

Clayton Bledsoe

Kenneth White

## CITY OFFICIALS

Mark L. Johnson

*City Manager*

Bill Hammon

*Assistant City Manager*

Susan Gennoe

*City Recorder/Finance Director*

Doug Overbey

*City Attorney*

## REGISTRATION AND PAYING AGENT

Regions Bank  
Knoxville, Tennessee

## BOND COUNSEL

Robertson Overbey  
Knoxville, Tennessee

## FINANCIAL ADVISOR

Cumberland Securities Company, Inc.  
Lenoir City, Tennessee



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## SUMMARY STATEMENT

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

Issuer .....	City of Alcoa, Tennessee (the “City”, “Municipality” or “Issuer”). See APPENDIX B contained herein.
The Bonds.....	\$4,575,000* General Obligation Refunding Bonds, Series 2016B (the “Bonds”).
Security .....	The Bonds shall be payable from unlimited ad valorem taxes to be levied on all taxable property within the City. For the prompt payment of the principal of, premium, if any, and interest on the Bonds, the full faith and credit of the City are hereby irrevocably pledged. The Bonds shall be additionally payable from but not secured by a pledge of the of the revenues to be derived from the operation of the solid waste system.
Purpose .....	The Bonds are being issued for the purpose of (i) refinancing, in whole or in part, outstanding Bonds of the City, as described herein; and (ii) payment of the costs related to the issuance and sale of the Bonds.
Optional Redemption .....	The Bonds are not subject to optional redemption prior to maturity. See section entitled “SECURITIES OFFERED - Optional Redemption”.
Tax Matters.....	In the opinion of Bond Counsel, based on existing law and assuming compliance with certain tax covenants of the City, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account in determining the adjusted current earnings of certain corporations for purposes of the alternative minimum tax on corporations. Interest on the Bonds will be exempt from certain taxation in Tennessee, all as more fully described in the section entitled “LEGAL MATTERS-Tax Matters” and APPENDIX A (form of opinion) included herein.
Bank Qualification .....	The Bonds have been designated as “qualified tax-exempt obligations” within the meaning of Section 265 of the Internal Revenue Code of 1986, as amended. See the section entitled “LEGAL MATTERS - Tax Matters” for additional information.
Rating.....	Standard & Poor’s: “AA-”. See the section entitled “MISCELLANEOUS - Rating” for more information.
Registration and Paying Agent .....	Regions Bank, Nashville, Tennessee (the “Registration Agent”).
Bond Counsel .....	Robertson Overbey, Knoxville, Tennessee.
Financial Advisor .....	Cumberland Securities Company, Inc., Knoxville, Tennessee. See the section entitled “MISCELLANEOUS - Financial Advisor; Related Parties; Others”, herein.
Underwriter.....	_____.
Book-Entry-Only.....	The Bonds will be issued under the Book-Entry-Only System except as otherwise described herein. For additional information, see the section entitled “BASIC DOCUMENTATION – Book-Entry-Only System”.
General .....	The Bonds are being issued in full compliance with applicable provisions of Title 9, Chapter 21, <i>Tennessee Code Annotated</i> , as supplemented and revised. See the section

entitled SECURITIES OFFERED herein. The Bonds will be issued with CUSIP numbers and delivered through the facilities of the Depository Trust Company, New York, New York.

Disclosure .....In accordance with Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 as amended, the City will provide the Municipal Securities Rulemaking Board (“MSRB”) through the operation of the Electronic Municipal Market Access system (“EMMA”) and the State Information Depository (“SID”), if any, annual financial statements and other pertinent credit or event information, including Comprehensive Annual Financial Reports, see the section entitled “MISCELLANEOUS-Continuing Disclosure.”

Other Information.....The information in the Preliminary Official Statement is deemed “final” within the meaning of the Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 as of the date which appears on the cover hereof except for the omission of certain pricing and other information. For more information concerning the City, or the PRELIMINARY OFFICIAL STATEMENT, contact Mr. Donald R. Mull, Mayor or Mark L. Johnson, City Manager, 223 Associates Boulevard, Alcoa, Tennessee 37701, Telephone: 865-380-4700; or the City's Financial Advisor, Cumberland Securities Company, Inc., 350 Lighthouse Pointe Drive, Lenoir City, Tennessee 37772, Telephone: (865) 988-2663. Additional information regarding [BiDCOMP™/PARITY®](#) may be obtained from [PARITY®](#), 1359 Broadway - 2<sup>nd</sup> Floor, New York, NY 10018, Telephone: (800) 850.7422.

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

	<u><b>2011</b></u>	<u><b>2012</b></u>	<u><b>2013</b></u>	<u><b>2014</b></u>	<u><b>2015</b></u>
Beginning Fund Balance	\$2,409,019	\$5,130,428	\$2,517,547	\$2,592,563	\$3,773,269
Revenues	19,229,765	15,836,264	18,660,264	20,171,232	21,881,523
Expenditures	(16,883,474)	(15,633,790)	(15,892,806)	(16,777,409)	(17,552,434)
Other Financing Sources:					
Transfers In	500,000	250,000	250,000	-	-
Transfers Out	(2,757,060)	(4,686,856)	(4,512,099)	(4,050,000)	(4,682,383)
Other Sources and Uses	2,528,947	1,621,501	1,629,657	1,686,883	1,728,324
Excess of Revenue/Other Sources Over (Under)	2,618,178	(2,612,881)	75,016	1,180,706	1,375,030
<b>Ending Fund Balance</b>	<b>\$5,130,428</b>	<b>\$2,517,547</b>	<b>\$2,592,563</b>	<b>\$3,773,269</b>	<b>\$5,148,299</b>

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

## SUMMARY NOTICE OF SALE

**\$4,575,000\***

### **CITY OF ALCOA, TENNESSEE General Obligation Refunding Bonds, Series 2016B**

NOTICE IS HEREBY GIVEN that the Mayor of the City of Alcoa, Tennessee (the “City”) will receive electronic or written bids until **10:15 a.m. E.D.T. on Wednesday, April 13, 2016** for the purchase of all, but not less than all, of the City's \$4,575,000\* General Obligation Refunding Bonds, Series 2016B (the “Bonds”). Electronic bids must be submitted through **PARITY®** as described in the “Detailed Notice of Sale”. In case of written bids, bids will be received by the City’s Financial Advisor, Cumberland Securities Company, Inc., via facsimile at 865-988-1863. Prior to accepting bids, the City reserves the right to adjust the principal amount and maturity amounts of the Bonds being offered as set forth in the Detailed Notice of Sale, to postpone the sale to a later date, or to cancel the sale based upon market conditions via Bloomberg News Service and/or the **PARITY®** System not later than 9:30 a.m., Eastern Daylight Time, on the day of the bid opening. Such notice will specify the revised principal amounts, if any, and any later date selected for the sale, which may be postponed or cancelled in the same manner. If the sale is postponed, a later public sale may be held at the hour and place and on such date as communicated upon at least forty-eight hours notice via Bloomberg News Service and/or the **PARITY®** System.

Electronic bids must be submitted through **PARITY®** via the BiDComp Competitive Bidding Service as described in the Detailed Notice of Sale and no other provider of electronic bidding services will be accepted. For the purposes of the bidding process, both written and electronic, the time maintained by **PARITY®** shall constitute the official time with respect to all bids. To the extent any instructions or directions set forth in **PARITY®** conflict with the terms of the Detailed Notice of Sale and this Summary Notice of Sale, the Detailed Notice of Sale and this Summary Notice of Sale shall prevail.

The Bonds will be issued in book-entry form (except as otherwise described in the Detailed Notice of Sale) and dated the date of issuance (assume May 13, 2015). The Bonds will mature on June 1 in the years 2017 through 2022, inclusive, with term bonds optional, with interest payable on June 1 and December 1 of each year, commencing December 1, 2016 and will not be subject to optional redemption prior to maturity. Bidders must bid not less than ninety-nine and one-quarter percent (99.25%) of par or more than one hundred and twenty-five percent (125%) of par for the Bonds. The approving opinion for the Bonds will be furnished at the expense of the City by Robertson Overbey, Bond Counsel, Knoxville, Tennessee. No rate or rates bid for the Bonds shall exceed five percent (5.00%) per annum. Unless bids are rejected, the Bonds will be awarded by the Mayor of the City on the sale date to the bidder whose bid results in the lowest true interest rate on the Bonds.

Additional information, including the PRELIMINARY OFFICIAL STATEMENT in near final form and the Detailed Notice of Sale, may be obtained through [www.prospectushub.com](http://www.prospectushub.com) or from the City’s Financial Advisor, Cumberland Securities Company, Inc., Telephone: (865) 988-2663. Further information regarding **PARITY®** may be obtained from i-Deal LLC, 1359 Broadway, 2<sup>nd</sup> Floor, New York, New York 10018, Telephone: 212-849-5000.

CITY OF ALCOA, TENNESSEE  
By: Donald R. Mull, City Mayor

\*Preliminary, subject to change.

## DETAILED NOTICE OF SALE

**\$4,575,000\***

### CITY OF ALCOA, TENNESSEE

#### General Obligation Refunding Bonds, Series 2016B

NOTICE IS HEREBY GIVEN that the Mayor of the City of Alcoa, Tennessee (the “City”) will receive electronic or written bids until **10:15 a.m. E.D.T. on Wednesday, April 13, 2016** for the purchase of all, but not less than all, of the City's \$4,575,000\* General Obligation Refunding Bonds, Series 2016B (the “Bonds”). Electronic bids must be submitted through **PARITY®** as described in this “Detailed Notice of Sale.” In case of written bids, bids will be received by the City’s Financial Advisor, Cumberland Securities Company, Inc., via facsimile at 865-988-1863. Prior to accepting bids, the City reserves the right to adjust the principal amount and maturity amounts of the Bonds being offered as set forth herein, to postpone the sale to a later date, or to cancel the sale based upon market conditions via Bloomberg News Service and/or the **PARITY®** System not later than 9:30 a.m., Eastern Daylight Time, on the day of the bid opening. Such notice will specify the revised principal amounts, if any, and any later date selected for the sale, which may be postponed or cancelled in the same manner. If the sale is postponed, a later public sale may be held at the hour and place and on such date as communicated upon at least forty-eight hours notice via Bloomberg News Service and/or the **PARITY®** System.

Description of the Bonds. The Bonds will be issued in fully registered book-entry-only form (except as otherwise described herein) without coupons, be dated the date of issuance, bear interest payable each June 1 and December 1, commencing December 1, 2016, be issued, or reissued upon transfer, in \$5,000 denominations or multiples thereof, as shall be requested by the purchaser or registered owner thereof, as applicable, and will mature (subject to the right of redemption as hereinafter set forth) and be payable as follows:

<u>YEAR</u> <u>(JUNE 1)</u>	<u>AMOUNT*</u>	<u>YEAR</u> <u>(JUNE 1)</u>	<u>AMOUNT*</u>
2017	\$720,000	2020	\$ 770,000
2018	735,000	2021	795,000
2019	760,000	2022	795,000

Bank Qualification. The Bonds have been designated as “qualified tax-exempt obligations” within the meaning of Section 265 of the Internal Revenue Code of 1986, as amended.

Registration and Depository Participation. The Bonds, when issued, will be registered in the name of Cede & Co., DTC’s partnership nominee. When the Bonds are issued, ownership interests will be available to purchasers only through a book-entry system maintained by DTC (the “Book-Entry-Only System”). One fully-registered bond certificate will be issued for each maturity, in the entire aggregate principal amount of the Bonds and will be deposited with DTC. The Book-Entry-Only System will evidence beneficial ownership interests of the Bonds in the principal amount of \$5,000 for the Bonds and any integral multiple of \$5,000, with transfers of beneficial ownership interest effected on the records of DTC participants and, if necessary, in turn by DTC pursuant to rules and procedures established by DTC and its participants. The successful bidder, as a condition to delivery of the Bonds, shall be required to deposit the bond certificates with DTC, registered in the name of Cede & Co., nominee of DTC. The Bonds will be payable, at maturity or upon earlier redemption to DTC or its nominee as registered owner of the Bonds. Transfer of principal and interest payments to participants of DTC will be the responsibility of DTC, and transfer of principal and interest payments (as applicable) to beneficial owners of the Bonds by Participants of DTC, will be the responsibility of such participants and of the nominees of beneficial owners. The City will not be responsible or liable for such transfer of payments or for

maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants. Notwithstanding the foregoing, if the winning bidder certifies that it intends to hold the Bonds for its own account and has no present intent to re-offer the Bonds, the use of the Book-entry system is not required.

In the event that the Book-Entry-Only System for the Bonds is discontinued and a successor securities depository is not appointed by the City, Bond Certificates in fully registered form will be delivered to, and registered in the names of, the DTC Participants or such other persons as such DTC participants may specify (which may be the indirect participants or beneficial owners), in authorized denominations of \$5,000 for the Bonds or integral multiples thereof. The ownership of Bonds so delivered shall be registered in registration books to be kept by the Registration Agent (named herein) at its principal corporate trust office, and the City and the Registration Agent shall be entitled to treat the registered owners of the Bonds, as their names appear in such registration books as of the appropriate dates, as the owners thereof for all purposes described herein and in the Resolution authorizing the Bonds.

Security Pledged. The Bonds shall be payable from unlimited ad valorem taxes to be levied on all taxable property within the City. For the prompt payment of the principal of, premium, if any, and interest on the Bonds, the full faith and credit of the City are hereby irrevocably pledged. The Bonds shall be additionally payable from but not secured by a pledge of the revenues to be derived from the operation of the solid waste system.

Purpose. The Bonds are being issued for the purpose of providing funds to (i) refund all or a portion of certain outstanding indebtedness of the City; and (ii) pay all legal, fiscal and administrative costs incident to the issuance and sale of the Bonds.

Optional Redemption. The Bonds will not be subject to optional redemption prior to maturity.

Term Bond Option; Mandatory Redemption. Bidders shall have the option to designate certain consecutive serial maturities of the Bonds as one or more term bonds ("Term Bonds") bearing a single interest rate. If the successful bidder for the Bonds designates certain consecutive serial maturities of such Bonds to be combined as one or more Term Bonds as allowed herein, then each Term Bond shall be subject to mandatory sinking fund redemption by the City at a redemption price equal to one hundred percent (100%) of the principal amount thereof, together with accrued interest to the date fixed for redemption at the rate stated in the Term Bonds to be redeemed. Each such mandatory sinking fund redemption shall be made on the date on which a consecutive maturity included as part of a Term Bond is payable in accordance with the proposal of the successful bidder for the Bonds and in the amount of the maturing principal installment for the Bonds listed herein for such principal payment date. Term Bonds to be redeemed within a single maturity shall be selected in the manner provided above for optional redemption of Bonds within a single maturity.

Bidding Instructions. The City will receive electronic or written bids for the purchase of all, but not less than all, of the Bonds. Bidders for the Bonds are requested to name the interest rate or rates the Bonds are to bear in multiples of one-eighth of one percent and/or one-hundredth of one percent (.01%) or one (1) basis point, but no rate specified shall be in excess of five percent (5.00%) per annum. There will be no limitation on the number of rates of interest that may be specified in a single bid for the Bonds but a single rate shall apply to each single maturity of the Bonds. Bidders must bid not less than ninety-nine and one-quarter percent (99.25%) of par or more than one hundred and twenty-five percent (125%) of par.

Electronic bids must be submitted through **PARITY**® via BiDCOMP Competitive Bidding System and no other provider of electronic bidding services will be accepted. Subscription to the i-Deal LLC Dalcomp Division's BiDCOMP Competitive Bidding System is required in order to submit an electronic bid. The City will not confirm any subscription nor be responsible for the failure of any prospective bidder to subscribe. For the purposes of the bidding process, the time as maintained by **PARITY**® shall constitute the official time with respect to all bids whether in electronic or written form. To the extent any instructions or directions set forth in **PARITY**®

conflict with the terms of the Detailed Notice of Sale, this Detailed Notice of Sale shall prevail. An electronic bid made through the facilities of **PARITY**<sup>®</sup> shall be deemed an offer to purchase in response to this Detailed Notice of Sale and shall be binding upon the bidder as if made by a signed, written bid delivered to the City. The City shall not be responsible for any malfunction or mistake made by or as a result of the use of the electronic bidding facilities provided and maintained by **PARITY**<sup>®</sup>. The use of **PARITY**<sup>®</sup> facilities are at the sole risk of the prospective bidders.

For further information regarding **PARITY**<sup>®</sup>, potential bidders may contact i-Deal LLC at 1359 Broadway, 2<sup>nd</sup> Floor, New York, NY 10018, Telephone: 212-849-5000.

In the event of a system malfunction in the electronic bidding process only, bidders may submit bid prior to the established date and time by FACSIMILE transmission sent to the City's Financial Advisor, Cumberland Securities Company, Inc. at 865-988-1863. Any facsimile submission is made at the sole risk of the prospective bidder. The City and the Financial Advisor shall not be responsible for confirming receipt of any facsimile bid or for any malfunction relating to the transmission and receipt of such bids.

Separate written bids should be submitted by facsimile to the District's Financial Advisor, at 865-988-1863. Written bids must be submitted on the Bid Forms included with the PRELIMINARY OFFICIAL STATEMENT.

The City reserves the right to reject all bids for the Bonds and to waive any informalities in the bids accepted. Acceptance or rejection of "Bids for Bonds" for the Bonds will not obligate the City to accept or reject "Bids for Bonds".

Unless all bids for the Bonds are rejected, the Bonds will be awarded by the Mayor of the City to the bidder whose bid complies with this notice and results in the lowest true interest rate on the Bonds to be calculated as that rate that, when used in computing the present worth of all payments of principal and interest on the Bonds (compounded semi-annually from the date of the Bonds), produces an amount equal to the purchase price of the Bonds exclusive of accrued interest. For purposes of calculating the true interest cost, the principal amount of Term Bonds scheduled for mandatory sinking fund redemption as part of the Term Bond shall be treated as a serial maturity in such year. In the event that two or more bidders offer to purchase the Bonds at the same lowest true interest rate, the Mayor shall determine in his sole discretion which of the bidders shall be awarded the Bonds.

After receipt of the bids, the City reserves the right to make adjustments and/or revisions to the Bonds, as described below.

Adjustment and/or Revision. While it is the City's intention to sell and issue the approximate par amounts of the Bonds as offered herein, there is no guarantee that adjustment and/or revision may not be necessary in order to properly size the Bonds. Accordingly, the Mayor reserves the right, in his sole discretion, to adjust down the original par amount of the Bonds by up to \$1,000,000. The principal factor to be considered in making any adjustments is the amount of premium bid for particular maturities. Among other factors the Mayor may (but shall be under no obligation to) consider in sizing the par amounts and individual maturities of the Bonds is the size of individual maturities or sinking fund installments and/or other preferences of the City. Additionally, the Mayor reserves the right to change the dated date of the Bonds. The maximum adjustment will only be made if the maximum bid (including premium) is received.

In the event of any such adjustment and/or revision with respect to the Bonds, no rebidding will be permitted, and the portion of such premium or discount (as may have been bid for the Bonds) shall be adjusted in the same proportion as the amount of such revision in par amount of the Bonds bears to the original par amount of such Bonds offered for sale.

The successful bidder for the Bonds will be tentatively notified by not later than 5:00 p.m. (Eastern Daylight Time), on the sale date of the exact revisions and/or adjustments required, if any.

Good Faith Deposit. No good faith check will be required to accompany any bid submitted. The successful bidder shall be required to deliver to the City's Financial Advisor (wire transfer or certified check) the amount of two percent (2%) of the aggregate principal amount of the Bonds offered for sale which will secure the faithful performance of the terms of the bid. A certified check or wire transfer must be received by the City's Financial Advisor no later than the close of business on the day following the competitive sale. A wire transfer may be sent to First Tennessee Bank, ABA Number: 084-000-026 First Tenn Mem, FAO Cumberland Securities Company, Inc., Account No. 183302631, for further credit to Good Faith Trust Account.

The good faith deposit shall be applied (without interest) to the purchase price of the Bonds. If the successful bidder should fail to accept or pay for the Bonds when tendered for delivery and payment, the good faith deposit will be retained by the City as liquidated damages.

In the event of the failure of the City to deliver the Bonds to the purchaser in accordance with the terms of this Notice within forty-five (45) days after the date of the sale, the good-faith deposit will be promptly returned to the purchaser unless the purchaser directs otherwise.

Reoffering Prices; Other Information. The successful bidder must furnish the following information to the City to complete the *Official Statement* in final form within two (2) hours after receipt and award of the bid for the Bonds:

1. The offering prices or yields for the Bonds (expressed as a price or yield per maturity, exclusive of any accrued interest, if applicable);
2. Selling compensation (aggregate total anticipated compensation to the underwriter expressed in dollars, based on the expectation that all Bonds are sold at the prices or yields as provided above);
3. The identity of the underwriters if the successful bidder is part of a group or syndicate; and
4. Any other material information necessary to complete the *Official Statement* in final form but not known to the City.

In addition, within two hours of the award of the Bonds, the successful bidder shall furnish to the City a certificate acceptable to Bond Counsel stating: (i) the reoffering prices (as shown in the bidder's winning bid); (ii) that the successful bidder will make a bona fide public offering of the Bonds at such reoffering prices; and (iii) that the successful bidder reasonably expects that the Bonds (or at least 10% of each maturity of the Bonds) will be sold to the public (excluding bond houses, brokers and other intermediaries) at those reoffering prices.

As a condition to the delivery of the Bonds, the successful bidder will be required to deliver a certificate to the City confirming that nothing has come to the bidder's attention that would lead it to believe that its certification with respect to the reoffering prices of the Bonds given in connection with the award of the Bonds is inaccurate, and addressing such other matters as to the reoffering prices of the Bonds as bond counsel may request.

Legal Opinion. The approving opinion of Robertson Overbey, Knoxville, Tennessee, Bond Counsel along with other certificates including, but not limited to, a tax certificate and a continuing disclosure certificate dated as of the date of delivery of the Bonds will be furnished to the purchaser at the expense of the City. As set forth in the *Preliminary Official Statement*, Bond Counsel's opinion with respect to the Bonds will state that interest on the Bonds will be excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal law alternative minimum tax imposed on individuals and corporations. As set forth in the *Preliminary Official Statement*, the owners of the Bonds, however, may be subject to certain additional taxes or tax

consequences arising with respect to ownership of the Bonds, reference is hereby made to the *Preliminary Official Statement* and the form of the opinion contained in Appendix A.

Continuing Disclosure. At the time the Bonds are delivered, the City will execute a continuing disclosure certificate (the “Disclosure Certificate”) in which it will covenant for the benefit of holders and beneficial owners of the Bonds to provide certain financial information relating to the City by not later than twelve (12) months after each of the City's fiscal years, (the “Annual Report”), and to provide notice of the occurrence of certain enumerated events. The Annual Report (and audited financial statements, if filed separately) will be filed with the Municipal Securities Rulemaking Board (the “MSRB”) through the operation of the Electronic Municipal Market Access system (the “EMMA”) and any State Information Depository established in the State of Tennessee (the “SID”). If the City is unable to provide the Annual Report to the MSRB and the SID by the date required, notice of each failure will be sent to the MSRB and the SID on or before such date. The notices of material events will be filed by the City either with the MSRB and the SID. The specific nature of the information to be contained in the Annual Report or the notices of events will be summarized in the City's Official Statement to be prepared and distributed in connection with the sale of the Bonds.

Delivery of Bonds. Delivery of the Bonds is expected within forty-five (45) days. At least five (5) days notice will be given to the successful bidder. Delivery will be made in book-entry form through the facilities of DTC, New York, New York. Payment for the Bonds must be made in *Federal Funds* or other immediately available funds.

CUSIP Numbers. CUSIP numbers will be assigned to the Bonds at the expense of the City. The City will assume no obligation for assignment of such numbers or the correctness of such numbers and neither failure to record such numbers on Bonds nor any error with respect thereto shall constitute cause for failure or refusal by the purchaser thereof to accept delivery of and make payment for the Bonds.

Official Statements; Other. The City has deemed the PRELIMINARY OFFICIAL STATEMENT to be final as of its date within the meaning of Rule 15c2-12 of the U.S. Securities and Exchange Commission (the “SEC”) except for the omission of certain pricing and other information. The City will furnish the successful bidder at the expense of the City a reasonable number of copies of the *Official Statement* in final form, containing the pricing and other information to be supplied by the successful bidder and to be dated the date of the sale, to be delivered by the successful bidder to the persons to whom such bidder and members of its bidding group initially sell the Bonds. Acceptance of the bid will constitute a contract between the City and the successful bidder for the provision of such copies within seven business days of the sale date.

Further Information. Additional information, including the *Preliminary Official Statement*, this Detailed Notice of Sale and the Official Bid Form, may be obtained from the City's Financial Advisor, Cumberland Securities Company, Inc., Lenoir City, Tennessee, Telephone: 865-988-2663. Further information regarding **PARITY**® may be obtained from i-Deal LLC, 1359 Broadway, 2<sup>nd</sup> Floor, New York, New York 10018, Telephone: 212-849-5000.

CITY OF ALCOA, TENNESSEE

By: Donald R. Mull

City Mayor



## BID FORM

The Honorable Donald R. Mull, Mayor  
223 Associates Boulevard  
Alcoa, Tennessee 37701

April 13, 2016

Dear Mayor Mull:

For your legally issued, properly executed \$4,575,000\* General Obligation Refunding Bonds, Series 2016B (the "Bonds") of City of Alcoa, Tennessee, in all respects as more fully outlined in your Notice of Sale, which by reference are made a part hereof, we will pay you a sum of \_\_\_\_\_ (\$\_\_\_\_\_).

The Bonds shall be dated the date of issuance (assume May 13, 2016) and shall be callable in accordance with the DETAILED NOTICE OF SALE. The Bonds shall mature on June 1 and bear interest at the following rates:

Maturity (June 1)	Amount*	Rate	Maturity (June 1)	Amount*	Rate
2017	\$720,000	—	2020	\$ 770,000	—
2018	735,000	—	2021	795,000	—
2019	760,000	—	2022	795,000	—

We have the option to designate two or more consecutive serial maturities as term bond maturities as indicated:

Term Bond 1: Maturities from June 1, 20\_\_\_\_ through June 1, 20\_\_\_\_ @ \_\_\_\_%.  
Term Bond 2: Maturities from June 1, 20\_\_\_\_ through June 1, 20\_\_\_\_ @ \_\_\_\_%.  
Term Bond 3: Maturities from June 1, 20\_\_\_\_ through June 1, 20\_\_\_\_ @ \_\_\_\_%.  
Term Bond 4: Maturities from June 1, 20\_\_\_\_ through June 1, 20\_\_\_\_ @ \_\_\_\_%.  
Term Bond 5: Maturities from June 1, 20\_\_\_\_ through June 1, 20\_\_\_\_ @ \_\_\_\_%.  
Term Bond 6: Maturities from June 1, 20\_\_\_\_ through June 1, 20\_\_\_\_ @ \_\_\_\_%.

It is our understanding that the Bonds are offered for sale as "qualified tax-exempt obligations" subject to the final approving opinion of Robertson Overbey, Bond Counsel, Knoxville, Tennessee, whose opinion together with the executed Bonds, will be furnished by the City without cost to us.

If our bid is accepted, we agree to provide a good faith deposit for 2% of the Bonds on which we have bid by the close of business on the date following the competitive public sale as outlined in the *Detailed Notice of Sale*. Should for any reason we fail to comply with the terms of this bid, this good faith deposit shall be forfeited by us as full liquidated damages. Otherwise, this good faith deposit shall be applied to the purchase price of the Bonds on which we have bid.

Accepted for and on behalf of the  
City of Alcoa, Tennessee, this  
13<sup>th</sup> day of April, 2016.

\_\_\_\_\_  
Donald R. Mull, Mayor

Respectfully submitted,

\_\_\_\_\_  
Total interest cost from

May 13, 2016 to final maturity \$ \_\_\_\_\_

Less: Premium /plus discount, if any \$ \_\_\_\_\_

Net Interest Cost ..... \$ \_\_\_\_\_

True Interest Rate ..... %

*The computations of net interest cost and true interest rate are for comparison purposes only and are not to be considered as part of this proposal.*

\*Preliminary, subject to change.



**\$4,575,000\***  
**CITY OF ALCOA, TENNESSEE**  
**General Obligation Refunding Bonds, Series 2016B**

**SECURITIES OFFERED**

**AUTHORITY AND PURPOSE**

This PRELIMINARY OFFICIAL STATEMENT which includes the Summary Statement hereof and appendices hereto is furnished in connection with the offering by the City of Alcoa, Tennessee (the “City”, “Municipality” or “Issuer”) of its \$4,575,000\* General Obligation Refunding Bonds, Series 2016B (the “Bonds”).

The Bonds are authorized to be issued pursuant to the provisions of Title 9, Chapter 21, *Tennessee Code Annotated*, as amended, and other applicable provisions of the law and pursuant to resolutions (the “Resolution”) adopted by the Board of Commissioners of the City on December 08, 2015.

The Bonds are being issued for the purpose of providing funds to (i) refinance a portion of certain outstanding indebtedness of the City, as described herein; (ii) pay all legal, fiscal and administrative costs incident to the issuance and sale of the Bonds.

**REFUNDING PLAN**

With the proceeds of the Bonds, the City is proposing to refinance its General Obligation Bonds, Series 2009, dated October 22, 2009, maturing June 1, 2017 and thereafter (the “Outstanding Indebtedness”).

As required by Title 9, Chapter 21, Part 9 of *Tennessee Code Annotated* as supplemented and revised, a plan of refunding (the “Plan”) for the Outstanding Indebtedness was submitted to the Director of State and Local Finance for the State of Tennessee for review, and the report with respect to the Plan was issued on December 3, 2015.

**DESCRIPTION OF THE BONDS**

The Bonds will be initially dated and bear interest from the date of issuance (assume May 13, 2016). Interest on the Bonds will be payable semi-annually on June 1 and December 1, commencing December 1, 2016. The Bonds are issuable in registered book-entry form only and in \$5,000 denominations or integral multiples thereof as shall be requested by each respective registered owner.

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

\*Preliminary, subject to change.

## **SECURITY**

The Bonds shall be payable from unlimited ad valorem taxes to be levied on all taxable property within the City. For the prompt payment of the principal of, premium, if any, and interest on the Bonds, the full faith and credit of the City are hereby irrevocably pledged. The Bonds shall be additionally payable from but not secured by a pledge of the revenues to be derived from the operation of the solid waste system.

The City through its governing body, shall annually levy and collect a tax on all taxable property within the City, in addition to all other taxes authorized by law, sufficient to pay the principal of and interest on the Bonds when due. Principal and interest on the Bonds falling due at any time when there are insufficient funds from such tax shall be paid from the current funds of the City and reimbursement therefore shall be made out of taxes provided by the Resolution when the same shall have been collected.

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

## **QUALIFIED TAX-EXEMPT OBLIGATIONS**

Under the Internal Revenue Code of 1986, as amended (the "Code"), in the case of certain financial institutions, no deduction from income under the federal tax law will be allowed for that portion of such institution's interest expense which is allocable to tax-exempt interest received on account of tax-exempt obligations acquired after August 7, 1986. The Code, however, provides that certain "qualified tax-exempt obligations," as defined in the Code, will be treated as if acquired on August 7, 1986. Based on an examination of the Code and the factual representations and covenants of the City as to the Bonds, Bond Counsel has determined that the Bonds upon issuance will be "qualified tax-exempt obligations" within the meaning of the Code.

## **OPTIONAL REDEMPTION**

Bonds maturing shall not be subject to redemption prior to maturity

## **MANDATORY REDEMPTION**

The bidders have the option of creating term bonds pursuant to the Detailed Notice of Sale. If term bonds are created, then the following provisions will apply. Subject to the credit hereinafter provided, the City shall redeem Bonds maturing June 1, 20\_\_, and June 1, 20\_\_ on the redemption dates set forth below opposite the maturity date, in aggregate principal amounts equal to the respective dollar amounts set forth below opposite the respective redemption dates at a price of par plus accrued interest thereon to the date of redemption. The Bonds to be so redeemed shall be selected by lot or in such other random manner as the Registration Agent in its discretion may designate.

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

<u>Maturity</u>	<u>Redemption Date</u>	<u>Principal Amount of Bonds Redeemed</u>
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\*Final Maturity

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

## **NOTICE OF REDEMPTION**

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

set forth herein. In the case of a Conditional Redemption, the failure of the City to make funds available in part or in whole on or before the redemption date shall not constitute an event of default, and the Registration Agent shall give immediate notice to the Depository or the affected Bondholders that the redemption did not occur and that the Bonds called for redemption and not so paid remain outstanding.

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## BASIC DOCUMENTATION

### REGISTRATION AGENT

The Registration Agent, Regions Bank, Nashville, Tennessee, its successor or the City will make all interest payments with respect to the Bonds on each interest payment date directly to Cede & Co., as nominee of DTC, the registered owner as shown on the Bond registration records maintained by the Registration Agent, except as described below. However, if the winning bidder certifies to the City that it intends to hold the Bonds for its own account and has no present intent to reoffer the Bonds, then the use of the Book-Entry System is not required.

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

### BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

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

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

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

*Notices.* Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to



Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

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

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

## **DISCONTINUANCE OF BOOK-ENTRY-ONLY SYSTEM**

In the event that (i) DTC determines not to continue to act as securities depository for the Bonds or (ii) to the extent permitted by the rules of DTC, the City determines to discontinue the Book-Entry-Only System, the Book-Entry-Only System shall be discontinued. Upon the occurrence of the event described above, the City will attempt to locate another qualified

securities depository, and if no qualified securities depository is available, Bond certificates will be printed and delivered to beneficial owners.

*No Assurance Regarding DTC Practices.* The foregoing information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City, the Bond Counsel, the Registration Agent, the Financial Advisor and the Underwriter do not take any responsibility for the accuracy thereof. So long as Cede & Co. is the registered owner of the Bonds as nominee of DTC, references herein to the holders or registered owners of the Bonds will mean Cede & Co. and will not mean the Beneficial Owners of the Bonds. None of the City, the Bond Counsel, the Registration Agent, the Financial Advisor or the Underwriter will have any responsibility or obligation to the Participants, DTC or the persons for whom they act with respect to (i) the accuracy of any records maintained by DTC or by any Direct or Indirect Participant of DTC, (ii) payments or the providing of notice to Direct Participants, the Indirect Participants or the Beneficial Owners or (iii) any other action taken by DTC or its partnership nominee as owner of the Bonds.

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

## **DISPOSITION OF BOND PROCEEDS**

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

- (a) An amount sufficient, together with such other City funds as may be identified by the Mayor and, if applicable, investment earnings on the foregoing, to refund the Outstanding Indebtedness shall be applied to the refunding thereof by paying such funds directly to the holders (or paying agents or trustees for the holders) of the Outstanding Indebtedness or, at the direction of the Mayor, by depositing the same in a refunding escrow account to secure the payment of the Outstanding Indebtedness
- (b) The remainder of the proceeds of the sale of the Bonds shall be used to pay costs of issuance of the Bonds, including necessary legal, accounting and fiscal expenses, printing, engraving, advertising and similar expenses, administrative and clerical costs, Registration Agent fees, bond insurance premiums, if any, and other necessary miscellaneous expenses incurred in connection with the issuance and sale of the Bonds. Notwithstanding the foregoing, costs of issuance of the Bonds may be withheld from the good faith deposit or purchase price of the Bonds and paid to the Financial Advisor to be used to pay costs of issuance of the Bonds.

## **DISCHARGE AND SATISFACTION OF BONDS**

If the City shall pay and discharge the indebtedness evidenced by any of the Bonds in any one or more of the following ways:

- 1. By paying or causing to be paid, by deposit of sufficient funds as and when required with the Registration Agent, the principal of and interest on such Bonds as and when the same become due and payable;

2. By depositing or causing to be deposited with any trust company or financial institution whose deposits are insured by the Federal Deposit Insurance Corporation or similar federal agency and which has trust powers (“an Agent”; which Agent may be the Registration Agent) in trust or escrow, on or before the date of maturity or redemption, sufficient money or Defeasance Obligations, as hereafter defined, the principal of and interest on which, when due and payable, will provide sufficient moneys to pay or redeem such Bonds and to pay interest thereon when due until the maturity or redemption date (provided, if such Bonds are to be redeemed prior to maturity thereof, proper notice of such redemption shall have been given or adequate provision shall have been made for the giving or such notice); or
3. By delivering such Bonds to the Registration Agent for cancellation by it;

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

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

## **REMEDIES OF BONDHOLDERS**

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

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

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

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## LEGAL MATTERS

### LITIGATION

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

### TAX MATTERS

#### Federal

*General.* Robertson Overbey, Knoxville, Tennessee, is Bond Counsel for the Bonds. Their opinion under existing law, relying on certain statements by the City and assuming compliance by the City with certain covenants, is that interest on the Bonds:

- is excluded from a bondholder's federal gross income under the Internal Revenue Code of 1986, as amended (the "Code")
- is not a preference item for a bondholder under the federal alternative minimum tax, and
- is included in the adjusted current earnings of a corporation under the federal corporate alternative minimum tax.

The Code imposes requirements on the Bonds that the City must continue to meet after the Bonds are issued. These requirements generally involve the way that Bond proceeds must be invested and ultimately used. If the City does not meet these requirements, it is possible that a bondholder may have to include interest on the Bonds in its federal gross income on a retroactive basis to the date of issue. The City has covenanted to do everything necessary to meet these requirements of the Code.

A bondholder who is a particular kind of taxpayer may also have additional tax consequences from owning the Bonds. This is possible if a bondholder is:

- an S corporation,
- a United States branch of a foreign corporation,
- a financial institution,
- a property and casualty or a life insurance company,
- an individual receiving Social Security or railroad retirement benefits,
- an individual claiming the earned income credit or
- a borrower of money to purchase or carry the Bonds.

If a bondholder is in any of these categories, it should consult its tax advisor.

Bond Counsel is not responsible for updating its opinion in the future. It is possible that future events or changes in applicable law could change the tax treatment of the interest on the

Bonds or affect the market price of the Bonds. See also "Proposed Legislation and Other Matters" below in this heading.

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

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

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

*Qualified Tax-Exempt Obligations.* Under the Code, in the case of certain financial institutions, no deduction from income under the federal tax law will be allowed for that portion of such institution's interest expense which is allocable to tax-exempt interest received on account of tax-exempt obligations acquired after August 7, 1986. The Code, however, provides that certain "qualified tax-exempt obligations", as defined in the Code, will be treated as if acquired on August 7, 1986. Based on an examination of the Code and the factual representations and covenants of the City as to the Bonds, Bond Counsel has determined that the Bonds upon issuance will be "qualified tax-exempt obligations" within the meaning of the Code.

*Information Reporting and Backup Withholding.* Information reporting requirements apply to interest on tax-exempt obligations, including the Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with a Form W-9, "Request for Taxpayer Identification Number and Certification," or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Bonds from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's Federal income tax once the required information is furnished to the Internal Revenue Service.

## **State Taxes**

Under existing law, the Bonds and the income therefrom are exempt from all present state, county and municipal taxes in Tennessee except (a) inheritance, transfer and estate taxes, (b) Tennessee excise taxes on interest on the Bonds during the period the Bonds are held or beneficially owned by any organization or entity, or other than a sole proprietorship or general partnership doing business in the State of Tennessee, and (c) Tennessee franchise taxes by reason of the inclusion of the book value of the Bonds in the Tennessee franchise tax base of any organization or entity, other than a sole proprietorship or general partnership, doing business in the State of Tennessee.

## **CHANGES IN FEDERAL AND STATE TAX LAW**

From time to time, there are Presidential proposals, proposals of various federal committees, and legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to herein or adversely affect the marketability or market value of the Bonds or otherwise prevent holders of the Bonds from realizing the full benefit of the tax exemption of interest on the Bonds. Further, such proposals may impact the marketability or market value of the Bonds simply by being proposed. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value, marketability or tax status of the Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Bonds would be impacted thereby. Purchasers of the Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Bonds, and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any proposed or pending legislation, regulatory initiatives or litigation.

Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

## **CLOSING CERTIFICATES**

Upon delivery of the Bonds, the City will execute in a form satisfactory to Bond Counsel, certain closing certificates including the following: (i) a certificate as to the *Official Statement*, in final form, signed by the Mayor acting in his official capacity to the effect that to the best of his knowledge and belief, and after reasonable investigation, (a) neither the *Official Statement*, in final form, nor any amendment or supplement thereto, contains any untrue statements of material fact or omits to state any material fact necessary to make statements therein, in light of the circumstances in which they are made, misleading, (b) since the date of the *Official Statement*, in final form, no event has occurred which should have been set forth in such a memo or supplement, (c) there has been no material adverse change in the operation or the affairs of the City since the date of the *Official Statement*, in final form, and having attached thereto a copy of the *Official Statement*, in final form, and (d) there is no litigation of any nature pending or threatened seeking to restrain the issuance, sale, execution and delivery of the Bonds, or contesting the validity of the Bonds or any proceeding taken pursuant to which the Bonds were authorized; (ii) certificates as to the delivery and payment, signed by the Mayor acting in his official capacity, evidencing delivery of and payment for the Bonds; (iii) a signature identification and incumbency certificate, signed by the Mayor and City Clerk acting in their official capacities certifying as to the due execution of the Bonds; and, (iv) a Continuing Disclosure Certificate regarding certain covenants of the City concerning the preparation and distribution of certain annual financial information and notification of certain material events, if any.

## **APPROVAL OF LEGAL PROCEEDINGS**

Certain legal matters relating to the authorization and the validity of the Bonds are subject to the approval of Robertson Overbey, Knoxville, Tennessee, bond counsel. Bond counsel has not prepared the *Preliminary Official Statement* or the *Official Statement*, in final form, or verified their accuracy, completeness or fairness. Accordingly, bond counsel expresses no opinion of any kind concerning the *Preliminary Official Statement* or *Official Statement*, in final form, except for the information in the section entitled “LEGAL MATTERS - Tax Matters.” The opinion of Bond Counsel will be limited to matters relating to authorization and validity of the Bonds and to the tax-exemption of interest on the Bonds under present federal income tax laws, both as described above. The legal opinion will be delivered with the Bonds and the form of the opinion is included in APPENDIX A. For additional information, see the section entitled MISCELLANEOUS – “Competitive Public Sale”, “Additional Information” and “Continuing Disclosure.”

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## MISCELLANEOUS

### **RATING**

Standard & Poor's Rating Services ("Standard & Poor's") has given the Bonds the rating of "AA-".

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

The rating reflects only the views of Standard & Poor's and any explanation of the significance of such rating should be obtained from Standard & Poor's.

### **COMPETITIVE PUBLIC SALE**

The Bonds will be offered for sale at competitive public bidding on April 13, 2016. Details concerning the public sale were provided to potential bidders and others in the *Preliminary Official Statement* that was dated March 29, 2016.

The successful bidder for the Bonds was an account led by \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_ (the "Underwriters") who contracted with the City, subject to the conditions set forth in the Official Notice of Sale and Bid Form to purchase the Bonds at a purchase price of \$\_\_\_\_\_ (consisting of the par amount of the Bonds, less an underwriter's discount of \$\_\_\_\_\_ and less an original issue discount of \$\_\_\_\_\_) or \_\_\_\_% of par.

### **FINANCIAL ADVISOR; RELATED PARTIES; OTHER**

*Financial Advisor.* Cumberland Securities Company, Inc., Knoxville, Tennessee, has served as financial advisor (the "Financial Advisor") to the City for purposes of assisting with the development and implementation of a bond structure in connection with the issuance of the Bonds. The Financial Advisor has not been engaged by the City to compile, create, or interpret any information in the PRELIMINARY OFFICIAL STATEMENT and OFFICIAL STATEMENT relating to the City, including without limitation any of the City's financial and operating data, whether historical or projected. Any information contained in the PRELIMINARY OFFICIAL STATEMENT and OFFICIAL STATEMENT concerning the City, any of its affiliates or contractors and any outside parties has not been independently verified by the Financial Advisor, and inclusion of such information is not, and should not be construed as, a representation by the Financial Advisor as to its accuracy or completeness or otherwise. The Financial Advisor is not a public accounting firm and has not been engaged by the City to review

or audit any information in the PRELIMINARY OFFICIAL STATEMENT and OFFICIAL STATEMENT in accordance with accounting standards.

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

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

Cumberland Securities Company, Inc. distributed the PRELIMINARY OFFICIAL STATEMENT, in final form, and the OFFICIAL STATEMENT, in final form on behalf of the City and will be compensated and/or reimbursed for such distribution and other such services.

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

## **ADDITIONAL DEBT**

The City has ongoing capital projects that may or may not require the issuance of debt.

## **DEBT RECORD**

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

## CONTINUING DISCLOSURE

The City will at the time the Bonds are delivered execute a Continuing Disclosure Certificate under which it will covenant for the benefit of holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the City by not later than twelve months after the end of each fiscal year commencing with the fiscal year ending June 30, 2016 (the "Annual Report"), and to provide notice of the occurrence of certain significant events not later than ten business days after the occurrence of the events and notice of failure to provide any required financial information of the City. The Annual Report (and audited financial statements if filed separately) and notices described above will be filed by the City with the Municipal Securities Rulemaking Board ("MSRB") at [www.emma.msrb.org](http://www.emma.msrb.org) and with any State Information Depository which may be established in Tennessee (the "SID"). The specific nature of the information to be contained in the Annual Report or the notices of events is summarized below. These covenants have been made in order to assist the Underwriters in complying with Securities Exchange Act Rule 15c2-12(b), as it may be amended from time to time (the "Rule 15c2-12").

*Five-Year History of Filing.* In the past five years, the City has filed its Annual Reports at [www.emma@msrb.org](mailto:www.emma@msrb.org) under the base CUSIP Number 13842 which is the base CUSIP Number for the City; however, the City inadvertently failed to also file such Annual Reports under the CUSIP Number of certain conduit issuers of bonds for which the City was an obligated person. The City has now additionally filed its Annual Reports for all outstanding bonds for which it is an obligated person under the conduit issuer's CUSIP Number. While it is believed that all appropriate filings were made with respect to the ratings of the City's outstanding bond issues, some of which were insured by the various municipal bond insurance companies, no absolute assurance can be made that all such rating changes of the bonds or various insurance companies which insured some transaction were made or made in a timely manner as required by Rule 15c2-12. With the exception of the foregoing, for the past five years, the City has complied in all material respects with its existing continuing disclosure agreements in accordance with Rule 15c2-12.

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

1. Summary of bonded indebtedness as of the end of such fiscal year as shown on page B-15;
2. The indebtedness and debt ratio as of the end of such fiscal year, together with information about the property tax base as shown on pages B-16 and B-17;

3. Information about the Bonded Debt Service Requirements – General Fund and General Debt Service Fund as of the end of such fiscal year as shown on page B-18;
4. Information about Bonded Debt Service Requirements – Solid Waste System as of the end of such fiscal year as shown on page B-19;
5. Information about Bonded Debt Service Requirements – Water and Sewer System as of the end of such fiscal year as shown on page B-20;
6. Information about Bonded Debt Service Requirements – Electric System as of the end of such fiscal year as shown on page B-21;
7. The fund balances and retained earnings for the fiscal year as shown on page B-23;
8. Summary of Revenues, Expenditures and Changes in Fund Balances - General Fund for the fiscal year as shown on page B-24;
9. Summary of Revenues, Expenditures and Changes in Fund Balance – Water and Sewer Fun for the fiscal year as shown on page B-25;
10. Summary of Revenues, Expenditures and Changes in Fund Balance – Electric Fund for the fiscal year as shown on page B-26;
11. The estimated assessed value of property in the City for the tax year ending in such fiscal year and the total estimated actual value of all taxable property for such year as shown on page B-32;
12. Property tax rates and tax collections of the City for the tax year ending in such fiscal year as well as the uncollected balance for such fiscal year as shown on page B-32; and
13. The ten largest taxpayers as shown on page B-33.

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

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

1. Upon the occurrence of a Listed Event (as defined in (3) below), the City shall in a timely manner, but in no event more than ten (10) business days after the

occurrence of such event, file a notice of such occurrence with the MSRB and SID, if any.

2. For Listed Events where notice is only required upon a determination that such event would be material under applicable Federal securities laws, the City shall determine the materiality of such event as soon as possible after learning of its occurrence.
3. The following are the Listed Events:
  - a. Principal and interest payment delinquencies;
  - b. Non-payment related defaults, if material;
  - c. Unscheduled draws on debt service reserves reflecting financial difficulties;
  - d. Unscheduled draws on credit enhancements reflecting financial difficulties;
  - e. Substitution of credit or liquidity providers, or their failure to perform;
  - f. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;
  - g. Modifications to rights of Bondholders, if material;
  - h. Bond calls, if material, and tender offers;
  - i. Defeasances;
  - j. Release, substitution, or sale of property securing repayment of the securities, if material;
  - k. Rating changes;
  - l. Bankruptcy, insolvency, receivership or similar event of the obligated person;
  - m. The consummation of a merger, consolidation or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
  - n. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

*Termination of Reporting Obligation.* The City's obligations under the Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds.

*Amendment; Waiver.* Notwithstanding any other provision of the Disclosure Certificate, the City may amend the Disclosure Certificate, and any provision of the Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions concerning the Annual Report and Reporting of Significant Events it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or beneficial owners of the Bonds.

In the event of any amendment or waiver of a provision of the Disclosure Certificate, the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

*Default.* In the event of a failure of the City to comply with any provision of the Disclosure Certificate, any Bondholder or any beneficial owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under the Disclosure Certificate. A default under the Disclosure Certificate shall not be deemed an event of default, if any, under the Resolution, and the sole remedy under the Disclosure Certificate in the event of any failure of the City to comply with the Disclosure Certificate shall be an action to compel performance.

## **ADDITIONAL INFORMATION**

Use of the words "shall," "must," or "will" in the PRELIMINARY OFFICIAL STATEMENT and OFFICIAL STATEMENT in summaries of documents or laws to describe

future events or continuing obligations is not intended as a representation that such event will occur or obligation will be fulfilled but only that the document or law contemplates or requires such event to occur or obligation to be fulfilled.

Any statements made in the PRELIMINARY OFFICIAL STATEMENT and OFFICIAL STATEMENT involving estimates or matters of opinion, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates or matters of opinion will be realized. Neither the PRELIMINARY OFFICIAL STATEMENT and OFFICIAL STATEMENT nor any statement which may have been made orally or in writing is to be construed as a contract with the owners of the Bonds.

The references, excerpts and summaries contained herein of certain provisions of the laws of the State of Tennessee, and any documents referred to herein, do not purport to be complete statements of the provisions of such laws or documents, and reference should be made to the complete provisions thereof for a full and complete statement of all matters of fact relating to the Bonds, the security for the payment of the Bonds, and the rights of the holders thereof.

The PRELIMINARY OFFICIAL STATEMENT and OFFICIAL STATEMENT, in final form, and any advertisement of the Bonds, is not to be construed as a contract or agreement between the City and the purchasers of any of the Bonds. Any statements or information printed in this PRELIMINARY OFFICIAL STATEMENT or the OFFICIAL STATEMENT, in final form, involving matters of opinions or of estimates, whether or not expressly so identified, is intended merely as such and not as representation of fact.

The City has deemed this Preliminary Official Statement as “final” as of its date within the meaning of the Rule 15c2-12 except for the omission of certain pricing information allowed to be omitted pursuant to the Rule 15c2-12.

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## **CERTIFICATION OF ISSUER**

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

/s/  
Mayor

ATTEST:

/s/  
City Recorder



## **APPENDIX A**

### **FORM OF LEGAL OPINION**



\_\_\_\_\_, 2016

City of Alcoa, Tennessee  
c/o City Mayor  
223 Associates Blvd  
Alcoa, Tennessee 37701

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the City of Alcoa, Tennessee (the "Issuer") of \$4,575,000 General Obligation Bonds, Series 2016B, dated \_\_\_\_\_, 2016 (the "Bonds"). In such capacity, we have examined the law and such certified proceedings and other papers as we deemed necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials and others furnished to us without undertaking to verify such facts by independent investigation.

Based on the foregoing, we are of the opinion, as of the date hereof, as follows:

1. The Bonds have been duly authorized, executed and issued in accordance with the constitution and laws of the State of Tennessee and are valid and binding obligations of the Issuer.
2. The resolution of the Board of Commissioners of the Issuer authorizing the Bonds has been duly and lawfully adopted, is in full force and effect and is a valid and binding agreement of the Issuer enforceable in accordance with its terms.
3. The Bonds constitute general obligations of the Issuer to which the Issuer has validly and irrevocably pledged its full faith and credit. The principal of and interest on the Bonds are payable from unlimited ad valorem taxes to be levied on all taxable property within the corporate limits of the Issuer.
4. Interest on the Bonds (including any original issue discount properly allocable to an owner thereof) is excluded from a bondholder's gross income for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax, and is included in the adjusted current earnings of a corporation under the federal corporate alternative minimum tax. The opinion set forth in the preceding sentence is subject to the condition that the Issuer comply with all requirements of

the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Issuer has covenanted to comply with all such requirements. Failure to comply with certain of such requirements could cause interest on the Bonds to be so included in gross income retroactive to the date of issuance of the Bonds. Except as set forth in this Paragraph 4 and Paragraph 6 below, we express no other opinion regarding other federal tax consequences arising with respect to the Bonds.

5. Under existing law, the Bonds and the income therefrom are exempt from all present state, county and municipal taxation in Tennessee except (a) inheritance, transfer and estate taxes, (b) Tennessee excise taxes on all or a portion of the interest on any of the Bonds during the period such Bonds are held or beneficially owned by any organization or entity, other than a sole proprietorship or general partnership, doing business in the State of Tennessee, and (c) Tennessee franchise taxes by reason of the inclusion of the book value of the Bonds in the Tennessee franchise tax base or any organization or entity, other than a sole proprietorship or general partnership, doing business in the State of Tennessee.

6. The Bonds are "qualified tax-exempt" obligations within the meaning of Section 265 of the Code.

It is to be understood that the rights of the owners of the Bonds and the enforceability of the Bonds and the resolution authorizing the Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally and by equitable principles, whether considered at law or in equity.

We express no opinion herein as to the accuracy, adequacy or completeness of the Official Statement relating to the Bonds.

This opinion is given as of the date hereof and we assume no obligation to update or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or changes in law that may hereafter occur.

Yours very truly,

Robertson Overbey

**SUPPLEMENTAL INFORMATION STATEMENT**





## **GENERAL INFORMATION**

### **LOCATION**

The City of Alcoa (the “City”) is located in eastern Tennessee in Blount County (the “County”). The County is bordered to the east by Sevier County, to the north by Knox County and to the west by Loudon County. The southern border is Monroe County and the State of North Carolina.

Other incorporated towns within the County are Maryville, the county seat and the largest city, Rockford, Friendsville and Townsend. Vonore is an unincorporated town that is in both Blount County and Monroe County.

The County is in the extreme eastern portion of Tennessee. Bordering the Great Smoky Mountains National Park, the immediate surrounding terrain is hilly and mountainous while much of the county is covered with rolling farmlands. Blount County is situated near the geographic center of the eastern United States with approximately 50 percent of the U.S. population within a 500-mile radius. The County benefits from being a gateway to the Great Smoky Mountains National Park. The scenic and recreational attractions of the park attract an ever increasing number of tourists to the County yearly.

The County is also situated at the southern boundary of the Oak Ridge Technology corridor, a nationally recognized high-technology research and development center. Additionally, Maryville is located about four miles from the Pellissippi Parkway extension, which makes residents within a 10 to 20 minute drive to the West Knoxville - Oak Ridge area.

### **GENERAL**

The County covers 559 square miles (52.4% of which is devoted to agriculture) in the extreme eastern portion of Tennessee. The County lies in an agriculturally rich section of the State. Major crops include tobacco, strawberries, crimson clover, sheep, cattle, dairy and truck farming.

The County is part of the Knoxville Metropolitan Statistical Area (the “MSA”) that had a population of 837,571 according to the 2010 US Census. The MSA includes Knox (Knoxville and Farragut), Anderson (Oak Ridge and Clinton), Blount (Maryville and Alcoa), Campbell (LaFollette), Grainger (Rutledge), Loudon (Loudon), Morgan (Wartburg), Roane (Harriman) and Union (Maynardville) Counties.

The County is also part of the Knoxville-Sevierville-Harriman Combined Statistical Area (the “CSA”). According to the 2010 Census, the CSA had a population of 1,056,442. The CSA includes Roane, Anderson, Blount, Knox, Loudon, Union, Grainger, Hamblen, Jefferson, Campbell, Cocke and Sevier Counties. The City of Knoxville is the largest city in the CSA with a population of 178,874 according to the 2010 Census. The County has a Census 2010 population of approximately 123,010. The population of Maryville as counted in the 2010 Census was 27,465.

## TRANSPORTATION

The area has excellent transportation facilities by rail, air, river and highway. Both the Norfolk Southern and CSX Railroads have terminals and stops in the County, with lines radiating in nine directions. The Pellissippi Highway (I-140) provides a direct link to I-40 and I-75 in Knox County. Major highways serving the County include U.S. Highway 44, 129, 321, 411 and 441 as well as State Routes 33, 75 and 95.

*McGhee Tyson Airport.* The McGhee Tyson Airport is the principal commercial airport in East Tennessee, serving the commercial airline industry, air cargo, military aviation and general aviation. With parallel 9,000 foot runways, McGhee Tyson Airport can accommodate any size aircraft. The Airport is located within the city limits of Alcoa 12 miles south of downtown Knoxville. The airport occupies more than 2,000 acres of land with space for additional air cargo facilities or economic development. This facility is owned and managed by the Metropolitan Knoxville Airport Authority. About 2,700 people work at the airport.

According to a 2012 study by the University of Tennessee's Center for Transportation Research, the airport contributes over \$616 million to the local economy (including Anderson, Blount, Knox, Loudon and Sevier Counties) every year. The report examined the employment, business and tax impacts of the airport, including the Downtown Island Airport.

The Metropolitan Knoxville Airport Authority (MKAA) was established in 1978 as an independent nonprofit agency to own and operate McGhee Tyson Airport and Downtown Island Airport. The Authority's nine-member Board of Commissioners is appointed by the Mayor of Knoxville and confirmed by City Council. This board determines the policies for the current Airport Authority staff of 150 employees in six departments. The board appoints a President who serves as the chief administrator and executive officer. All of the revenues are generated by user fees and rental income so no taxpayer dollars are used to support airport operations.

Five air cargo services provide daily service. In addition, six passenger airlines carry air cargo on most flights. More than 80,000,000 pounds of airfreight annually pass through its cargo facilities. Federal Express, United Parcel Service and DHL are the main couriers.

McGhee Tyson Airport has several major airlines serving 20 non-stop destinations including Atlanta, Chicago, Dallas/Ft. Worth, Denver, Houston, Myrtle Beach, New York, Orlando, Philadelphia and Washington D.C. With more than 120 arrivals and departures each day and more than 4,000 seats available, McGhee Tyson Airport is one of the most convenient and accessible regional airports in the nation.

The airport is served by several low fare carriers: Allegiant Air and Frontier Airlines. Allegiant Travel Company is focused on linking travelers in small cities to world-class leisure destinations such as Destin/Ft. Walton Beach, Fla., Ft. Lauderdale, Fla., Las Vegas, NV, Myrtle Beach, NC, Orlando, Fla., Sarasota/Fort Meyers, Fla., Tampa/St. Petersburg, Fla. and Washington, D.C. Through its subsidiary, Allegiant Air, the Company operates a low-cost, high-efficiency, all-jet passenger airline offering air travel both on a stand-alone basis and bundled with hotel rooms, rental cars and other travel related services. Frontier Airlines started flight in the summer of 2011 from

Knoxville to its hub in Denver, Colorado and to Chicago, Illinois, Provo, Utah and Sioux Falls, South Dakota.

McGhee Tyson is served by major and regional carriers including:

**Major Airlines:**

Allegiant Air  
Delta Airlines

Frontier Airlines

American Eagle

United Express

**Regional Carriers:**

*Source:* Metropolitan Knoxville Airport Authority.

These airlines connect passengers with service to several hub airports across the nation on more than 120 flights daily.

**McGhee Tyson Airport**

<b><u>Total Year</u></b>	<b><u>Commercial Passengers</u></b>	<b><u>Total Air Cargo in Pounds</u></b>
2006	1,674,877	92,219,596
2007	1,821,581	100,286,989
2008	1,742,579	97,366,366
2009	1,680,716	82,304,377
2010	1,688,882	93,393,658
2011	1,773,671	92,390,849
2012	1,747,145	91,514,071
2013	1,676,374	84,029,942
2014	1,738,133	74,115,672
2015	1,774,081	45,449,380

*Source:* Metropolitan Knoxville Airport Authority.

McGhee Tyson Airport has undergone many improvements in the past few years:

2008 West Aviation Area \$50.7 million

2008 Airport Rescue and Fire Fighting Facility \$11.3 million

2009 New Food Court in Terminal \$615,000

2014 Runway and Taxiway System Upgrade \$108 million

*Source:* Metropolitan Knoxville Airport Authority.

TACAir is McGhee Tyson Airport's general aviation services provider. In addition to providing fuel and services to commercial carriers, they also accommodate the general aviation industry, which includes corporate aviation, charter flights, flight schools and people who fly as a hobby.

The Tennessee Air National Guard's 134th Air Refueling Group operates 10 aircraft at McGhee Tyson Airport. The Guard's KC-135E tankers provide refueling to the country's military aircraft. In addition, the Army Aviation Support Facility, the 110th and 119th Tactical Control Squadrons and the 228th Combat Communications Squadron operate on the base.

The direct and indirect economic impact of McGhee Tyson Airport, including payroll, local spending, transportation cost savings, capital spending and induced benefits is estimated at \$1 billion annually. The jobs formed by the aviation industry are perhaps the most important direct benefit that McGhee Tyson Airport offers East Tennessee. Approximately 2,700 people are now employed at McGhee Tyson Airport.

*Downtown Island Home Airport.* Knoxville's Downtown Island Home Airport, located five minutes from downtown, serves as another home base for smaller and privately owned airplanes. The Island Home Airport is a 150 acre general aviation facility with a 3,500 foot runway. It is home to more than 100 private and corporate aircraft, with 24 hour a day service available. Construction of three additional private aircraft hangars was completed in 2008. Future projects include a taxiway for new T-Hangars, secondary containment for the fuel depot and mobile fueling equipment and a planning study for future development. These projects are to be funded with a combination of federal grant funds, state grant funds and Airport Authority revenues.

*Waterways.* Fifteen miles away is the head of the Tennessee River navigation channel in Knoxville. This river is part of the Interconnected Inland Water System that links Knoxville with 21 states, the Mississippi River and the Great Lakes. Linkages may be made to the entire inland waterway system, allowing shipments to be made by water to Houston, Tampa, Pittsburgh, Minneapolis and Little Rock.

Six active river terminals handle barge shipments throughout the area. The Tennessee-Tombigbee Waterway links East Tennessee with 13 other states and the Gulf of Mexico. This 234-mile canal connects 16,000 miles of waterways throughout Tennessee, Mississippi and Alabama leading to the Port of Mobile and the Gulf of Mexico. This Waterway shortens the shipping between Tennessee and the Gulf of Mexico by 882 miles and enables East Tennessee products to arrive at their Gulf destination from eight to nine days earlier. The development of the Tennessee-Tombigbee Waterway has been a catalyst for the development of industry and agriculture throughout the area. Barge shipping has always been a popular alternative to rail in East Tennessee because of the existence of the Inland Water System.

Nearby Knoxville also has a Foreign Trade Zone, is an inland Port of Entry with a U.S. Customs Office. In 1988, Knoxville was given its Foreign Trade Zone designation by the U.S. Department of Commerce. This designation allows manufacturers to ship foreign raw materials and components to parts of Knoxville and store them duty free in Knoxville until used. In May 1991, the Foreign Trade Zone was activated.

## **EDUCATION**

*Alcoa City Schools District* is made up of about 9 square miles with three schools: one elementary, one middle school and one high school with 110 teachers. The fall 2014 enrollment was about 1,943 students.

The County is also home to two other school systems: The *Blount County School System* is made up of 21 public schools: fourteen elementary schools, four middle schools, two senior high schools and one alternative education school. Fall 2014 enrollment for Blount County schools is

about 11,252 with around 689 teachers total. The District's size is about 584 square miles. *Maryville City Schools District* is made up of about 16.2 square miles with seven schools: three elementary, two intermediate, one junior high school and one high school with 329 teachers. The fall 2014 enrollment was 5,131 students.

Also, there are several private schools that serve the area: Apostolic Christian Academy, Clayton-Bradley Academy, Foothills Christian Academy, New Horizon Montessori School, and Maryville Christian School. Moreover, the County has many opportunities for higher education. In addition to the following schools, the University of Tennessee Knoxville is located in nearby Knox County. It is the largest campus in the UT system.

*Maryville College.* The private, four-year, liberal arts college, located in Maryville, was founded in 1819 and is one of the fifty oldest institutions of higher learning in the United States. The college is co-educational and grants the degrees of Bachelor of Arts, Bachelor of Science and Bachelor of Music with fifty diverse fields of study. Fall 2015 enrollment is 1,213 students, and the college is situated on a 375 acre campus. Dual degree programs are available in the fields of engineering, pharmacy and veterinary medicine. A \$47 million Civic Arts Center was completed in 2010.

*Source:* Maryville College.

*Pellissippi State Technical Community College Blount County Center.* The Blount County Center satellite campus has been housed at the former Bungalow Elementary School building since 1991. While that location served the needs of the college for many years, the institution has outgrown the aging facility. Currently, more than 700 students attend classes at the Blount County Center. Yet roughly 1,300 Pellissippi State students list the County as their residence. An expanded 39.5-acre facility allows more students to attend classes nearer to where they live. The \$22 million campus was completed in late 2010 in Blount County.

Since its founding in 1974 as State Technical Institute at Knoxville, Pellissippi State has expanded the teaching of technology, the use of technology in instruction, and the transfer of technology to local business and industry in support of regional economic development. Enrollment for fall 2013 was listed as 10,704. The Community College continues to support and develop career/technical associate's degrees and institutional certificates, university parallel associate's degree programs, and continuing education opportunities for the citizens of Knox, Blount, and surrounding counties. Pellissippi State Technical Community College (PSTCC) has been named one of the 200 fastest-growing community colleges in the nation, according to Community College Week. The College has released a 2012 report showing the school has pumped an average of \$244 million annually into the Knoxville-area economy over the last 5 years.

Several campuses make up the Community College. The main campus is the Pellissippi Campus in west Knoxville. The Division Street Campus and the newer Magnolia Avenue Campus, which opened in 2000, are also in Knoxville.

*Source:* Pellissippi State Technical Community College and the City.

## HOSPITALS

*Blount Memorial Hospital.* Blount Memorial is an acute care, short-term hospital located in Maryville. The Hospital Facility consists of approximately 715,925 square feet and a licensed capacity of 304 beds and 176 physicians. The hospital employs about 2,440 people. The hospital facility is operated by Blount Memorial Hospital Incorporated (the “BMH, Inc.”), a governmental non-profit corporation formed by the County pursuant to Tennessee law. The Hospital is governed by a board of directors appointed by the County, the Cities of Alcoa and Maryville, and Maryville College. The Hospital’s property is owned by the County and BMH, Inc. There are several Special Care Units at Blount Memorial Hospital: ICU, CCU, same day surgery, medical/surgical patient care, Mountain View Recovery Center, emotional health center, family birthing center, and KidCare. The hospital's Emergency Room is open 24 hours and is equipped with 17 treatment rooms.

*University of Tennessee Medical Center.* Located in nearby Knoxville near the Blount County line, the *UT Medical Center* in Knoxville is an acute care teaching hospital with 581 beds and about 479 doctors. The hospital employs about 3,800 people and had 25,000 admissions for 2011. Designated as the region’s Level I adult and pediatric Trauma Center by the state of Tennessee, the Medical Center provides the highest level of programs and emergency services. Critically ill patients are transported to the Medical Center via one of LIFESTAR’S two helicopters.

Special care units such as cardiac care, open heart, medical intensive care, neuro-respiratory, and trauma surgical intensive care are available for patients who require maximum medical attention. A Level IV Intensive Care Nursery, a Pediatric Intensive Care Unit, a newborn nursery and many other programs comprising Children’s Health Services enable the hospital to provide the region’s most comprehensive medical services for infants and children. University Hospital also serves as the Regional Perinatal Center. The new Heart Hospital was opened in 2010. See “RECENT DEVELOPMENTS” for new construction on the facility.

*Source:* University Health Center and Knoxville News Sentinel.

## MANUFACTURING AND COMMERCE

The economic base for Blount County includes a diversified group of industrial and service companies. The County has nine industrial parks within its boundaries with less than 400 acres remaining for development. Big Springs has 100 acres available in Maryville. Partnership Park North has 220 acres available about 8 miles from McGhee Tyson Airport in Alcoa. Partnership Park South has 210 acres in Maryville. Stock Creek Development Centre is a 24-acre site 5 miles from downtown Knoxville in Rockford.

The County is aligned with many strategic partners that assist growth and attract many advanced technology and R&D based companies. They are the Oak Ridge National Laboratory, the University of Tennessee, the Technology 2020 project, Tennessee Valley Authority and the National Safe Skies Alliance.

*National Safe Skies Alliance* is a non-profit consortium dedicated to advancing aviation security by conducting independent testing and evaluation of anti-terrorism technologies in airports nationwide. Safe Skies' membership is comprised of airports, airlines, national laboratories,

universities, and the security industry, working in partnership with the Department of Homeland Security - Transportation Security Administration, to protect the traveling public. Safe Skies' staff of security specialists, test engineers and statisticians are experts in the evaluation of security systems for the Passenger Checkpoint, Checked Baggage and Air Cargo, Access Control and the Airport Perimeter.

The *Oak Ridge National Laboratory* (the “ORNL”) based in nearby Roane County, is a multiprogram science and technology laboratory managed for the U.S. Department of Energy by UT-Battelle, LLC. Scientists and engineers at ORNL conduct basic and applied research and development to create scientific knowledge and technological solutions that strengthen the nation's leadership in key areas of science; increase the availability of clean, abundant energy; restore and protect the environment; and contribute to national security. ORNL also performs other work for the Department of Energy, including isotope production, information management, and technical program management, and provides research and technical assistance to other organizations. The laboratory is a program of DOE's Oak Ridge Field Office.

*Pellissippi Place* is a 450 acre high tech park on the Oak Ridge Corridor in Alcoa. The first construction phase was begun in late 2008. The park focuses on technology, corporate research and high-tech business development. Phase I involved the infrastructure for the park, a phase that cost around \$10 million and was completed in 2010. The development is LEED certified, which requires all developers and contractors to following sustainable green building guidelines recognized by the U.S. Green Building Council. Pronova Solutions announced its plans to become the anchor tenant in 2013 and opened in June of 2015. The project represents an investment of \$52 million and up to 500 new jobs in Blount County. The Park is jointly owned by Blount County, the Cities of Alcoa and Maryville, and Knox County.

The *Technology 2020* project was initiated in 1993 to capitalize on the unique resources of the East Tennessee region: the presence of the ORNL, the University of Tennessee-Knoxville, the headquarters of the Tennessee Valley Authority, and a significant number of both large and small technology companies in the region. A \$4.5 million investment has been made by DOE, South Central Bell, the Tennessee Public Service Commission and Lockheed-Martin to set up a regional telecommunications laboratory. This economic development resource center is located in Oak Ridge's Commerce Park. An 18,000 square foot facility has been constructed on the 5.2 acre site. The facility will be used for testing and demonstrating new communications technologies and applications.

The *Tennessee Valley Authority* (the “TVA”) provides support, technology, expertise, and financial resources to existing businesses and industries in the Valley to help them grow and be more efficient and profitable. These resources include technical assistance, low-interest loans, and other tools needed by businesses for successful operation.

The *University of Tennessee's* flagship campus in Knoxville is home to a wide array of vigorous programs doing research on issues vital to the community, the state, the nation, and the world. The university has collaborative relationships with public and private agencies including ORNL, Battelle Memorial Institute (forming UT-Battelle), St. Jude Children's Research Hospital, the Memphis Bioworks Foundation, and the Boston-Baskin Cancer group (forming UT Cancer Institute).

### Major Employers in Blount County, Tennessee

<u>Company</u>	<u>Product/Service</u>	<u>Employment</u>
Denso <sup>1</sup>	Automotive Parts	3,400
Blount Memorial Hospital	Healthcare	2,441
McGhee Tyson Air National Guard	Airbase	2,100
Clayton Homes	Manufactured Housing	2,099
Blount County Schools	Education	1,800
ALCOA <sup>2</sup>	Aluminum Ingot, Coiled Steel	1,200
Maryville City Schools	Education	653
Blount County Government	Government	605
Accenture	Hotel Customer Service	575
Wal-Mart	Retail Store	539
Ruby Tuesday Inc.	Restaurants	518
Massey Group	Electrical Contractor	400
Newell Rubbermaid	Rubbermaid Plastic Products	350
TeamHealth Alcoa Billing	Billing	330
City of Maryville	Government	304
Rockford Manufacturing	Yarn & Cordage	300
Standard Aero Alliance Inc.	Aircraft Engines and Parts	278
City of Alcoa	Government	260
Maryville College	University	254
Cornerstone of Recovery	Healthcare	235
Alcoa City Schools	Education	231
EZ Stop Food Marts	Retail	220
Reinhart Food Service	Distribution	187

<sup>1</sup> Headquarters based in Blount County, but employment excludes 1,050 employees in the McMinn County Plant.

<sup>2</sup> Headquarters are based in Blount County, but employment includes some employees working in Knox County.

Source: Alcoa Audit, Blount County Chamber of Commerce, Blount County Audit, Maryville Audit and Knoxville News Sentinel - 2015.

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## EMPLOYMENT INFORMATION

For the month of January 2016, the unemployment rate for Maryville stood at 4.4% with 12,670 persons employed out of a labor force of 13,250. As of January 2016, the unemployment rate for Blount County stood at 4.7% with 57,040 persons employed out of a labor force of 59,820.

The Knoxville MSA's unemployment for January 2016 was at 4.5% with 388,410 persons employed out of a labor force of 406,840. As of January 2016, the unemployment rate in the Knoxville-Morristown-Sevierville CSA stood at 5.0%, representing 495,140 persons employed out of a workforce of 521,350.

	Unemployment				
	Annual Average	Annual Average	Annual Average	Annual Average	Annual Average
	<b><u>2011</u></b>	<b><u>2012</u></b>	<b><u>2013</u></b>	<b><u>2014</u></b>	<b><u>2015</u></b>
National	8.9%	8.1%	7.4%	6.2%	5.3%
Tennessee	9.2%	8.0%	8.2%	6.7%	5.8%
<b>Maryville</b>	<b>7.7%</b>	<b>7.0%</b>	<b>7.2%</b>	<b>6.0%</b>	<b>5.3%</b>
Index vs. National	87	86	97	97	100
Index vs. State	84	87	88	90	91
<b>Blount County</b>	<b>7.7%</b>	<b>6.8%</b>	<b>6.9%</b>	<b>6.0%</b>	<b>5.3%</b>
Index vs. National	87	84	93	97	100
Index vs. State	84	85	84	90	91
<b>Knoxville MSA</b>	<b>7.3%</b>	<b>6.6%</b>	<b>6.9%</b>	<b>6.2%</b>	<b>5.4%</b>
Index vs. National	82	81	93	100	102
Index vs. State	79	82	84	93	93
<b>Knoxville-Morristown – Sevierville CSA</b>	<b>8.3%</b>	<b>7.5%</b>	<b>7.7%</b>	<b>6.5%</b>	<b>6.5%</b>
Index vs. National	93	93	104	105	123
Index vs. State	90	94	94	97	112

Source: Tennessee Department of Employment Security, CPS Labor Force Estimates Summary.

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## ECONOMIC DATA

### Per Capita Personal Income

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
National	\$40,277	\$42,453	\$44,266	\$44,438	\$46,049
Tennessee	\$35,601	\$37,323	\$39,137	\$39,312	\$40,457
<b>Blount County</b>	<b>\$32,760</b>	<b>\$34,319</b>	<b>\$35,882</b>	<b>\$36,023</b>	<b>\$37,085</b>
Index vs. National	81	81	81	81	81
Index vs. State	92	92	92	92	92
<b>Knoxville MSA</b>	<b>\$34,799</b>	<b>\$36,850</b>	<b>\$38,557</b>	<b>\$38,359</b>	<b>\$39,530</b>
Index vs. National	86	87	87	86	86
Index vs. State	98	99	99	98	98
<b>Knoxville-Sevierville-Harriman CSA</b>	<b>\$33,312</b>	<b>\$35,215</b>	<b>\$36,675</b>	<b>\$36,614</b>	<b>\$37,718</b>
Index vs. National	83	83	83	82	82
Index vs. State	94	94	94	93	93

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

### Social and Economic Characteristics

	<u>National</u>	<u>Tennessee</u>	<u>Blount County</u>	<u>Alcoa</u>	<u>Maryville</u>
Median Value Owner Occupied Housing	\$175,700	\$139,900	\$163,600	\$120,400	\$189,100
% High School Graduates or Higher					
Persons 25 Years Old and Older	86.30%	84.90%	87.3%	84.6%	90.0%
% Persons with Income Below					
Poverty Level	14.80%	18.30%	14.7%	21.9%	12.6%
Median Household Income	\$53,482	\$44,621	\$46,518	\$34,847	\$52,120

Source: U.S. Census Bureau State & County QuickFacts - 2014.

## RECREATION

*Appalachian National Scenic Trail (the "AT").* The Appalachian Trail is a 2,175-mile long footpath stretching through 14 eastern states from Maine to Georgia. It can be accessed in Blount County through the Great Smoky Mountain National Park in Townsend. Conceived in 1921 and first completed in 1937, it traverses the wild, scenic, wooded, pastoral, and culturally significant lands of the Appalachian Mountains. The AT is enjoyed by an estimated 4 million people each year.

Source: National Park Service.

*Fort Loudoun State Historic Park.* Fort Loudoun State Park is located in Vonore (in Monroe County) on TVA's Tellico Reservoir. This 1,200-acre site is the location of one of the earliest British fortifications on the western frontier, built in 1756. Today the fort and the 1794 Tellico Blockhouse overlook the Tellico Reservoir and the Appalachian Mountains. Much of the park's 1,200-acres lie on an island on Tellico Lake. The park has a Visitor Center/Museum that offers information on the area's history and artifacts that were excavated prior to the Fort's reconstruction. The largest event of each year is an 18th Century Trade Faire that showcases many aspects of that century. British soldiers, civilians, ladies and small children come together with traders, French soldiers, Creek and Cherokee Indians.

*Source:* Tennessee State Parks.

*Great Smoky Mountains National Park (the "Park").* The Great Smoky Mountains National Park straddles the border between North Carolina and Tennessee in Blount and Sevier Counties and the southern part of Cocke County. Monroe County is located southwest of the Park. Over 500,000 acres were set aside in 1934 to form the Park. It includes 97 historic and 342 modern structures that are maintained by the Park. The Park is a hiker's paradise with over 800 miles of maintained trails, including the Appalachian Trail. The Smoky Mountains have the most biological diversity of any area in the world's temperate zone. The Park is a sanctuary for a magnificent array of animal and plant life, all of which is protected for future generations to enjoy. Located in the center of the eastern half of the United States, the Park is readily accessible to 70% of the country's population. Each year it draws the largest attendance of any of the National Parks in the United States. Visitors during 2014 reached over 9.3 million.

In 2008 construction was completed to build a \$4.5 million Twin Creeks Science and Education Center near Gatlinburg. In April 2011, a \$3 million Oconoluftee Visitor Center opened near Cherokee, NC. In early 2016, a 13,000 square foot Collections Preservation Center operated by the National Park Service will open in Townsend, TN. These are the first new major buildings built in the Park since the Sugarlands Visitor Center opened in 1964 at the Gatlinburg entrance.

*Source:* National Park Service.

## **RECENT DEVELOPMENTS**

*Advanced Munitions International ("AIM").* AMI will build a global headquarters and state-of-the-art munitions manufacturing facility in Alcoa's Partnership Park, creating 605 new jobs. AMI expects to break ground on the 235-acre site in the spring of 2016 and is expected to open late 2018. The chance to benefit from research at Oak Ridge National Laboratory was a key factor in picking the Blount County location. Advanced Munitions International began in 2010 as Advanced Tactical Armament Concepts, converting an empty hangar and machine shop near the airport in Payson, Ariz. into an ammunition production facility. The company has rebranded as Advanced Munitions International, producing ammunition for HPR Ammunition, ATAC Emcon, and BlackOPs brands.

*ALCOA Inc.* A three year, \$275 million expansion to convert capacity for the automobile industry was completed in 2015. An additional 200 full-time workers were hired. ALCOA announced in 2012 that the smelting operation that was idled in 2009 would be permanently closed. In early 2010 ALCOA cut 90 Blount County jobs on top of the 450 jobs cut in 2009 due to an

unprecedented drop in aluminum prices. The 450 jobs represented almost a third of some 1,500 ALCOA jobs in Blount County. The layoffs further reduce employment at the Blount County facility that at one time was the largest aluminum manufacturing facility in the world with 12,000 employees. The Pittsburgh-based manufacturer shut down both smelting production lines in Blount County as part of an 18-percent reduction in annual aluminum output.

*ALCOA* owns and operates three plants located in the City of Alcoa near the McGhee Tyson Airport. These are the company's primary aluminum smelting and fabricating plants in the United States. The plant's primary product is flat, rolled aluminum sheets that are processed into beverage cans, Venetian blinds, lithographic sheets, and automobile trim. The plants have produced in the past about 200 metric tons of aluminum a year. This operation is the largest aluminum-producing and fabricating complex in the United States.

*Cirrus Aircraft.* The private aircraft manufacturer Cirrus Aircraft announced plans in 2015 to invest \$15 million and create 170 jobs at the Metropolitan Knoxville Airport West Aviation Area. The new "Vision Center" will be the epicenter and flagship location for all Cirrus Aircraft pilot, owner and customer activities. The facility is expected to be complete in 2016. The Knoxville facility will include a full-motion flight simulator currently under development and other fixed training devices. It will also contain a factory service center as well as a design center, allowing buyers to personalize and create their Vision SF50.

*Denso Tennessee.* Denso Manufacturing produces automotive parts in four plants located in Maryville. Already one of the largest employers in the County, DENSO represents an investment exceeding \$1.1 billion in the Blount County Industrial Park. The company's entire campus, also featuring a training center, logistics center and associate fitness center, covers more than 154 acres. In 2015 Denso officials announced a \$400 million expansion to its Maryville facility that will add 500 new jobs. This is in addition to the additional 900 workers to begin a new production line of fuel efficient starters that have been hired since 2011. The 55-acre addition includes a new state-of-the-art electronics division. The expansion added a 220,000-square-foot wing to the company's existing facility, covering 1.5 million square feet. DENSO also has a plant in McMinn County that is undergoing a \$85 million expansion to be completed in mid-2016 and will hire an additional 400 people. The combined employment from plants in both counties equal 4,700 people as of January 2015.

Denso opened in 1988 and makes starters, alternators, instrument clusters and electronics for the automotive industry. The company provides parts for 20 automakers, including Toyota, Honda, Daimler Chrysler, General Motors, Ford and Subaru. Denso's parent company, Denso Corp., is based in Kariya, Japan.

*First Tennessee Bank.* First Tennessee Bank created about 65 positions in 2010 in Maryville. This brings some of its technology operations back to in-house. The workers manage servers, mainframes and other technology infrastructure for the Memphis-based company.

*G&T Industries.* G&T Industries, a supplier to the boating, RV and private aircraft markets has two locations in Blount County and doubled in size by 2010. The manufacturer will consolidate the two existing operations into a new 105,000-square-foot facility build on 15.9 acres of landing the

Big Springs Industrial Park. The expansion cost between \$4 to \$5 million dollars and increased the number of employees to about 100.

*K12 Inc.* A Virginia-based company, K12 Inc. began construction in 2014 on a call center at the Tyson Centre office building, next to the McGhee Tyson Airport in Alcoa. The \$2.4 million investment will occur over the next five years and should hire about 300 employees. K12 is an online learning company that offers courses in several subjects.

*Koide Tennessee Inc.* Koide Tennessee, a Japan-based company that produces metal tubing for the automotive industry, began a \$10.1 million expansion in 2014 that will result in over 30 new jobs for the manufacturing plant located in the Stock Creek Development Technology Park. The addition will be 76,000-square-foot facility on a 10-acre site. Construction should be completed by summer of 2015.

*MasterCraft Boat Company.* Located in Vonore, MasterCraft added 300 new jobs in the spring of 2010 following its recent acquisition of Hydra-Sports, a maker of saltwater boats. MasterCraft moved all the Hydra-Sports production to the MasterCraft plant in Vonore. In 1993, MasterCraft moved from Blount County to Monroe County. At its peak, the company employed about 650 workers in Vonore. The plant is currently located on Excellence Way, in a Tellico Reservoir Development Agency industrial park located directly on Tellico Lake. The company makes several types of boats: Hydra-Sport salt water boats, ProStar ski boats, X-Series wake board boats, MariStar luxury family personal boats and Salt Water Series designed for brackish water and the inland coastal waterway conditions.

*Newell Rubbermaid.* Rubbermaid added about 150 jobs to the Maryville facility after companywide reorganization in response to the down economy. The company owns the Sharpie brand and the Maryville facility will produce markers, highlighters and dry erase products. The addition of jobs to the Maryville facility is accompanied by cuts elsewhere in Tennessee facilities.

*ProNova Solutions.* ProNova opened a \$20 million proton center in the Pellissippi Place technology research and development park in 2015. The 55,000-square-foot facility will be a equipment supplier for the cancer-treatment technology. By 2023, ProNova expects to have 125 two-room systems out the Blount County facility and employ over 4,000 employees.

*Royal Metal Powders Inc.* The Rockford facility began a \$5 million expansion starting in 2011 over the next few years with 50 additional workers. Currently 20 people are employed to produce copper powders, copper alloy powders, pre-alloyed bronze and premixes.

*Surface Igniter. LLC.* In 2013 surface Igniter will relocate its headquarters and manufacturing facility from Puerto Rico to its existing facility in Maryville, investing \$3.8 million over the next three years. The company is a leading manufacturer of hot surface igniters for heating, cooking, clothes dryer and BBQ grill industries. It will begin production immediately in the 55,000-square foot Blount County Industrial Park in Maryville with 54 employees, and expects to double its number of jobs to 108 before 2016.

*TeamHealth.* TeamHealth finished an \$18 million expansion in 2012 that added 160 jobs to its facility in Alcoa. The company provides medical employees to hospitals, the military and other organizations. It is headquartered in Knoxville and already employs 400 people at a facility in Alcoa. Adding up to 550 more jobs is also a possibility. TeamHealth was founded in 1979 and has six principal service lines located in 13 regional sites that employ more than 6,600. These healthcare professionals provide services to more than 700 civilian and military hospitals, clinics and physician groups in 45 states.

*Source:* The Blount County Economic Development Board, The Daily Times, Knoxville News Sentinel and WBIR Knoxville, TN.

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**CITY OF ALCOA, TENNESSEE**  
SUMMARY OF BONDED INDEBTEDNESS

AMOUNT ISSUED	PURPOSE	DUE DATE	INTEREST RATE(S)	(1) OUTSTANDING
\$ 2,000,000	Loan Agreement, Series B-10-A (Taxable)	June 2021	Fixed	\$ 150,000
9,225,000	Loan Agreement (Maryville Civic Arts Center), Series 2009	June 2036	Variable	8,115,000
7,600,000	(7) General Obligation Bonds, Series 2008	June 2042	Fixed	7,250,000
3,000,000	Loan Agreement, Series B-17-A	June 2028	Fixed	2,255,000
10,365,000	(2) Loan Agreement, Series E-3-E	June 2017	Synthetic Fixed	1,780,000
77,370,000	(6) Loan Agreement, Series E-5-B	June 2042	Variable/Synthetic	72,130,000
6,075,000	(8) General Obligation Bonds, Series 2009	June 2019	Fixed	4,745,000
1,390,000	(9) General Obligation Refunding Bonds, Series 2011	April 2016	Fixed	300,000
3,960,793	(2) State Of Tennessee Revolving Fund (Sept. 2012)	Aug. 2032	Fixed	3,553,837
10,000,000	General Obligation Bonds, Series 2012	June 2042	Fixed	9,550,000
10,000,000	General Obligation Bonds, Series 2013A	June 2043	Fixed	9,975,000
2,000,000	(10) General Obligation Bonds, Series 2013B (Federally Taxable)	June 2019	Fixed	1,600,000
10,000,000	General Obligation Bonds, Series 2014	June 2043	Fixed	9,925,000
9,000,000	(11) General Obligation Refunding Bonds, Series 2014B (Federally Taxable)	June 2026	Fixed	8,775,000
9,995,000	General Obligation Bonds, Series 2015	June 2044	Fixed	9,995,000
<b>\$ 171,980,793</b>	<b>TOTAL BONDED DEBT</b>			<b>\$ 150,098,837</b>
\$ 9,625,000	General Obligation Refunding Bonds, Series 2016A (Closed 2-10-2016)	June 2042	Fixed	\$ 9,625,000
4,575,000	General Obligation Refunding Bonds, Series 2016B	June 2022	Fixed	4,575,000
(13,200,000)	Less: Refunded Debt			(13,200,000)
<b>(75,113,837)</b>	<b>Less: Revenue-Supported Debt</b>			<b>(75,113,837)</b>
<b>\$ 97,866,956</b>	<b>NET BONDED DEBT</b>			<b>\$ 75,985,000</b>

**NOTES:**

- (1) The above figures do not include short-term notes outstanding, if any. Additionally, The City has entered in multiple interest rate swap agreements. For more information, see the notes to the Financial Statements in the GENERAL PURPOSE FINANCIAL STATEMENTS included herein.
- (2) Revenue-supported bonds.
- (3) The City budgets to account for interest rate and/or basis risk.
- (4) A portion (\$295,000) of the Series E-3-E Bonds will be supported by water and sewer revenue and a portion (\$400,000) of the Series E-3-E Bonds will be supported by landfill revenues.
- (5) A portion of the Series 2006 Bonds will be supported by water and sewer revenue and landfill revenues and electric system revenue.
- (6) A portion (\$37,575,000) of the Series E-5-B Bonds will be supported by water and sewer revenue and a portion (\$17,550,000) of the Series E-5-B Bonds will be supported by electric revenues.
- (7) A portion (\$5,100,000) of the Series 2008 Bonds will be supported by water and sewer revenue.
- (8) The Bonds will be supported by solid waste revenue.
- (9) A portion (\$195,000) of the Series 2011 Bonds will be supported by water and sewer revenue.
- (10) A portion (\$435,000) of the Series 2013B Bonds will be supported by water and sewer revenue and a portion (\$485,000) of the Series 2013B Bonds will be supported by landfill revenues.
- (11) A portion (\$1,405,000) of the Series 2014B Bonds will be supported by water and sewer revenue and a portion (\$235,000) of the Series 2014B Bonds will be supported by landfill revenues and a portion (\$2,495,000) of the Series 2014B Bonds will be supported by electric system revenues.

**CITY OF ALCOA, TENNESSEE**  
Indebtedness and Debt Ratios

**INTRODUCTION**

The information set forth in the following table is based upon information derived in part from the GENERAL PURPOSE FINANCIAL STATEMENTS which are included herein and the table should be read in conjunction with those statements.

	For Fiscal Year Ended June 30					After Issuance
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
<b>INDEBTEDNESS</b>						
<b>TAX SUPPORTED</b>						
General Obligation Bonds & Notes	\$ 42,872,250	\$ 41,119,250	\$ 49,244,500	\$ 67,908,000	\$ 75,630,000	\$ 75,985,000
<b>TOTAL TAX SUPPORTED</b>	<b>\$ 42,872,250</b>	<b>\$ 41,119,250</b>	<b>\$ 49,244,500</b>	<b>\$ 67,908,000</b>	<b>\$ 75,630,000</b>	<b>\$ 75,985,000</b>
<b>REVENUE SUPPORTED</b>						
Water & Sewer & Solid Waste Revenue Bonds	\$ 54,908,852	\$ 57,678,169	\$ 56,408,649	\$ 56,212,801	\$ 54,423,837	\$ 55,068,837
Electric Revenue Bonds	23,231,000	22,473,000	21,657,000	20,808,000	20,045,000	20,045,000
<b>TOTAL REVENUE SUPPORTED</b>	<b>\$ 78,139,852</b>	<b>\$ 80,151,169</b>	<b>\$ 78,065,649</b>	<b>\$ 77,020,801</b>	<b>\$ 74,468,837</b>	<b>\$ 75,113,837</b>
<b>TOTAL DEBT</b>	<b>\$ 121,012,102</b>	<b>\$ 121,270,419</b>	<b>\$ 127,310,149</b>	<b>\$ 144,928,801</b>	<b>\$ 150,098,837</b>	<b>\$ 151,098,837</b>
Less: Revenue Supported Debt	\$ (78,139,852)	\$ (80,151,169)	\$ (78,065,649)	\$ (77,020,801)	\$ (74,468,837)	\$ (75,113,837)
Less: Debt Service Fund	(95,232)	(94,697)	(804,120)	(1,787,413)	(2,945,179)	(2,945,179)
<b>NET DIRECT DEBT</b>	<b>\$ 42,777,018</b>	<b>\$ 41,024,553</b>	<b>\$ 48,440,380</b>	<b>\$ 66,120,587</b>	<b>\$ 72,684,821</b>	<b>\$ 73,039,821</b>
<b>OVERLAPPING DEBT (1)</b>	<b>\$ 32,287,545</b>	<b>\$ 31,532,992</b>	<b>\$ 31,962,739</b>	<b>\$ 28,926,480</b>	<b>\$ 26,199,104</b>	<b>\$ 26,199,104</b>
<b>NET DIRECT &amp; OVERLAPPING DEBT</b>	<b>\$ 75,064,563</b>	<b>\$ 72,557,545</b>	<b>\$ 80,403,119</b>	<b>\$ 95,047,067</b>	<b>\$ 98,883,925</b>	<b>\$ 99,238,925</b>
<b>PROPERTY TAX BASE</b>						
Estimated Actual Value	\$ 1,452,093,943	\$ 1,411,195,670	\$ 1,454,779,907	\$ 1,439,407,011	\$ 1,428,883,610	\$ 1,428,883,610
Appraised Value	1,452,093,943	1,411,195,670	1,454,779,907	1,439,407,011	1,428,883,610	1,428,883,610
Assessed Value	467,744,776	454,226,484	468,248,448	463,051,825	460,411,256	460,411,256

(1) OVERLAPPING DEBT Includes the City's share of Blount County's Net Direct Debt. Excludes Blount County Debt Supported by Hospital Revenues.

Source: General Purpose Financial Statements and City Officials.



<b>DEBT RATIOS</b>	<b>For Fiscal Year Ended June 30</b>					<b>After Issuance</b>
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
TOTAL DEBT to Estimated Actual Value	8.33%	8.59%	8.75%	10.07%	10.50%	10.57%
TOTAL DEBT to Appraised Value	8.33%	8.59%	8.75%	10.07%	10.50%	10.57%
TOTAL DEBT to Assessed Value	25.87%	26.70%	27.19%	31.30%	32.60%	32.82%
NET DIRECT DEBT to Estimated Actual Value	9.15%	9.03%	10.35%	14.28%	15.79%	15.86%
NET DIRECT DEBT to Appraised Value	2.95%	2.91%	3.33%	4.59%	5.09%	5.11%
NET DIRECT DEBT to Assessed Value	9.15%	9.03%	10.35%	14.28%	15.79%	15.86%
OVERLAPPING DEBT to Estimated Actual Value	2.22%	2.23%	2.20%	2.01%	1.83%	1.83%
OVERLAPPING DEBT to Appraised value	2.22%	2.23%	2.20%	2.01%	1.83%	1.83%
OVERLAPPING DEBT to Assessed Value	6.90%	6.94%	6.83%	6.25%	5.69%	5.69%
NET DIRECT & OVERLAPPING DEBT to Estimated Actual Value	5.17%	5.14%	5.53%	6.60%	6.92%	6.95%
NET DIRECT & OVERLAPPING DEBT to Appraised Value	5.17%	5.14%	5.53%	6.60%	6.92%	6.95%
NET DIRECT & OVERLAPPING DEBT to Assessed Value	16.05%	15.97%	17.17%	20.53%	21.48%	21.55%
<b>PER CAPITA RATIOS</b>						
POPULATION (1)	8,453	8,551	8,640	8,753	8,753	8,753
PER CAPITA PERSONAL INCOME (2)	\$ 33,309	\$ 34,944	\$ 35,310	\$ 35,310	\$ 35,310	\$ 35,310
Estimated Actual Value to POPULATION	\$ 171,784	\$ 165,033	\$ 168,377	\$ 164,447	\$ 163,245	\$ 163,245
Assessed Value to POPULATION	\$ 55,335	\$ 53,120	\$ 54,195	\$ 52,902	\$ 52,600	\$ 52,600
Total Debt to POPULATION	\$ 14,316	\$ 14,182	\$ 14,735	\$ 16,558	\$ 17,148	\$ 17,263
Net Direct Debt to POPULATION	\$ 5,061	\$ 4,798	\$ 5,607	\$ 7,554	\$ 8,304	\$ 8,345
Overlapping Debt to POPULATION	\$ 3,820	\$ 3,688	\$ 3,699	\$ 3,305	\$ 2,993	\$ 2,993
Net Direct & Overlapping Debt to POPULATION	\$ 8,880	\$ 8,485	\$ 9,306	\$ 10,859	\$ 11,297	\$ 11,338
Total Debt Per Capita as a percent of PER CAPITA PERSONAL INCOME	42.98%	40.58%	41.73%	46.89%	48.56%	48.89%
Net Direct Debt Per Capita as a percent of PER CAPITA PERSONAL INCOME	15.19%	13.73%	15.88%	21.39%	23.52%	23.63%
Overlapping Debt Per Capita as a % of PER CAPITA PERSONAL INCOME	11.47%	10.55%	10.48%	9.36%	8.48%	8.48%
Net Direct & Overlapping Debt Per Capita as a % of PER CAPITA PERSONAL INCOME	26.66%	24.28%	26.35%	30.75%	31.99%	32.11%

(1) Per Capita computations are based upon POPULATION data according to the U.S. Census.

(2) PER CAPITA PERSONAL INCOME is based upon the most current data available from the U. S. Department of Commerce.

**CITY OF ALCOA, TENNESSEE**  
**BONDED DEBT SERVICE REQUIREMENTS - General Obligation**

F.Y. Ended	As of June 30, 2015				General Obligation Refunding Bonds, Series 2016A (Closed 02-10-2016)				% Series 2016A		Less: Refunded Bonds				Total Bonded Debt Service Requirements (1) & (2) & (3)				% All Principal Repaid
	Existing Debt - General Obligation (1)		Interest (2)		Principal		Interest (3)		TOTAL		Principal Repaid	%	Principal		Interest (4)		TOTAL		
	Principal	TOTAL	Principal	TOTAL	Principal	TOTAL	Principal	TOTAL	Principal	TOTAL			Principal	TOTAL	Principal	TOTAL			
6/30																			
2016	\$ 2,755,000	\$ 2,970,947	\$ 2,970,947	\$ 5,725,947	\$ 30,000	\$ 22,688	\$ 22,688	\$ 52,688	0.70%	\$ -	\$ (89,906)	\$ (89,906)	\$ 2,785,000	\$ 2,903,729	\$ 5,688,729		3.67%		
2017	2,660,000	2,885,339	2,885,339	5,545,339	40,000	100,238	100,238	140,238		-	(179,813)	(179,813)	2,700,000	2,805,764	5,505,764				
2018	3,005,000	2,783,404	2,783,404	5,788,404	40,000	99,438	99,438	139,438		-	(179,813)	(179,813)	3,045,000	2,703,029	5,748,029				
2019	3,110,000	2,667,391	2,667,391	5,777,391	185,000	98,638	98,638	283,638		(145,000)	(179,813)	(324,813)	3,150,000	2,586,216	5,736,216				
2020	3,065,000	2,543,169	2,543,169	5,608,169	190,000	94,938	94,938	284,938	11.25%	(155,000)	(173,650)	(328,650)	3,100,000	2,464,456	5,564,456		19.45%		
2021	3,180,000	2,416,754	2,416,754	5,596,754	195,000	91,138	91,138	286,138		(160,000)	(167,063)	(327,063)	3,215,000	2,340,829	5,555,829				
2022	3,135,000	2,283,786	2,283,786	5,418,786	200,000	87,238	87,238	287,238		(170,000)	(160,263)	(330,263)	3,165,000	2,210,761	5,375,761				
2023	2,385,000	2,149,574	2,149,574	4,534,574	260,000	83,238	83,238	343,238		(230,000)	(153,038)	(383,038)	2,415,000	2,079,774	4,494,774				
2024	2,470,000	2,067,324	2,067,324	4,537,324	265,000	78,038	78,038	343,038		(240,000)	(143,263)	(383,263)	2,495,000	2,002,099	4,497,099				
2025	2,515,000	1,981,414	1,981,414	4,496,414	270,000	72,738	72,738	342,738	38.86%	(250,000)	(132,563)	(382,563)	2,535,000	1,921,589	4,456,589		37.65%		
2026	2,610,000	1,890,064	1,890,064	4,500,064	270,000	67,338	67,338	337,338		(255,000)	(121,413)	(376,413)	2,625,000	1,835,989	4,460,989				
2027	2,490,000	1,795,089	1,795,089	4,285,089	305,000	61,938	61,938	366,938		(295,000)	(110,000)	(405,000)	2,500,000	1,747,026	4,247,026				
2028	2,555,000	1,701,309	1,701,309	4,256,309	305,000	55,838	55,838	360,838		(305,000)	(96,800)	(401,800)	2,555,000	1,660,346	4,215,346				
2029	2,435,000	1,603,169	1,603,169	4,038,169	85,000	49,738	49,738	134,738		(75,000)	(83,075)	(158,075)	2,445,000	1,569,831	4,014,831				
2030	2,515,000	1,508,644	1,508,644	4,023,644	85,000	47,613	47,613	132,613	63.23%	(75,000)	(79,700)	(154,700)	2,525,000	1,476,556	4,001,556		54.29%		
2031	2,625,000	1,410,169	1,410,169	4,035,169	210,000	45,488	45,488	255,488		(200,000)	(76,250)	(276,250)	2,635,000	1,379,406	4,014,406				
2032	2,700,000	1,307,681	1,307,681	4,007,681	205,000	40,238	40,238	245,238		(200,000)	(67,000)	(267,000)	2,705,000	1,280,919	3,985,919				
2033	2,835,000	1,200,806	1,200,806	4,035,806	200,000	34,600	34,600	234,600		(200,000)	(57,000)	(257,000)	2,835,000	1,178,406	4,013,406				
2034	2,995,000	1,086,200	1,086,200	4,081,200	295,000	29,100	29,100	324,100		(300,000)	(47,000)	(347,000)	2,990,000	1,068,300	4,058,300				
2035	3,080,000	963,331	963,331	4,043,331	290,000	20,250	20,250	310,250	91.07%	(300,000)	(32,900)	(332,900)	3,070,000	950,681	4,020,681		73.03%		
2036	3,255,000	837,194	837,194	4,092,194	385,000	11,550	11,550	396,550	100.00%	(400,000)	(18,800)	(418,800)	3,240,000	829,944	4,069,944				
2037	2,050,000	699,031	699,031	2,749,031	-	-	-	-		-	-	-	2,050,000	699,031	2,749,031				
2038	2,095,000	619,531	619,531	2,714,531	-	-	-	-		-	-	-	2,095,000	619,531	2,714,531				
2039	2,185,000	538,500	538,500	2,723,500	-	-	-	-		-	-	-	2,185,000	538,500	2,723,500				
2040	2,325,000	450,031	450,031	2,775,031	-	-	-	-		-	-	-	2,325,000	450,031	2,775,031		88.68%		
2041	2,390,000	354,625	354,625	2,744,625	-	-	-	-		-	-	-	2,390,000	354,625	2,744,625				
2042	2,535,000	255,775	255,775	2,790,775	-	-	-	-		-	-	-	2,535,000	255,775	2,790,775				
2043	2,605,000	150,750	150,750	2,755,750	-	-	-	-		-	-	-	2,605,000	150,750	2,755,750				
2044	525,000	42,800	42,800	567,800	-	-	-	-		-	-	-	525,000	42,800	567,800		100.00%		
2045	545,000	21,800	21,800	566,800	-	-	-	-		-	-	-	545,000	21,800	566,800				
	\$ 75,630,000	\$ 43,185,600	\$ 43,185,600	\$ 118,815,600	\$ 4,310,000	\$ 1,292,013	\$ 1,292,013	\$ 5,602,013		\$ (3,955,000)	\$ (2,349,119)	\$ (6,304,119)	\$ 75,985,000	\$ 42,128,495	\$ 118,113,495				

**NOTES:**

- (1) The above figures do not include short-term notes outstanding, if any. For more information, see the notes to the Financial Statements in the GENERAL PURPOSE FINANCIAL STATEMENTS included herein.
- (2) The City budgets to account for interest rate and/or basis risk.
- (3) Average Coupon of 2.5180%.

**CITY OF ALCOA, TENNESSEE**  
**BONDED DEBT SERVICE REQUIREMENTS - REVENUE AND TAX SUPPORTED**  
Solid Waste System

F.Y. Ended 6/30	As of June 30, 2015			General Obligation Refunding Bonds,			% 2016B		Less: Refunded Bonds			Total Bonded Debt		% All Principal Repaid
	Existing Debt - Solid Waste System (1)	Series 2016B		Principal	Interest (2)	Total	Principal	Repaid	Principal	Interest	Total	Principal	Service Requirements (1)	
	Principal	Interest	Total										Interest (2)	TOTAL
2016	\$ 785,000	\$ 189,962	\$ 974,962	\$ -	\$ -	\$ -	\$ -	0.00%	\$ -	\$ (74,140)	\$ (74,140)	\$ 785,000	\$ 115,822	\$ 900,822
2017	820,000	164,123	984,123	720,000	66,793	786,793	(675,000)	15.74%	(148,280)	(823,280)	(823,280)	865,000	82,636	947,636
2018	840,000	141,053	981,053	735,000	58,213	793,213	(700,000)	31.80%	(128,030)	(828,030)	(828,030)	875,000	71,235	946,235
2019	885,000	116,128	1,001,128	760,000	50,863	810,863	(740,000)	48.42%	(107,030)	(847,030)	(847,030)	905,000	59,960	964,960
2020	785,000	88,288	873,288	770,000	41,363	811,363	(765,000)	65.25%	(83,350)	(848,350)	(848,350)	790,000	46,300	836,300
2021	820,000	61,798	881,798	795,000	29,813	824,813	(800,000)	82.62%	(57,340)	(857,340)	(857,340)	815,000	34,270	849,270
2022	835,000	33,268	868,268	795,000	15,900	810,900	(815,000)	100.00%	(29,340)	(844,340)	(844,340)	815,000	19,828	834,828
2023	20,000	3,328	23,328	-	-	-	-	-	-	-	-	20,000	3,328	23,328
2024	25,000	2,688	27,688	-	-	-	-	-	-	-	-	25,000	2,688	27,688
2025	25,000	1,838	26,838	-	-	-	-	-	-	-	-	25,000	1,838	26,838
2026	25,000	938	25,938	-	-	-	-	-	-	-	-	25,000	938	25,938
	<u>\$ 5,865,000</u>	<u>\$ 803,408</u>	<u>\$ 6,668,408</u>	<u>\$ 4,575,000</u>	<u>\$ 262,943</u>	<u>\$ 4,837,943</u>	<u>\$ (4,495,000)</u>		<u>\$ (627,510)</u>	<u>\$ (5,122,510)</u>		<u>\$ 5,945,000</u>	<u>\$ 438,841</u>	<u>\$ 6,383,841</u>

**NOTES:**

- (1) The above figures do not include short-term notes outstanding, if any. For more information, see the notes to the Financial Statements in the GENERAL PURPOSE FINANCIAL STATEMENTS included in herein.
- (2) The City budgets to account for interest rate and/or basis risk.
- (3) Estimated Interest Rates. Estimated Average Coupon of 1.591%.

**CITY OF ALCOA, TENNESSEE**  
**BONDED DEBT SERVICE REQUIREMENTS - REVENUE AND TAX SUPPORTED**  
Water And Sewer System

F.Y. Ended 6/30	As of June 30, 2015 - Existing Debt - Water & Sewer System (1)			General Obligation Refunding Bonds, Series 2016A (Closed 02-10-2016)			% 2016A Principal Repaid		Less Refunded Bonds			Total Bonded Debt Service Requirements (1) & (2)			% All Principal Repaid
	Principal	Interest (2)	Total	Principal	Interest (3)	Total	0.66%		Principal	Interest	Total	Principal	Interest	TOTAL	
2016	\$ 1,175,136	\$ 2,260,388	\$ 3,435,524	\$ 35,000	\$ 34,453	\$ 69,453	0.66%		\$ -	\$ (113,188)	\$ (113,188)	\$ 1,210,136	\$ 2,181,654	\$ 3,391,790	2.46%
2017	1,180,500	2,219,399	3,399,899	30,000	152,425	182,425			-	(226,375)	(226,375)	1,210,500	2,145,449	3,355,949	
2018	1,221,032	2,172,110	3,393,142	30,000	151,825	181,825			-	(226,375)	(226,375)	1,251,032	2,097,560	3,348,592	
2019	1,261,768	2,121,072	3,382,840	130,000	151,225	281,225			(100,000)	(226,375)	(326,375)	1,291,768	2,045,922	3,337,690	
2020	1,212,708	2,065,992	3,278,700	25,000	148,625	173,625	4.70%		-	(221,375)	(221,375)	1,237,708	1,993,242	3,230,950	12.62%
2021	1,268,840	2,011,080	3,279,920	25,000	148,125	173,125			-	(221,375)	(221,375)	1,293,840	1,937,830	3,231,670	
2022	1,330,188	1,953,269	3,283,457	30,000	147,625	177,625			-	(221,375)	(221,375)	1,360,188	1,879,519	3,239,707	
2023	1,416,752	1,892,395	3,309,147	30,000	147,025	177,025			-	(221,375)	(221,375)	1,446,752	1,818,045	3,264,797	
2024	1,478,556	1,828,370	3,306,926	30,000	146,425	176,425			-	(221,375)	(221,375)	1,508,556	1,753,420	3,261,976	
2025	1,545,576	1,759,664	3,305,240	30,000	145,825	175,825	7.43%		-	(221,375)	(221,375)	1,575,576	1,684,114	3,259,690	27.25%
2026	1,617,848	1,687,500	3,305,348	30,000	145,225	175,225			-	(221,375)	(221,375)	1,647,848	1,611,350	3,259,198	
2027	1,600,372	1,611,674	3,212,046	30,000	144,625	174,625			-	(221,375)	(221,375)	1,630,372	1,534,924	3,165,296	
2028	1,673,160	1,534,957	3,208,117	30,000	144,025	174,025			-	(221,375)	(221,375)	1,703,160	1,457,607	3,160,767	
2029	2,066,212	1,454,715	3,520,927	30,000	143,425	173,425			-	(221,375)	(221,375)	2,096,212	1,376,765	3,472,977	
2030	2,224,540	1,359,500	3,584,040	35,000	142,675	177,675	10.35%		-	(221,375)	(221,375)	2,259,540	1,280,800	3,540,340	46.26%
2031	1,893,156	1,256,866	3,150,022	235,000	141,800	376,800			(200,000)	(221,375)	(421,375)	1,928,156	1,177,291	3,105,447	
2032	1,982,072	1,169,240	3,151,312	280,000	135,925	415,925			(250,000)	(212,125)	(462,125)	2,012,072	1,093,040	3,105,112	
2033	1,845,421	1,079,574	2,924,995	325,000	128,225	453,225			(300,000)	(184,625)	(484,625)	1,870,421	1,008,174	2,878,595	
2034	1,885,000	991,875	2,876,875	220,000	119,288	339,288			(200,000)	(154,075)	(354,075)	1,905,000	926,538	2,831,538	
2035	1,980,000	901,725	2,881,725	215,000	112,688	327,688	34.34%		(200,000)	(175,225)	(375,225)	1,995,000	839,188	2,834,188	66.02%
2036	2,075,000	807,075	2,882,075	265,000	106,238	371,238			(250,000)	(165,825)	(415,825)	2,090,000	747,488	2,837,488	
2037	2,155,000	707,825	2,862,825	260,000	98,288	358,288			(250,000)	(154,075)	(404,075)	2,165,000	652,037	2,817,037	
2038	2,260,000	604,575	2,864,575	355,000	89,838	444,838			(350,000)	(142,325)	(492,325)	2,265,000	552,087	2,817,087	
2039	2,370,000	496,375	2,866,375	350,000	78,300	428,300			(350,000)	(125,875)	(475,875)	2,370,000	448,800	2,818,800	
2040	2,490,000	382,500	2,872,500	395,000	67,800	462,800	64.91%		(400,000)	(109,250)	(509,250)	2,485,000	341,050	2,826,050	89.18%
2041	2,610,000	262,750	2,872,750	890,000	55,950	945,950			(900,000)	(90,250)	(990,250)	2,600,000	228,450	2,828,450	
2042	2,740,000	134,500	2,874,500	975,000	29,250	1,004,250	100.00%		(1,000,000)	(47,500)	(1,047,500)	2,715,000	116,250	2,831,250	100.00%
	\$ 48,558,837	\$ 36,726,964	\$ 85,285,801	\$ 5,315,000	\$ 3,257,141	\$ 8,572,141			\$ (4,750,000)	\$ (5,055,513)	\$ (9,805,513)	\$ 49,123,837	\$ 34,928,592	\$ 84,052,429	

**NOTES:**

- (1) The above figures do not include short-term notes outstanding, if any. For more information, see the notes to the Financial Statements in the GENERAL PURPOSE FINANCIAL STATEMENTS included in herein. Includes \$4,000,000 State Revolving Loan.
- (2) The City budgets to account for interest rate and/or basis risk.

# CITY OF ALCOA, TENNESSEE

## BONDED DEBT SERVICE REQUIREMENTS - Revenue & Tax Supported

### Electric System

As of June 30, 2015

F.Y. Ended <u>6/30</u>	Total Bonded Debt Service Requirements (1) & (2) & (3)			% Principal Repaid
	Principal	Interest	TOTAL	
2016	\$ 985,000	\$ 942,056	\$ 1,927,056	4.91%
2017	1,020,000	901,406	1,921,406	
2018	1,045,000	858,401	1,903,401	
2019	1,100,000	813,070	1,913,070	
2020	1,145,000	764,118	1,909,118	26.42%
2021	1,205,000	712,458	1,917,458	
2022	1,265,000	657,378	1,922,378	
2023	1,325,000	598,728	1,923,728	
2024	1,385,000	536,798	1,921,798	
2025	1,445,000	471,548	1,916,548	59.47%
2026	1,500,000	402,938	1,902,938	
2027	1,310,000	331,250	1,641,250	
2028	1,360,000	265,750	1,625,750	
2029	1,435,000	197,750	1,632,750	
2030	1,510,000	126,000	1,636,000	94.96%
2031	1,010,000	50,500	1,060,500	100.00%
	<u>\$ 20,045,000</u>	<u>\$ 8,630,146</u>	<u>\$ 28,675,146</u>	

#### **NOTES:**

(1) The above figures do not include short-term notes outstanding, if any. For more information, see the notes to the Financial Statements in the GENERAL PURPOSE FINANCIAL STATEMENTS included in herein.

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

## **FINANCIAL INFORMATION**

### **INTRODUCTION**

As required by generally accepted accounting principles (GAAP), all City funds and account groups are organized according to standards established by the Government Accounting Standards Board (GASB). The City's financial reporting system is designed to provide timely, accurate feedback on the City's overall financial position and includes, at a minimum, quarterly reports to the City Commission. All City financial statements are audited annually by independent certified public accountants.

The City's General Purpose Financial Statements, which is an extract of the Comprehensive Annual Financial Report included herein.

### **BASIS OF ACCOUNTING AND PRESENTATION**

All governmental funds are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become measurable and available as a net current asset. Expenditures are generally recognized when the related fund liability is incurred. Exceptions to this general ruling include: (1) sick pay which is not accrued, and (2) principal and interest on general long-term debt which is recognized when due.

### **BUDGETARY PROCESS**

The City Manager in a timely manner is required to submit to the Board of Commissioners a proposed operating budget for the fiscal year which begins on the following July 1. A public hearing is conducted by the Board of Commissioners to obtain citizen comment on the proposed budget. Prior to June 30th, the budget must be adopted. All annual appropriations lapse at the end of the fiscal year.

Amendments which revise the total expenditures of any fund may occur at any time during the fiscal year. The City Manager may, on his own authority, transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any department or fund must be approved by the Board of Commissioners.

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## FUND BALANCES, NET ASSETS AND RETAINED EARNINGS

The City maintains fund balances, net assets or retained earnings in most major operating funds. Additionally, several reserves have been established to address specific needs of the City.

The table below depicts fund balances and retained earnings for the last five fiscal years ending June 30:

	<b><u>For the year ended June 30</u></b>				
<b><u>Fund Type</u></b>	<b><u>2011</u></b>	<b><u>2012</u></b>	<b><u>2013</u></b>	<b><u>2014</u></b>	<b><u>2015</u></b>
<i>Governmental Funds:</i>					
General	\$5,130,428	\$2,517,547	\$ 2,592,563	\$ 3,773,269	\$ 5,148,299
Education	2,101,890	1,138,977	879,036	399,133	1,093,096
Debt Service	95,232	94,697	804,120	1,787,413	2,945,179
School Fund	643,496	934,986	12,559	480,000	108,171
Alcoa High School	-	-	8,158,425	12,034,975	1,151,203
Other Governmental	<u>986,503</u>	<u>3,230,613</u>	<u>3,949,021</u>	<u>3,625,140</u>	<u>16,380,754</u>
<b>Total</b>	<b><u>\$8,957,549</u></b>	<b><u>\$7,916,820</u></b>	<b><u>\$16,395,724</u></b>	<b><u>\$22,099,930</u></b>	<b><u>\$22,099,930</u></b>
<i>Proprietary Net Assets:</i>					
Water/Sewer	\$17,933,097	\$19,107,463	\$19,154,135	\$19,468,901	\$19,498,899
Stormwater	1,021,461	1,047,370	1,183,448	1,127,061	982,702
Electric	31,646,463	34,201,990	35,635,144	36,522,292	36,274,464
Landfill	<u>2,573,467</u>	<u>3,035,724</u>	<u>2,975,842</u>	<u>2,442,339</u>	<u>2,248,630</u>
<b>Total</b>	<b><u>\$53,174,488</u></b>	<b><u>\$57,392,547</u></b>	<b><u>\$58,948,569</u></b>	<b><u>\$59,560,593</u></b>	<b><u>\$59,004,695</u></b>

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

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**CITY OF ALCOA, TENNESSEE**  
**FIVE YEAR SUMMARY OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES - General Fund**  
For the Fiscal Year Ended June 30

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
<b>Revenues:</b>					
Local taxes	\$ 13,763,409	\$ 11,654,503	\$ 15,260,887	\$ 16,653,983	\$ 18,492,401
Licenses and Permits	61,824	85,630	107,319	163,953	139,093
Intergovernmental Revenue	2,199,372	2,732,447	2,250,043	2,173,709	1,989,248
American Recovery Reinvestment Act (ARRA)	1,635,667	-	-	-	-
Charges for Service	378,405	537,789	372,895	474,484	304,002
Fines and Forfeits	799,272	474,586	435,732	464,448	488,599
Rent for use of Facilities	154,944	136,533	143,389	143,547	143,388
Interest and Investment Earnings	9,512	11,878	-	-	-
Miscellaneous	227,360	202,898	76,703	32,850	231,917
Sale of Property / Equipment	-	-	13,296	64,258	92,875
<b>Total Revenues</b>	<u>\$ 19,229,765</u>	<u>\$ 15,836,264</u>	<u>\$ 18,660,264</u>	<u>\$ 20,171,232</u>	<u>\$ 21,881,523</u>
<b>Expenditures and Other Uses:</b>					
General Government	\$ 1,621,048	\$ 1,725,782	\$ 1,703,606	\$ 1,726,638	\$ 1,740,661
Public Safety	7,013,185	7,765,636	8,001,649	8,663,677	9,091,569
Public Works	4,085,717	4,879,116	4,739,978	4,934,270	4,894,927
Recreation and Parks	583,044	670,432	699,498	739,419	783,056
Other Appropriations	790,263	592,824	748,075	713,405	1,042,221
Adjustment	-	-	-	-	-
Capital Projects	2,790,217	-	-	-	-
<b>Total Expenditures</b>	<u>\$ 16,883,474</u>	<u>\$ 15,633,790</u>	<u>\$ 15,892,806</u>	<u>\$ 16,777,409</u>	<u>\$ 17,552,434</u>
Excess of Revenues & Over (under) Expenditures	\$ 2,346,291	\$ 202,474	\$ 2,767,458	\$ 3,393,823	\$ 4,329,089
<b>Other Financing Sources (Uses):</b>					
Interfund Transfers - In	\$ 500,000	\$ 250,000	\$ 250,000	\$ -	\$ -
Interfund Transfers - Out	(2,757,060)	(4,686,856)	(4,572,099)	(4,050,000)	(4,682,383)
In Lieu of Taxes	1,576,436	1,621,501	1,629,657	1,686,883	1,728,324
Proceeds of Bonds	-	-	-	150,000	-
Payment of Refunding Bonds and Maryville College	-	-	-	-	-
Payment to Blount County	-	-	-	-	-
Other	952,511	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<u>\$ 271,887</u>	<u>\$ (2,815,355)</u>	<u>\$ (2,692,442)</u>	<u>\$ (2,213,117)</u>	<u>\$ (2,954,059)</u>
Excess of Revenue and Other Sources over (Under) Expenditures and Other Sources	\$ 2,618,178	\$ (2,612,881)	\$ 75,016	\$ 1,180,706	\$ 1,375,030
Extraordinary Item	-	-	-	-	-
Fund Balance July 1	\$ 2,409,019	\$ 5,130,428	\$ 2,517,547	\$ 2,592,563	\$ 3,773,269
Prior Period Adjustment	103,231	-	-	-	-
<b>Fund Balance June 30</b>	<u><b>\$ 5,130,428</b></u>	<u><b>\$ 2,517,547</b></u>	<u><b>\$ 2,592,563</b></u>	<u><b>\$ 3,773,269</b></u>	<u><b>\$ 5,148,299</b></u>

Source: Comprehensive Annual Financial Report for City of Alcoa, Tennessee



**CITY OF ALCOA, TENNESSEE**  
**FIVE YEAR SUMMARY OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES - Water and Sewer Fund**  
For the Fiscal Year Ended June 30

	<u><b>2011</b></u>	<u><b>2012</b></u>	<u><b>2013</b></u>	<u><b>2014</b></u>	<u><b>2015</b></u>
<b>Revenues:</b>					
Charges for Services	\$ 9,700,941	\$ 11,079,081	\$ 10,572,753	\$ 10,937,689	\$ 10,829,770
Forfeited Discounts	-	-	-	-	-
Miscellaneous Revenues	<u>377,257</u>	<u>902,691</u>	<u>113,898</u>	<u>21,122</u>	<u>22,528</u>
<b>Total Revenues</b>	<b>\$ 10,078,198</b>	<b>\$ 11,981,772</b>	<b>\$ 10,686,651</b>	<b>\$ 10,958,811</b>	<b>\$ 10,852,298</b>
<b>Expenses:</b>					
Administrative	\$ 592,863	\$ 624,986	\$ 700,237	\$ 729,133	\$ 761,744
Accounting & Collection	675,580	681,933	740,753	805,409	775,014
Supervision	202,392	225,879	232,104	254,265	276,192
Water Plant Operation	1,512,087	1,563,571	1,542,722	1,568,618	1,502,677
Distribution	801,657	826,922	831,263	296,367	744,488
Meter Reading and Repair	300,637	333,595	358,834	305,468	596,592
Water Maintenance	250,084	186,402	177,093	229,214	229,829
Sewer Collection and Disposal	2,812,943	2,342,623	2,218,637	2,007,777	2,357,711
Inspection/Environmental Compliance	91,824	98,673	105,844	115,683	119,010
Depreciation and Amortization	2,120,348	2,150,240	2,293,111	2,258,876	2,425,742
Taxes and Tax Equivalents	-	-	-	-	-
<b>Total Expenses</b>	<b>\$ 9,360,415</b>	<b>\$ 9,034,824</b>	<b>\$ 9,200,598</b>	<b>\$ 8,570,810</b>	<b>\$ 9,788,999</b>
Operating Income	\$ 717,783	\$ 2,946,948	\$ 1,486,053	\$ 2,388,001	\$ 1,063,299
<b>Other Income/Expense:</b>					
Amortization of Discount/Expense	\$ (38,989)	\$ (44,494)	\$ (51,777)	\$ (39,643)	\$ (26,617)
Other Income (Expenses)	49,573	27,499	11,781	3,832	-
Interest Income (Expense)	<u>(1,461,566)</u>	<u>(1,409,806)</u>	<u>(1,395,130)</u>	<u>(1,637,424)</u>	<u>(1,857,372)</u>
<b>Total Other Income (Expense)</b>	<b>\$ (1,450,982)</b>	<b>\$ (1,426,801)</b>	<b>\$ (1,435,126)</b>	<b>\$ (1,673,235)</b>	<b>\$ (1,883,989)</b>
Net Income before Capital Contribution and Transfers	\$ (733,199)	\$ 1,520,147	\$ 50,927	\$ 714,766	\$ (820,690)
Capital Contributions	2,667,043	54,219	370,745	-	1,610,605
Payments in lieu of taxes	<u>(400,000)</u>	<u>(400,000)</u>	<u>(375,000)</u>	<u>(400,000)</u>	<u>(400,000)</u>
Changes in Net Assets	\$ 1,533,844	\$ 1,174,366	\$ 46,672	\$ 314,766	\$ 389,915
Net Assets - Beginning of the year	\$ 16,399,253	\$ 17,933,097	\$ 19,107,463	\$ 19,154,135	\$ 19,468,901
Prior Period Adjustment	-	-	-	-	(359,917)
<b>Net Assets - End of the year</b>	<b><u>\$ 17,933,097</u></b>	<b><u>\$ 19,107,463</u></b>	<b><u>\$ 19,154,135</u></b>	<b><u>\$ 19,468,901</u></b>	<b><u>\$ 19,498,899</u></b>

Source: Comprehensive Annual Financial Reports for City of Alcoa, Tennessee.

**CITY OF ALCOA, TENNESSEE**  
**FIVE YEAR SUMMARY OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES - Electric Fund**  
For the Fiscal Year Ended June 30

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
<b>Operating Revenues:</b>					
Residential	\$ 38,352,043	\$ 35,888,794	\$ 37,089,208	\$ 38,160,702	\$ 38,470,039
Small lighting and power sales	5,559,605	5,766,500	5,850,584	6,110,830	6,144,805
Large lighting and power sales	16,586,668	17,243,546	16,525,841	16,555,636	17,091,487
Street and outdoor	975,038	1,035,164	1,085,354	1,083,511	1,153,353
Consumer forfeitures and discounts	439,295	420,582	425,046	451,428	436,879
Rent from electric property	515,378	538,810	558,546	544,454	525,900
Miscellaneous service revenue	248,659	232,357	234,782	245,108	250,377
Other electric revenue	528	51,851	54,797	63,807	59,468
<b>Total Revenues</b>	<u>\$ 62,677,214</u>	<u>\$ 61,177,604</u>	<u>\$ 61,824,158</u>	<u>\$ 63,215,476</u>	<u>\$ 64,132,308</u>
Purchased Power	\$ 49,832,583	\$ 47,257,423	\$ 48,108,297	\$ 49,618,161	\$ 51,078,680
<b>Operating Expenses:</b>					
Distribution expenses	\$ 1,199,588	\$ 1,299,299	\$ 1,440,403	\$ 1,462,995	\$ 1,389,892
Customer account expenses	1,348,792	1,307,531	1,312,066	1,371,308	1,732,911
Sales expense	66,893	117,430	104,554	80,908	64,242
Administrative and general expense	2,472,151	2,709,987	2,717,802	3,051,305	3,072,117
<b>Total Operating Expenses</b>	<u>\$ 5,087,424</u>	<u>\$ 5,434,247</u>	<u>\$ 5,574,825</u>	<u>\$ 5,966,516</u>	<u>\$ 6,259,162</u>
<b>Maintenance Expenses:</b>					
Distribution expenses	\$ 1,853,469	\$ 2,076,232	\$ 2,543,545	\$ 2,571,464	\$ 2,318,078
Administrative and general expense	25,292	18,680	44,770	27,593	28,090
<b>Total Maintenance Expenses</b>	<u>\$ 1,878,761</u>	<u>\$ 2,094,912</u>	<u>\$ 2,588,315</u>	<u>\$ 2,599,057</u>	<u>\$ 2,346,168</u>
<b>Other Operating Expenses:</b>					
Depreciation expenses	\$ 2,304,265	\$ 2,370,321	\$ 2,411,498	\$ 2,422,746	\$ 2,463,035
Taxes and tax equivalents	-	-	-	-	-
<b>Total Maintenance Expenses</b>	<u>\$ 2,304,265</u>	<u>\$ 2,370,321</u>	<u>\$ 2,411,498</u>	<u>\$ 2,422,746</u>	<u>\$ 2,463,035</u>
Operating Income	\$ 3,574,181	\$ 4,020,701	\$ 3,141,223	\$ 2,608,996	\$ 1,985,263
Interest Income	\$ 18,046	\$ 20,185	\$ 20,320	\$ 22,752	\$ 5,240
<b>Interest Expense:</b>					
Interest on long term debt	\$ (405,000)	\$ (240,000)	\$ (462,500)	\$ (378,333)	\$ (340,000)
Amortization of debt expense	(26,387)	(26,387)	(26,387)	(26,387)	(26,387)
<b>Total Interest Expense</b>	<u>\$ (431,387)</u>	<u>\$ (266,387)</u>	<u>\$ (488,887)</u>	<u>\$ (404,720)</u>	<u>\$ (366,387)</u>
<b>Other Income (Expense):</b>					
Revenue from contract work	\$ 406	\$ 696	\$ 1,357	\$ 473	\$ -
Expense from contract work	-	-	-	-	-
Other income expense	1,646	1,833	13,798	(53,470)	2,559
<b>Total Other Income</b>	<u>\$ 2,052</u>	<u>\$ 2,529</u>	<u>\$ 15,155</u>	<u>\$ (52,997)</u>	<u>\$ 2,559</u>
Net Income before transfers	\$ 3,162,892	\$ 3,777,028	\$ 2,687,811	\$ 2,174,031	\$ 1,626,675
Transfers - In Lieu of Taxes	\$ (1,176,436)	\$ (1,221,501)	\$ (1,254,657)	\$ (1,286,883)	\$ (1,328,324)
Extraordinary Item	-	-	-	-	-
Changes in Net Assets	<u>\$ 1,986,456</u>	<u>\$ 2,555,527</u>	<u>\$ 1,433,154</u>	<u>\$ 887,148</u>	<u>\$ 298,351</u>
Net Assets - July 1	<u>\$ 29,660,007</u>	<u>\$ 31,646,463</u>	<u>\$ 34,201,990</u>	<u>\$ 35,635,144</u>	<u>\$ 36,522,292</u>
<b>Prior Year Adjustments</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (546,179)</u>
<b>Net Assets - June 30</b>	<u><b>\$ 31,646,463</b></u>	<u><b>\$ 34,201,990</b></u>	<u><b>\$ 35,635,144</b></u>	<u><b>\$ 36,522,292</b></u>	<u><b>\$ 36,274,464</b></u>

Source: Comprehensive Annual Financial Reports for City of Alcoa, Tennessee.

## **INVESTMENT AND CASH MANAGEMENT PRACTICES**

Investment of idle City operating funds is controlled by State statute and local policies. Generally, such policies limit investment instruments to direct U.S. Government obligations, those issued by U.S. Agencies or Certificates of Deposit. The City is not authorized to invest in reverse repurchase agreements or derivative products. No investment may be made for a period greater than two years without written permission of the State Director of Local Finance.

As required by prevailing statutes, all demand deposits or Certificates of Deposit are secured by similar grade collateral pledged at 110% of market value for amounts in excess of that guaranteed through federally sponsored insurance programs. Deposits with savings and loan associations must be collateralized as outlined above, by an irrevocable letter of credit issued by the Federal Home Loan Bank or by providing notes secured by the first mortgages or first deeds for trust upon residential property in the state equal to at least 150 percent of the amount of uninsured deposits. All collateral must be held in a third party escrow account for the benefit of the City. For reporting purposes, all investments are stated at cost, which approximates market value.

## **REAL PROPERTY ASSESSMENT, TAX LEVY AND COLLECTION PROCEDURES**

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

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

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

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

- (d) Farm Property (which includes all real property used or held for use in agriculture), to be assessed at 25% of its value.

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

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

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

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

### ***County Taxation of Property***

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

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

## ***Assessment of Property***

*County Assessments; County Board of Equalization.* The function of assessment is to assess all property (with certain exceptions) to the person or persons owning or claiming to own such property on January 1 for the year for which the assessment is made. All assessment of real and personal property are required to be made annually and as of January 1 for the year to which the assessment applies. Not later than May 20 of each year, the assessor of property in each county is required to (a) make an assessment of all property in the county and (b) note upon the assessor's records the current classification and assessed value of all taxable property within the assessor's jurisdiction.

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

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

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

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

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

### ***Periodic Reappraisal and Equalization***

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

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

### ***Valuation for Property Tax Purposes***

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

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

### ***Certified Tax Rate***

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

that jurisdiction as was levied during the previous year. The governing body of a county or municipality may adjust the Certified Tax Rate to reflect extraordinary assessment changes or to recapture excessive adjustments.

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

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

### ***Tax Freeze for the Elderly Homeowners***

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

### ***Tax Collection and Tax Lien***

Property taxes are payable the first Monday in October of each year. The county trustee of each county acts as the collector of all county property taxes and of all municipal property taxes when the municipality does not collect its own taxes.

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

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*Assessed Valuations.* According to the Tax Aggregate, property in the County and City reflected a ratio of appraised value to true market value of 1.00.

<u>Class</u>	<u>Assessed Valuation</u>	<u>Rate</u>	<u>Appraised Value</u>
Public Utilities	\$ 13,603,334	55%	\$ 31,164,568
Commercial and Industrial	210,043,800	40%	525,109,500
Personal Tangible	111,670,247	30%	372,234,042
Residential and Farm	<u>125,093,875</u>	25%	<u>500,375,500</u>
<b>Total</b>	<b><u>\$460,441,256</u></b>		<b><u>\$1,428,883,610</u></b>

The estimated assessed value of property in the City for the fiscal year ending June 30, 2015 (tax year 2014) is \$460,441,256 compared to \$463,051,825 for the fiscal year ending June 30, 2014 (tax year 2013). The estimated actual value of all taxable property for tax year 2014 is \$1,428,883,610 compared to \$1,439,407,011 for tax year 2013.

Source: 2014 Tax Aggregate Report for Tennessee and the City.

*Property Tax Rates and Collections.* The following table shows the property tax rates and collections of the City for tax years 2011 through 2015 as well as the aggregate uncollected balances for each fiscal year ending June 30.

<b>PROPERTY TAX RATES AND COLLECTIONS</b>				<b>Fiscal Yr Collections</b>		<b>Aggregate Uncollected Balance</b>	
<b>Tax Year (a)</b>	<b>Assessed Valuation</b>	<b>Tax Rates</b>	<b>Taxes Levied</b>	<b>Amount</b>	<b>Pct</b>	<b>as of June 30, 2015</b>	
						<b>Amount</b>	<b>Pct</b>
2011	\$454,226,484	\$1.96	\$8,945,269	\$8,641,271	96.6%	\$303,998	3.4%
2012	468,248,448	1.96	9,172,794	8,759,559	95.5%	413,235	4.5%
2013	463,051,825	1.96	8,951,791	8,540,278	95.4%	292,808	3.3%
2014	460,441,256	1.96	9,681,393	8,241,080	85.1%	1,440,313	14.9%
2015	462,512,847*	1.96	9,065,251*	<b>IN PROGRESS</b>			

(a) The tax year coincides with the calendar year, so tax year 2015, for example is actually fiscal year 2015-2016.

\* Estimated



*Largest Taxpayers.* For the fiscal year ending June 30, 2015 (tax year 2014), the ten largest taxpayers in the City are as follows:

<u>Taxpayer</u>	<u>Business Type</u>	<u>Assessment</u>	<u>% of Total Assessment</u>
1. Aluminum Co. of America	Aluminum Ingot	\$113,739,352	25.0%
2. CMH Management LP	MFG & Mortgage Banker	13,078,713	2.9%
3. Inland Diversified Alcoa		9,440,300	2.1%
4. Faulkner Properties	Real Estate	6,405,160	1.4%
5. MIDEB Nominees #672	Real Estate	4,631,840	1.0%
6. MIDEB Nominees Inc	Real Estate	3,717,840	0.8%
7. Coleman-Prospero Industrial	Manufacturer	3,437,600	0.7%
8. Stock Creek, LLC	Real Estate	3,202,320	0.8%
9. Alcoa TN, LLC	Manufacturer	<u>2,712,600</u>	<u>0.6%</u>
<b>Total</b>		<b><u>\$160,365,725</u></b>	<b><u>35.3%</u></b>

Source: The City's Audit.

## LOCAL OPTION SALES TAX

Pursuant to applicable provisions of Title 67, Chapter 6, Part 7 of *Tennessee Code Annotated*, as amended, (the "Act"), the County levies a county-wide local option sales tax. Under the Act, counties and incorporated cities may levy a sales tax on the same privileges on which the State levies its sales tax. The rate of any sales tax levied by a county or city is limited under State law to two and three-fourths percent (2 3/4%).

Pursuant to the Act, the levy of a sales tax by a county precludes any city from within the county from levying a sales tax, but a city may levy a sales tax in addition to the county's sales tax a rate not exceeding the difference between the county sales tax rate and the maximum local option sales tax rate of two and three fourths percent (2 3/4%). If a city is located in more than one county, each portion of the city that is located in a separate county is treated as a separate city for purposes of determining the maximum sales tax rate.

The City's share of the County-wide sales tax for the most recent five fiscal years indicated as follows:

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
General	\$6,249,648	\$5,764,787	\$6,964,984	\$7,269,999	\$7,726,630
General Purpose					
School Fund	<u>1,464,124</u>	<u>1,644,348</u>	<u>1,733,137</u>	<u>1,806,846</u>	<u>2,003,590</u>
<b>TOTAL</b>	<b><u>\$7,713,772</u></b>	<b><u>\$7,409,135</u></b>	<b><u>\$8,698,121</u></b>	<b><u>\$9,076,845</u></b>	<b><u>\$9,730,220</u></b>

The Act authorizes a local jurisdiction, by resolution of its governing body, to pledge proceeds raised by the power and authority granted by the Act to the punctual payment of principal of and interest on bonds, notes or other evidence of indebtedness issued for purposes for which such proceeds were intended to be spent. The Board of Commissioners of the City has not pledged any local option sales tax proceeds to bonded indebtedness of the City.

## **PENSION PLANS**

The City has a retirement plan known as the City of Alcoa Employee's Retirement Plan. The Plan was established January 1, 1955. All full-time employees employed at least 30 hours per week, except school personnel who are eligible for membership in the Tennessee Teachers' Retirement System are members of the Plan. The Plan is managed by a Board of Trustees with the First Tennessee Bank, Maryville, Tennessee being agent for the Trustees. The City has no beneficial interest in the trust fund and no funds are ever to revert to the City.

Certain employees of the City school system are members of the Tennessee Consolidated Retirement System (TCRS), an agent multiple-employer public employee retirement system (PERS) that acts as a common investment and administrative agent for political subdivisions in the State.

The TCRS is a defined benefit retirement plan covering teachers and general employees of the State as well as employees of political subdivisions that have elected coverage. Membership in the system is mandatory for State employees, teachers and employees of participating political subdivisions. The TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with 10 years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at age 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in performance of duty. Members joining the system on or after July 1, 1979 were vested after 10 years of service and those who became members before July 1, 1979 were vested after four (4) years of service. Benefit provisions are established and amended by State statute. The City pays the total cost of pension contribution.

For additional information on the funding status, trend information and actuarial status of the City's retirement programs, please refer to the appropriate Notes to Financial Statements located in the General Purpose Financial Statements of the City attached herein.

## **UNFUNDED ACCRUED LIABILITY FOR POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS**

GASB Statement 45 establishes standards for the measurement, recognition, and display of Other Post-Employment Benefits ("OPEB") in the financial reports of state and local government employers. GASB 45 requires the recognition of the accrued liability for the respective year, plus the disclosure of the total unfunded liability. Cash funding of the unfunded liability is not required. For more information see the Notes to the General Purpose Financial Statements located herein.

## **APPENDIX C**

### **GENERAL PURPOSE FINANCIAL STATEMENTS**



# City of Alcoa

**CITY OF ALCOA, TENNESSEE**

**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**

**For the Fiscal Year Ended June 30, 2015**



*"Excellence in Service - Quality of Life"*

**CITY OF ALCOA, TENNESSEE**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
For the Fiscal Year Ended June 30, 2015

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**CITY OF ALCOA, TENNESSEE**

**SECTION ONE**

**INTRODUCTORY SECTION**

**For the Fiscal Year Ended June 30, 2015**

# City of Alcoa

## City Officials

**CITY OF ALCOA, TENNESSEE**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**For the Fiscal Year Ended June 30, 2015**

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### **BOARD OF COMMISSIONERS**

Donald R. Mull, Mayor  
Clint Abbott, Jr., Vice Mayor  
Vaughn Belcher, Commissioner  
Clayton Bledsoe, Commissioner  
Ken White, Commissioner

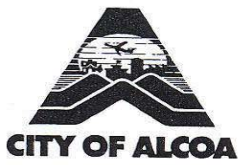
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Mark L. Johnson, City Manager  
G. William Hammon, Jr., Assistant City Manager  
John Troyer, Director of Finance & Administration

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*"Excellence in Service - Quality of Life"*





December 9, 2015

Honorable Mayor  
City Council and City Manager  
City of Alcoa, Tennessee  
Alcoa, Tennessee

The financial statements of the City of Alcoa, Tennessee for the fiscal year ended June 30, 2015 are submitted for your review. Responsibility for the accuracy and completeness of the presented data, including all disclosures, rests with the City. To the best of our knowledge and belief, this report is accurate in all material respects and is presented in a manner designed to fairly set forth the financial position and results of operations of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

This report is presented in five sections: 1) the **Introductory Section** which includes this transmittal letter; 2) the **Financial Section** which includes the independent auditors' report, management's discussion and analysis (MD&A), the basic financial statements, required supplementary information and the combined financial statements; 3) **Miscellaneous Schedules**, which includes selected financial information; 4) **Statistical Information**, and 5) the **Single Audit Section** which includes schedules and independent auditors' reports on federal and state grants.

These financial statements represent management's report to its governing body, constituents, legislative and oversight bodies, investors and creditors. Copies of this report will be sent to elected officials, City management personnel, bond rating agencies, and other agencies that have expressed an interest in the City of Alcoa, Tennessee's financial matters. Copies of this financial report will also be placed in the Alcoa Municipal Building for use by the general public.

This report includes all funds (financial activities) of the City. The City provides a full range of municipal services including police and fire protection, water and electric, sewer and refuse services, development services, municipal courts, education, recreational and cultural activities, streets, traffic control, and general administrative services.

## **PROFILE OF THE GOVERNMENT**

The City of Alcoa is a unique and culturally diverse community located in the eastern part of Tennessee with a resident population according to the 2010 U.S. Census of 8,449. Blount County, the county in which Alcoa resides, has a population of 123,010 as of 2010. The City is a company town built by ALCOA (Aluminum Company of America) starting around 1910. ALCOA was attracted to this area because of the abundance of water power resources. The Little Tennessee River and its tributaries were considered a good source of the hydroelectric energy essential to the aluminum production process. In 1917 the company began construction of the town site that would eventually become the City of Alcoa. The City of Alcoa was chartered by private act of the Tennessee General Assembly effective July 1, 1919.

The City is governed by a City Manager-Commission form of government. The governing body of the City is a five member City Commission who serve a four-year term of office. The elections for Commissioners are held on a staggered basis every two years. Following each regular biennial City election, the Commission elects two of its members to serve for a two-year period as Mayor and Vice Mayor, respectively. The Commission is responsible, among other things, for passing ordinances, resolutions, adopting the budget, appointing committees, and appointing a City Manager. The City Manager is responsible for carrying out the policies and ordinances of the commission and for overseeing the day-to-day operations of the city, as well as appointing heads of the various departments.

The City provides a full range of services, which includes public safety (police and fire protection), street maintenance, parks, public improvements, planning and zoning and general administrative services. The City provides water, sewer and electric services to both city residents and customers who reside outside of our city limits. The City provides its citizens with solid waste collection and is responsible for the day-to-day operation of the countywide Alcoa/Blount County/Maryville Landfill. The Alcoa City Schools operate under the City Charter and are considered a part of the City's financial statement. The Alcoa Schools System provides educational services to students who reside within Alcoa, as well as a large number of tuition students from outside the City.

The annual budget serves as the foundation for the City of Alcoa's financial planning and control. The budget preparation process starts in late January, when City departments begin assessing their needs for the coming year. The City Manager and Finance Director along with each Department Head start meeting in late March and April to discuss proposed budgets. The City Manager in mid-May will present his proposed budget for the upcoming fiscal year to the City Commission in a budget work session. The first reading of the Appropriation and Tax Levy Ordinances is presented in June at the Commission's regular meeting and the second and final reading at a called meeting prior to July 1. A Public Hearing on the proposed budget will be held at one of the June meetings.

The City of Alcoa is a benchmark community. Its citizens are safe, well served, and proud of their neighborhoods. Comprehensive services are provided to citizens and customers using the latest available methods and technology. Employees are professional, effective and a superior quality of life is emphasized.

## **FACTORS AFFECTING FINANCIAL CONDITION**

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

### **Local Economy**

The City of Alcoa is dealing with the economic slowdown, but there are some signs of improving based on our local sales tax revenue increase. This is a sign that the general population feels some encouragement about our economy. The City of Alcoa and Blount County has the fourth lowest unemployment rate in the State at 4.1%. The City staff continues to work with our local industrial development board and developers to draw commercial and industrial business to our area.

The City's official population has grown from 6,870 in 1980, to 6,400 in 1990, to 7,734 in 2000, and to 8,449 in the 2010 census. Prior to the slowdown in 2008, the City was averaging around 35 new home constructions a year. Since 2008 the housing market is on hold, although in the last year we have new homes being constructed. We have about 95 residential lots that are in various stages of completion, which have been put on hold/slowdown due to the down turn of the economy. We feel these developments will be completed as the housing market improves.

The commercial and industrial sections in the City are at various stages of development. The City has a 500 acre research and development park with a mixture of high tech industry, commercial and residential use. The construction of the main entrance and boulevard are complete, and the Industrial Development Board has started the process of recruiting clients. Also, the City is working with the State and a developer to establish a 250 acre urbanism development that is located across from the airport. This property has the potential of being transformed into a new downtown area for the City.

## **Long-term Financial Planning**

The City of Alcoa completed a pedestrian bridge across a major four lane highway and completed an additional 2 miles of walking trails that will tie all of the city's communities into the City greenway walking trails. This project was completed with ARRA, State and local funding. The City has built a new high school (opened August 2015) for approximately twenty-five million dollars. The City is considering building a new fire station, replacing an older station, and due to the location, a new site will be considered to be more centrally located based on how the City has grown in different areas.

## **Internal Control**

The management of the City of Alcoa is responsible for establishing and maintaining a system of internal control structure designed to ensure that the assets of the City are protected from loss, theft, or misuse and that adequate accounting data is compiled to allow for the preparation of the basic financial statements in conformity with U.S. generally accepted accounting principles (GAAP). The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and the valuation of costs and benefits requires estimates and judgments by management.

## **Budgetary Controls**

The City also maintains budgetary controls which are designed to ensure compliance with budgetary and legal provisions embodied in the annually appropriated operating budget approved by the City Commission. Activities of the General Fund, Special Revenue Funds, General Obligation Debt Service Fund, and Proprietary Funds are included in the annually appropriated operating budget. Project-length budgets are prepared for the Capital Projects Funds. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is the total operating budget, as adopted by City Commission. However, for budget administrative purposes, the City maintains budgeting controls at department appropriation levels. In addition to maintaining budgetary control via a formal appropriation, the City maintains an encumbrance accounting system. Encumbered appropriations are carried forward at the end of each fiscal year. As demonstrated by the statements and schedules included in the financial section of this report, the City continues to meet its responsibility for sound financial management.

## **Single Audit**

As a recipient of federal and state financial assistance, the City is also responsible for an adequate system of internal control structure to ensure compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by management of the City.

As a part of the City's single audit, performed in accordance with the Single Audit Act and the U.S. Office of Management and Budget Circular A-133, tests are made to determine the adequacy of the internal control structure, including that portion related to federal financial assistance programs, as well as to determine that the City has complied with applicable laws and regulations. The results of the City's single audit for fiscal year ended June 30, 2015 provided no instances of material weaknesses in the internal control structure or significant violations of applicable laws, regulations or other matters.

## **OTHER INFORMATION**

### **Independent Audit**

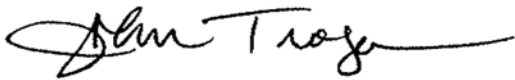
City Charter requires an annual audit by independent certified public accountants. The accounting firm of Ingram, Overholt & Bean, PC has been selected by the City Commission. The auditors' report on the financial statements is included in the financial section of the report.

In addition to this report, Ingram, Overholt & Bean, PC was also contracted to perform the Single Audit of the City's federal grant programs. This audit was designed to meet the requirements of the Federal Single Audit Act and the related Office of Management and Budget Circular A-133.

### **Acknowledgment**

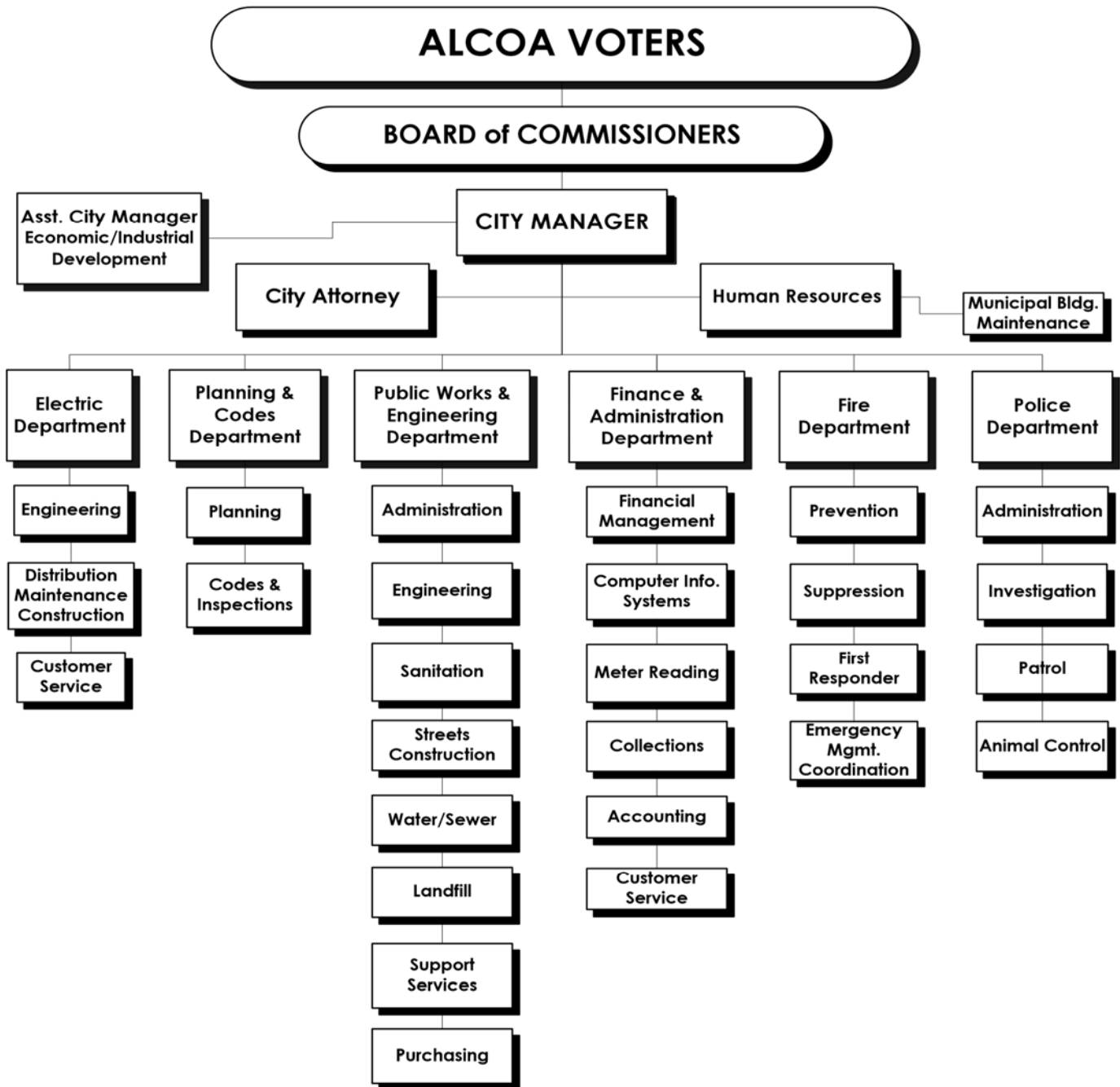
The preparation of this report could not have been accomplished without the dedicated service of the entire staff of the Accounting Division, the assistance of administrative personnel in the various departments, and the valuable guidance and assistance of the staff of Ingram, Overholt & Bean, PC. To them and to the City commission and City Manager for their support and interest in improving Alcoa's fiscal policies and practices, I express my sincere appreciation.

Respectively submitted,

A handwritten signature in black ink, appearing to read "John Troyer", with a long horizontal flourish extending to the right.

John Troyer  
Director of Finance & Administration

# City of Alcoa



**CITY OF ALCOA, TENNESSEE**

**SECTION TWO**

**FINANCIAL SECTION**

**For the Fiscal Year Ended June 30, 2015**



Joe S. Ingram, CPA (1948 – 2011)  
Lonas D. Overholt, CPA  
Robert L. Bean, CPA

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## INDEPENDENT AUDITORS' REPORT

Honorable Mayor, Members of  
the Board of Commissioners  
and City Manager  
City of Alcoa  
Alcoa, Tennessee

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Alcoa, Tennessee (the City), as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Alcoa, Tennessee, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the General Fund and the Education Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of a Matter**

As discussed in Note 19 to the financial statements, in 2015 the City adopted new accounting guidance, GASB No. 68 *Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages ix through xviii, and required supplementary schedules pages 93 through 102 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinion on the financial statements that collectively comprise the City of Alcoa, Tennessee's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, other supplementary information, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

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

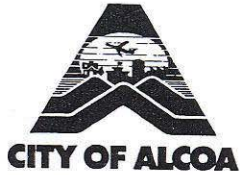
## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report, dated December 9, 2015, on our consideration of the City of Alcoa, Tennessee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Alcoa, Tennessee's internal control over financial reporting and compliance.

*Ingram, Overholt & Bean, PC*

Alcoa, Tennessee  
December 9, 2015





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## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Alcoa's (the City) Annual Financial Report presents a narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2015. Readers are encouraged to consider the information presented here in conjunction with additional information that has been furnished in the letter of transmittal.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: (1) **Government-wide** financial statements, (2) **Fund** financial statements, and (3) **Notes** to the financial statements. This report also contains **other supplementary information** in addition to the basic financial statements.

### Government-wide Financial Statements

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

The **statement of net position** presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether or not the financial position of the City is improving or deteriorating.

The **statement of activities** presents information showing how the City's net position changed during the current fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods, such as revenues pertaining to uncollected taxes and expenses pertaining to earned but unused vacation and sick leave.

Both of the government-wide statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include police, fire, community services, public works, community relations, mayor and council, city manager, recorder, municipal court, development services, economic development, financial services, human resources, and information technology. The business-type activities of the City include stormwater utility, water and sewer utility, electric utility, and landfill.

### Fund Financial Statements

The fund financial statements are designed to report information about groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into the following two categories: **governmental** funds and **proprietary** funds.

## **Fund Financial Statements (Continued)**

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are reported in governmental funds. These statements, however, focus on near term inflows and outflows of spendable resources and spendable resources available at the end of the fiscal year. Such information may be useful in determining what financial resources are available in the near future to finance the City's programs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains several individual governmental funds organized according to their type (special revenue, debt service, and capital projects). Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, education (special revenue fund), general obligation debt service fund, and school construction capital projects fund, which are all considered to be major funds. Data from the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements elsewhere in the financial statements.

The City adopts an annual appropriated budget for the general, special revenue, capital projects, and general obligation debt service. Budgetary comparison statements have been provided in the basic financial statements for the general, capital projects, and special revenue funds to demonstrate compliance with the budget. These statements for the non-major special revenue, capital projects, and general obligation debt service funds are included in Other Supplementary Information.

**Proprietary funds.** Proprietary funds are generally used to account for services for which the City charges customers – either outside customers, or departments of the City. Proprietary funds provide the same type of information shown in the government-wide financial statements, only in more detail. The City maintains the following two types of proprietary funds:

- **Enterprise funds** are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Stormwater Utility, Water and Sewer Utility, Electric Utility, and Landfill operations. All enterprise funds are considered to be major funds of the City.
- **Internal Service funds** are used to report activities that provide supplies and services for certain City programs and activities. The City uses internal service funds to account for its health insurance, flexible spending, OPEB and service center operations. The internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service fund is provided in the form of combining statements elsewhere in the financial statements.

## **Notes to the Financial Statements**

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

## **FINANCIAL HIGHLIGHTS**

- ♦ The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$70.5 million (net position). The total net position decreased by \$5.1 million compared to the prior year. Included in the results is a \$14.2 million liability due to a change in pension accounting requirements. Without the change in pensions, the change in net position increased by \$9.1 million.

## FINANCIAL HIGHLIGHTS (Continued)

- ◆ At June 30, 2015, the City's governmental activities reported combined ending fund balances of \$11.5 million, a decrease of \$4.5 million in comparison to the prior year. Included in these totals is a \$13.1 million change due to the change in pension accounting requirements. Without the change for pensions, the City's net position for governmental activities increased \$8.5 million.
- ◆ At June 30, 2015, total fund balance for the general fund was \$5.1 million. The unassigned portion of the fund balance is \$4.1 million, which is 23.3% of total general fund expenditures of \$17.6 million.
- ◆ At June 30, 2015, the City's proprietary funds reported combined total net position of \$59 million, and total unrestricted net position of \$7.3 million.
- ◆ The City issued \$18 million in bonds which included \$9.995 million for the Alcoa High School Construction Project, Public Works Projects and \$9 million in refunding bonds for savings.

### Combining Statements

The combining statements referred to earlier in connection with non-major governmental funds and internal service funds, and fiduciary funds are presented immediately following the notes to the financial statements.

## GOVERNMENT-WIDE STATEMENTS FINANCIAL ANALYSIS

### STATEMENTS OF NET POSITION

<u>Assets</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	<u>Total</u>
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Current and other Assets	\$ 33,250,324	\$ 38,387,970	\$ 34,868,802	\$ 43,546,548	\$ 68,119,126	\$ 81,934,518
Capital assets (net)	88,162,110	66,114,763	120,485,631	113,863,144	208,647,741	179,977,907
Capital lease property	10,007,914	10,198,992	-	27,947	10,007,914	10,226,939
Total Assets	<u>131,420,348</u>	<u>114,701,725</u>	<u>155,354,433</u>	<u>157,437,639</u>	<u>286,774,781</u>	<u>272,139,364</u>
Deferred Outflows of Resources:						
Deferred state regulatory charges	-	-	1,130,197	1,217,990	1,130,197	1,217,990
Pension deferrals	4,189,165	-	867,902	-	5,057,067	-
Total Deferred Outflows	<u>4,189,165</u>	<u>-</u>	<u>1,998,099</u>	<u>1,217,990</u>	<u>6,187,264</u>	<u>1,217,990</u>
<u>Liabilities</u>						
Long-term liabilities	100,817,456	83,213,832	77,272,229	79,016,205	178,089,685	162,230,037
Other liabilities	9,067,848	6,700,795	20,238,588	20,078,831	29,306,436	26,779,626
Total Liabilities	<u>109,885,304</u>	<u>89,914,627</u>	<u>97,510,817</u>	<u>99,095,036</u>	<u>207,396,121</u>	<u>189,009,663</u>
Deferred Inflows of Resources:						
Pension deferrals	4,520,218	-	837,020	-	5,357,238	-
Deferred Revenue	9,681,393	8,757,435	-	-	9,681,393	8,757,435
Total Deferred Inflows	<u>14,201,611</u>	<u>8,757,435</u>	<u>837,020</u>	<u>-</u>	<u>15,038,631</u>	<u>8,757,435</u>
<u>Net Position</u>						
Net investment in capital Assets	18,643,895	6,206,361	50,190,104	41,602,343	68,833,999	47,808,704
Restricted for:						
General Fund	1,005,526	633,361	-	-	1,005,526	633,361
Special revenue	1,801,413	1,007,601	-	-	1,801,413	1,007,601
Capital projects	6,485,863	15,531,647	-	-	6,485,863	15,531,647
Debt service	2,945,179	1,787,413	-	-	2,945,179	1,787,413
Property acquisitions	-	-	1,477,123	1,407,958	1,477,123	1,407,958
Unrestricted (deficit)	(19,359,278)	(9,136,720)	7,337,468	16,550,292	(12,021,810)	7,413,572
Total Net Position	<u>\$ 11,522,598</u>	<u>\$ 16,029,663</u>	<u>\$ 59,004,695</u>	<u>\$ 59,560,593</u>	<u>\$ 70,527,293</u>	<u>\$ 75,590,256</u>

## Analysis of Net Position

As noted earlier, net position may serve as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by \$70.5 million and \$75.6 million at June 30, 2015 and June 30, 2014, respectively.

The largest portion of the City's net position reflects its investment of \$68.8 million in capital assets (e.g. land, buildings, infrastructure, improvements, machinery and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated for these liabilities.

An additional portion of the City's net position, \$13.7 million (19%) represents resources that are subject to external restrictions on how they may be used.

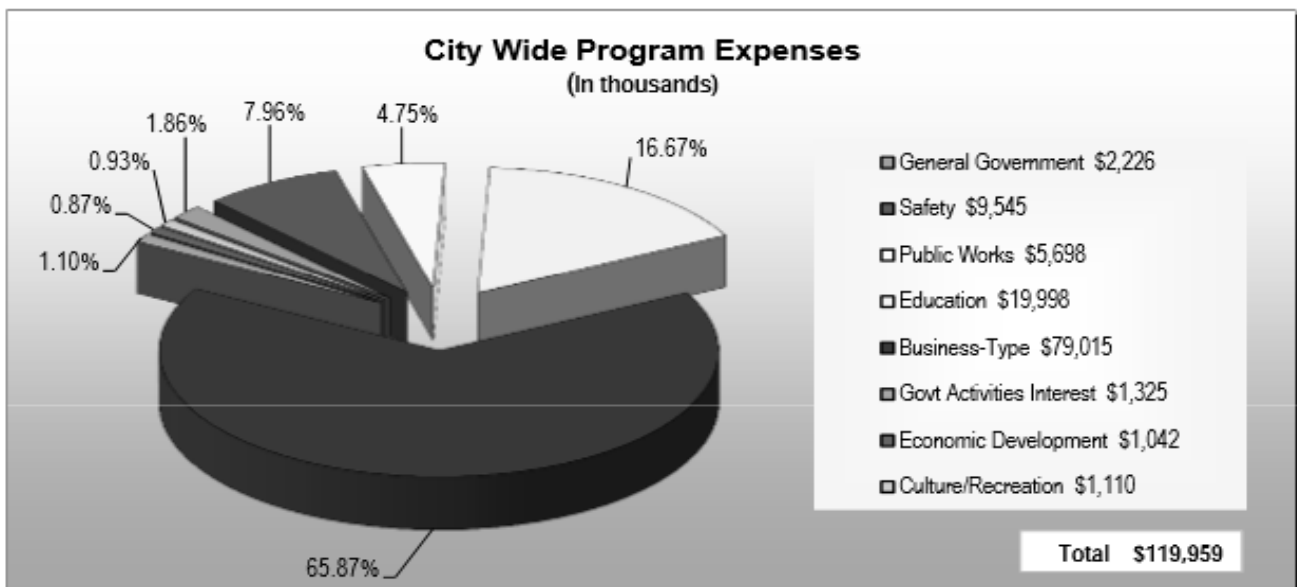
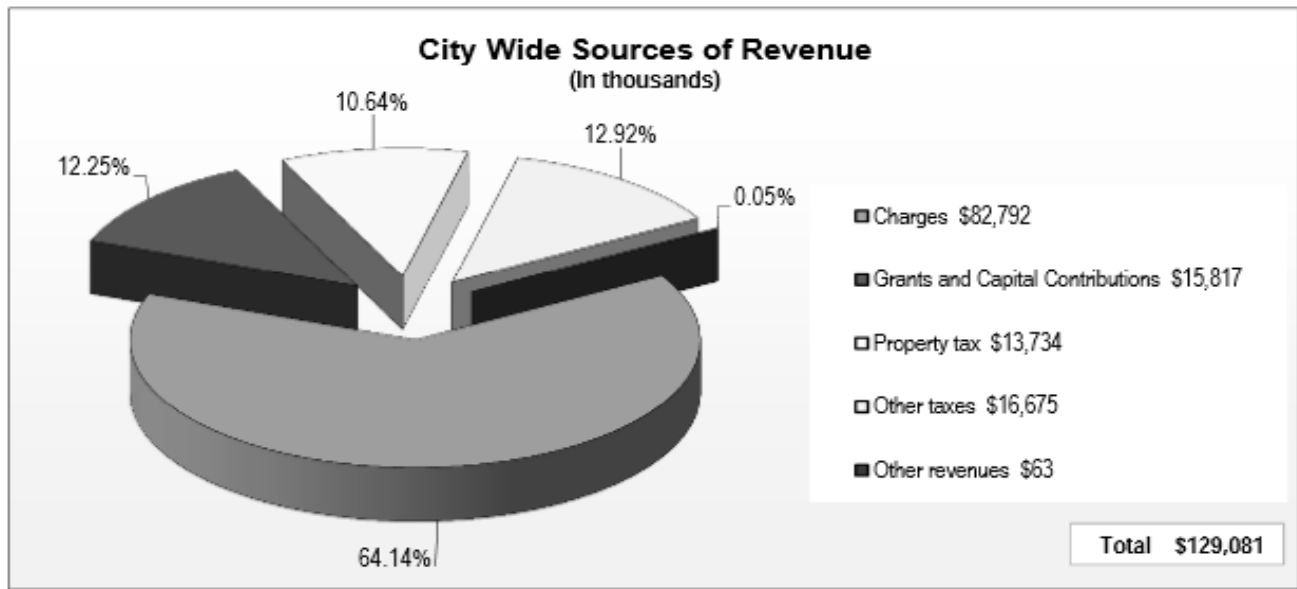
## Analysis of Change in Net Position

The City's net position decreased by \$5,062,963 for the fiscal year 2015. These changes are explained in the government and business-type activities presented below.

### Changes in Net Position

Revenues	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		Total 2015	Total 2014
	2015	2014	2015	2014		
Program Revenues:						
Charges for services	\$ 1,558,723	\$ 1,788,866	\$ 81,233,771	\$ 78,469,547	\$ 82,792,494	\$ 80,244,910
Operating grants and contributions	10,536,788	9,071,291	75,718	90,559	10,612,506	9,161,850
Capital grants and contributions	5,202,207	3,107,392	-	-	5,202,207	3,107,392
General Revenues:						
Sales taxes	14,520,112	14,256,596	-	-	14,520,112	14,256,596
State income taxes	95,095	87,636	-	-	95,095	87,636
Property taxes	13,734,216	12,723,141	-	-	13,734,216	12,723,141
Business taxes/licenses	897,280	902,658	-	-	897,280	902,658
Miscellaneous taxes	790,571	512,845	-	-	790,571	512,845
Investment earnings	56,826	17,032	7,322	22,752	64,148	39,784
In-lieu of taxes	371,954	155,929	-	-	371,954	155,929
Total Revenues	<u>47,763,772</u>	<u>42,623,386</u>	<u>81,316,811</u>	<u>78,582,858</u>	<u>129,080,583</u>	<u>121,206,244</u>
<b><u>Expenses</u></b>						
General government	2,226,413	2,163,198	-	-	2,226,413	2,163,198
Police and Fire	9,544,500	9,118,341	-	-	9,544,500	9,118,341
Public works and streets	5,698,308	4,583,593	-	-	5,698,308	4,583,593
Recreation and Culture	1,110,699	1,003,749	-	-	1,110,699	1,003,749
Economic development	1,042,221	713,405	-	-	1,042,221	713,405
Education	19,998,346	20,290,532	-	-	19,998,346	20,290,532
Interest on long-term debt	1,324,010	1,189,641	-	-	1,324,010	1,189,641
Water and Sewer	-	-	11,673,591	10,247,877	11,673,591	10,247,877
Electric Utility	-	-	62,513,432	61,009,610	62,513,432	61,009,610
Landfill	-	-	3,719,323	3,943,753	3,719,323	3,943,753
Stormwater Utility	-	-	1,108,997	1,082,711	1,108,997	1,082,711
Total expenses	<u>40,944,497</u>	<u>39,062,459</u>	<u>79,015,343</u>	<u>76,283,951</u>	<u>119,959,840</u>	<u>115,346,410</u>
Increase (decrease) in net position before transfers and other sources	6,819,275	3,560,927	2,301,468	2,298,907	9,120,743	5,859,834
Transfers-in-lieu of tax	<u>1,728,324</u>	<u>1,686,883</u>	<u>(1,728,324)</u>	<u>(1,686,883)</u>	-	-
Change in net position	8,547,599	5,247,810	573,144	612,024	9,120,743	5,859,834
Net position at beginning of year	16,029,663	10,781,853	59,560,593	58,948,569	75,590,256	69,730,422
Prior period adjustment - pensions	<u>(13,054,664)</u>	-	<u>(1,129,042)</u>	-	<u>(14,183,706)</u>	-
<b>Net position at end of year</b>	<b><u>\$ 11,522,598</u></b>	<b><u>\$ 16,029,663</u></b>	<b><u>\$ 59,004,695</u></b>	<b><u>\$ 59,560,593</u></b>	<b><u>\$ 70,527,293</u></b>	<b><u>\$ 75,590,256</u></b>

# **City of Alcoa, Tennessee** **for the Fiscal Year Ended June 30, 2015**



**Governmental activities:**

- Governmental activities increased the City governmental net position by \$8,547,599.
- Governmental activities revenue increased by \$5.14 million over the prior year primarily due to increases in property tax collections, sales tax increase, and grant items.
- Investment earnings increased by \$39,794.
- The General Fund departments demonstrated fiscal responsibility by under-spending the appropriated budget by \$378,676.

**Business-type activities:**

- Business-type activities increased the City's net position by \$573,144, whereas the prior year had produced an increase in net position of \$612,024.
- The Electric Utility is the largest business-type activity of the City, with a total expense of \$62,513,432. The City of Alcoa is a distributor of electrical power that is purchased from the Tennessee Valley Authority (TVA) and then transmitted and sold by the City to its residential and commercial customers. In October 2006, TVA began adjusting the wholesale power costs to the City each quarter for a fuel cost adjustment (FCA), then in 2009 TVA changed the FCA from quarterly to monthly. These FCA cost adjustments are passed through in electric rate adjustments to the City's customers each month. The FCA can fluctuate the City's electric rates up or down each month. TVA, in October 2009, increased their base wholesale rate, as well as the FCA, by 20%.
- The Water and Sewer Utility ended the fiscal year with total expenses of \$11,673,591. Beginning July 1, 2009, the City had a rate increase for both water and sewer of 15%. During the 2009 fiscal year, the City initiated a special project to install three (3) sewer flow meters with the purpose to record and charge one of the City's largest commercial accounts. Based on studies, additional sewer revenues could be anticipated. The project, originally scheduled for completion by September 30, 2008, was put on hold due to issues with the flow meters. The project was completed and operational in January 2010. The City had several capital contribution projects that were completed during the fiscal year that resulted in the increase in net position.
- The Landfill Utility ended the fiscal year with total expenses of \$3,719,323 and ended with a net loss of \$41,713. This loss over the prior year ended June 30, 2014, was mainly due to less revenue generated from private haulers.
- The Stormwater Utility ended the fiscal year with total expenses of \$1,108,997 and ended with a net loss of \$73,409.
- Fees provide the largest share of revenues for all of the business-type activities.

**FUND STATEMENTS FINANCIAL ANALYSIS**

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

**Governmental funds**

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of governmental funds reported by the City include the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Project Funds.

(Continued)

## **Governmental funds (Continued)**

As of the end of the fiscal year ended June 30, 2015, the City's governmental funds reported combined ending fund balances of \$16.4 million, a decrease of \$5.7 million from 2014. Approximately \$4.1 million or (25%) of this total amount constitute unassigned fund balance, which is available for spending at the City's discretion. The remainder of fund balance is restricted, committed, or assigned to indicate that it is not available for new spending because it has already been restricted, committed, or assigned to (1) liquidate existing contracts and purchase orders, (2) to pay debt service, and (3) for other restricted purposes.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the unassigned fund balance of the General Fund was \$4.1 million while total fund balance was \$5.1 million. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance and total fund balance to total fund expenditures. Total unassigned fund balance represents 23.6% of total general fund expenditures of \$17.58 million. The increase in fund balance is due to higher than budgeted collections in the area of local sales tax, property tax, and penalties collected on property tax, etc.

The Education Fund is the operating fund for the Alcoa City Schools. As of June 30, 2015, the fund balance is \$1,093,096. The fund balance represents 6.3% of the schools total budget of \$17,450,000. The primary reason for the increase is the increase in local sales tax.

The Debt Service Fund is used to pay principal and interest for debt issued for City and School-related projects. The revenue in the Debt Service Fund was from transfers made by the General Fund and Enterprise Funds. The assigned fund balance at June 30, 2015 is \$2,945,179 in the debt service fund.

Schedules for Other Non-Major Governmental Funds, Capital Projects, and Special Revenue Funds are also found in the financial statements and discussed in the notes to the financial statements.

## **Proprietary funds**

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

As of June 30, 2015, the Stormwater Utility net position totaled \$982,702. No major projects have been launched so a fund balance could be created to handle any future ventures. The Utility's expenses exceeded revenue and generated a net loss of \$73,409.

Net position for Water and Sewer Utility as of June 30, 2015 were \$19,498,899, an increase of \$29,998 from 2014. The increase was primarily due to rate increases made in the Water and Sewer Utility.

Net position of the Electric Utility as of June 30, 2015 was \$36,274,464, a decrease of \$247,828. The electric utility rates, as discussed earlier, were increased during the 2011 fiscal year by Tennessee Valley Authority. The rate increases were passed on to our customers. In addition, the City of Alcoa Electric implemented a local retail rate increase of 2.5% effective July 1, 2010. Expenditures during the current year were approximately \$1,504,000 more than the prior year, while revenues were up approximately \$902,000.

Net position of the Landfill Utility as of June 30, 2015 was \$2,248,630, a decrease of \$41,713, primarily due to less revenue generated from private haulers.

(Continued)

## **Budget Highlights – General Fund**

The difference between the original budget and the final amended budget increased by \$330,000.

Significant difference (greater than \$100k) between the final amended budget and actual amounts can be summarized as follows:

Tax revenues were increased by \$180,000 due to public works labor and materials. Contributions/grants to other agencies increased by \$140,000 due to retirement supplements.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

The City's capital assets for its governmental and business type activities as of June 30, 2015 and 2014 amount to \$218,655,655 and \$190,177,846 (net of accumulated depreciation), respectively. Capital assets include land, buildings, infrastructure, improvements, machinery and equipment, and construction in progress.

The table below reflects the capital assets at the end of both fiscal years:

	<b>Capital Assets, Net of Depreciation</b>					
	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	<b>Total</b>
	<b><u>2015</u></b>	<b><u>2014</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>
Land	\$ 1,999,450	\$ 1,999,450	\$ 2,204,363	\$ 2,204,363	\$ 4,203,813	\$ 4,203,813
Buildings	29,672,905	29,672,905	87,731,404	85,226,075	117,404,309	114,898,980
Infrastructure	41,926,576	29,209,051	-	-	41,926,576	29,209,051
Improvements	15,631,085	14,989,944	58,752,375	51,814,420	74,383,460	66,804,364
Machinery and equipment	8,588,489	7,594,050	32,964,909	32,065,896	41,553,398	39,659,946
Capital lease property	10,094,911	10,657,168	-	259,222	10,094,911	10,916,390
Construction in progress	<u>33,924,400</u>	<u>23,179,825</u>	<u>5,419,619</u>	<u>4,056,879</u>	<u>39,344,019</u>	<u>27,236,704</u>
Total Capital Assets	141,837,816	117,302,393	187,072,670	175,626,855	328,910,486	292,929,248
Less: Accumulated Depreciation	<u>(43,667,792)</u>	<u>(40,988,638)</u>	<u>(66,587,039)</u>	<u>(61,762,764)</u>	<u>(110,254,831)</u>	<u>(102,751,402)</u>
Capital Assets, net of Depreciation	<b><u>\$ 98,170,024</u></b>	<b><u>\$ 76,313,755</u></b>	<b><u>\$120,485,631</u></b>	<b><u>\$113,864,091</u></b>	<b><u>\$ 218,655,655</u></b>	<b><u>\$ 190,177,846</u></b>

Major capital asset events during the current fiscal year included the following:

- Various equipment and vehicles were acquired for use in both governmental and business-type activities.
- Continued water line and sewer lines projects (new and rehab)
- Continued work on an auxiliary water line intake
- Continued work on installation of a new electric meter reading system (TWAC)
- City-wide traffic signalization improvement project
- Alcoa High School construction project

(Continued)



## **Capital Assets (Continued)**

For government-wide financial statement presentation, all depreciable capital assets are depreciated from acquisition date to the end of the current fiscal year. Fund financial statements record capital asset purchases as expenditures. Please refer to the Notes to the Financial Statements (See Note 5 – Capital Assets) for further information regarding capital assets.

## **Debt Administration**

At the end of the current fiscal year, the City had total long-term obligations outstanding of \$169.1 million. Of this amount, \$148.5 million are revenue bonds, general obligation bonds, and capital outlay notes backed by the full faith and credit of the City and \$8.8 million is estimated liability for Landfill closure and post closure costs and capital outlay notes. The remainder includes capital leases of \$9.7 million and compensated absences of \$2.2 million (See Note 6 – Long-Term Liabilities).

	<b>Outstanding Long-Term Obligations</b>					
	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	<b>Total</b>
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b><u>2015</u></b>	<b><u>2014</u></b>
General Obligation/ Revenue Bonds	\$ 78,150,000	\$ 70,550,000	\$ 70,333,837	\$ 72,833,801	\$148,483,837	\$143,383,801
Capital leases	9,656,129	9,802,394	-	27,947	9,656,129	9,830,341
Compensated absences	974,749	1,203,808	1,241,066	1,250,891	2,215,815	2,454,699
Estimated liability for closure/post-closure care costs	-	-	8,777,906	8,248,362	8,777,906	8,248,362
Total long-term obligations	<b><u>\$ 88,780,878</u></b>	<b><u>\$ 81,556,202</u></b>	<b><u>\$ 80,352,809</u></b>	<b><u>\$ 82,361,001</u></b>	<b><u>\$169,133,687</u></b>	<b><u>\$163,917,203</u></b>

The City of Alcoa's total long-term debt increased by a net of \$5,216,484 during the current fiscal year. The key factor to this increase was due to the City borrowed \$18,995,000 to finance Alcoa High School Construction and refund 2006 bonds of \$7,900,000 during the year. The City retired other debt in the amount of \$5,694,964.

Additional information on the City's long-term debt can be found in the Notes to the Financial Statements (see Note 6 – Long-Term Liabilities).

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

- The unemployment rate for the City of Alcoa is currently 8.4%. This is lower than the State's average unemployment rate of 9.8%.
- The commercial industry has improved in the past twelve months and the City believes it will continue to improve.
- Inflationary trends in the region compare favorably to national indices.

All of these factors were considered in preparing the City of Alcoa's budget for the 2016 fiscal year. During the current fiscal year, the total unassigned fund balance in the general fund increased by \$1,375,030 primarily due to tax revenue increases and due to the overall economy upswing. The City of Alcoa has not appropriated any of this amount for spending in the 2016 fiscal year budget. The remaining budgets had very little, if any, changes from the prior year.

(Continued)

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide our citizens, taxpayers, city commissioners, customers, investors, and creditors with a general overview of the City's finances. If you have any questions about this report or need additional information, contact:

City of Alcoa, Tennessee  
Finance and Administration Department  
Accounting Division  
223 Associates Boulevard  
Alcoa, TN 37701  
(865) 380-4700

**CITY OF ALCOA, TENNESSEE**  
**GOVERNMENT WIDE FINANCIAL STATEMENTS**  
**June 30, 2015**

**CITY OF ALCOA, TENNESSEE**  
**STATEMENT OF NET POSITION**  
**For the Fiscal Year Ended June 30, 2015**  
**With Comparative Totals for the Fiscal Year Ended June 30, 2014**

	<b>Primary Government</b>		<b>Total</b>	<b>Total</b>
	<b>Governmental</b>	<b>Business-type</b>	<b>2015</b>	<b>2014</b>
	<b>Activities</b>	<b>Activities</b>		
<b>ASSETS:</b>				
Cash and certificates of deposit .....	\$ 14,482,395	\$ 12,901,178	\$ 27,383,573	\$ 27,901,362
Investments .....	3,123,677	-	3,123,677	13,751,466
Property taxes receivable (net of allowance) .....	10,449,998	-	10,449,998	10,299,429
Other receivables (net of allowance) .....	2,171,841	8,176,060	10,347,901	10,738,643
Due from other governments .....	3,022,413	-	3,022,413	2,310,471
Inventories .....	-	1,178,379	1,178,379	1,447,121
Prepaid items .....	-	3,857,990	3,857,990	3,780,211
Restricted Assets: .....				
Cash and certificates of deposit .....	-	8,755,195	8,755,195	11,732,815
Capital Assets (Note 5):				
Non-depreciable assets .....	35,923,850	2,204,364	38,128,214	31,440,518
Depreciable assets, net of depreciation .....	52,238,260	118,281,267	170,519,527	148,510,389
Capital lease property .....	10,007,914	-	10,007,914	10,226,939
Total Capital Assets, net of Depreciation .....	98,170,024	120,485,631	218,655,655	190,177,846
<b>Total Assets .....</b>	<b>131,420,348</b>	<b>155,354,433</b>	<b>286,774,781</b>	<b>272,139,364</b>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>				
Deferred State Regulatory Charges .....	-	1,130,197	1,130,197	1,217,990
Pension Deferrals .....	4,189,165	867,902	5,057,067	-
<b>Total Deferred Outflows of Resources .....</b>	<b>4,189,165</b>	<b>1,998,099</b>	<b>6,187,264</b>	<b>1,217,990</b>
<b>LIABILITIES:</b>				
Accounts payable .....	3,822,746	12,159,059	15,981,805	17,145,929
Accrued liabilities .....	1,296,199	358,085	1,654,284	517,309
Customer deposits .....	-	1,654,990	1,654,990	1,561,606
Unearned revenue .....	907,992	-	907,992	1,560,027
Other liabilities .....	-	2,348,450	2,348,450	2,649,959
Long-term Liabilities:				
Due within one year (Note 6) .....	3,040,911	3,395,131	6,436,042	6,074,679
Due in more than one year (Note 6) .....	85,739,967	68,179,772	153,919,739	149,594,162
Estimated liability – Landfill closure/ Postclosure (Note 6) .....	-	8,777,906	8,777,906	8,248,362
Net unfunded pension liability (Note 7) .....	14,136,994	637,424	14,774,418	1,151,457
Post-employment benefit obligation (Note 7) .....	940,495	-	940,495	506,173
<b>Total Liabilities .....</b>	<b>109,885,304</b>	<b>97,510,817</b>	<b>207,396,121</b>	<b>189,009,663</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>				
Unavailable revenue – property tax .....	9,681,393	-	9,681,393	8,757,435
Pension deferrals .....	4,520,218	837,020	5,357,208	-
<b>Total Deferred Inflows of Resources .....</b>	<b>14,201,611</b>	<b>837,020</b>	<b>15,038,601</b>	<b>8,757,435</b>
<b>NET POSITION:</b>				
Net investment in capital assets, (Note 19) .....	18,643,895	50,190,104	68,833,999	47,808,704
Restricted for:				
General Fund .....	1,005,526	-	1,005,526	633,361
Special Revenue Funds:				
Education .....	1,252,804	-	1,252,804	564,199
Streets .....	531,839	-	531,839	389,625
Drug Enforcement .....	15,250	-	15,250	44,901
Vehicle enforcement .....	1,520	-	1,520	8,876
Capital Projects:				
Capital Projects .....	453,048	-	453,048	-
Education .....	1,259,374	-	1,259,374	12,514,975
Public Works/Safety .....	4,773,441	-	4,773,441	3,016,672
Debt Service .....	2,945,179	-	2,945,179	1,787,413
Property Acquisitions .....	-	1,477,123	1,477,123	1,407,958
Unrestricted (deficit) .....	(19,359,278)	7,337,468	(12,021,810)	7,413,572
<b>Total Net Position .....</b>	<b>\$ 11,522,598</b>	<b>\$ 59,004,695</b>	<b>\$ 70,527,293</b>	<b>\$ 75,590,256</b>

See accompanying independent auditors' report and notes.

**CITY OF ALCOA, TENNESSEE**  
**STATEMENT OF ACTIVITIES**  
**For the Fiscal Year Ended June 30, 2015**  
**With Comparative Totals for the Fiscal Year Ended June 30, 2014**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
		Charges for	Operating	Capital	Primary Government			
		Services	Grants and	Grants and	Governmental	Business-type	Total	Total
			Contributions	Contributions	Activities	Activities	2015	2014
<b>PRIMARY GOVERNMENT</b>								
<b>Governmental Activities:</b>								
General Government.....	\$ 2,226,413	\$ 267,622	\$ 176,654	\$ -	\$ (1,782,137)	\$ -	\$ (1,782,137)	\$ (1,640,773)
Public Safety .....	9,544,500	504,445	15,301	-	(9,024,754)	-	(9,024,754)	(9,012,047)
Public Works .....	5,698,308	304,002	221,561	5,202,207	29,462	-	29,462	(1,217,705)
Economic Development .....	1,042,221	11,549	-	-	(1,030,672)	-	(1,030,672)	(684,725)
Education .....	19,998,346	451,405	10,123,272	-	(9,423,669)	-	(9,423,669)	(10,424,962)
Culture and Recreation .....	1,110,699	19,700	-	-	(1,090,999)	-	(1,090,999)	(989,315)
Interest on long-term debt .....	1,324,010	-	-	-	(1,324,010)	-	(1,324,010)	(1,189,641)
<b>Total Governmental Activities .....</b>	<b>40,944,497</b>	<b>1,558,723</b>	<b>10,536,788</b>	<b>5,202,207</b>	<b>(23,646,779)</b>	<b>-</b>	<b>(23,646,779)</b>	<b>(25,159,168)</b>
<b>Business-Type Activities:</b>								
Landfill.....	3,719,323	3,534,132	75,718	-	-	(109,473)	(109,473)	(533,503)
Electric .....	62,513,432	64,201,148	-	-	-	1,687,716	1,687,716	2,219,369
Water/Sewer Utility .....	11,673,591	12,462,903	-	-	-	789,312	789,312	710,934
Stormwater Utility .....	1,108,997	1,035,588	-	-	-	(73,409)	(73,409)	(56,387)
<b>Total Business-type Activities .....</b>	<b>79,015,343</b>	<b>81,233,771</b>	<b>75,718</b>	<b>-</b>	<b>-</b>	<b>2,294,146</b>	<b>2,294,146</b>	<b>2,340,413</b>
<b>Total Primary Government.....</b>	<b>\$ 119,959,840</b>	<b>\$ 82,792,494</b>	<b>\$ 10,612,506</b>	<b>\$ 5,202,207</b>	<b>(23,646,779)</b>	<b>2,294,146</b>	<b>(21,352,633)</b>	<b>(22,818,755)</b>
<b>General Revenues:</b>								
Taxes, net of related credits:								
Property tax					13,734,216	-	13,734,216	12,723,141
Sales tax					14,520,112	-	14,520,112	14,256,596
State income and excise tax					95,095	-	95,095	87,636
Business taxes/licenses					897,280	-	897,280	902,658
In-lieu-of taxes					371,954	-	371,954	155,929
Miscellaneous taxes					790,571	-	790,571	512,845
Investment earnings					56,826	7,322	64,148	39,784
Transfers – In-lieu-of-tax payments					1,728,324	(1,728,324)	-	-
<b>Total General Revenues and Transfers</b>					<b>32,194,378</b>	<b>(1,721,002)</b>	<b>30,473,376</b>	<b>28,678,589</b>
Change in Net Position					8,547,599	573,144	9,120,743	5,859,834
Net Position – Beginning					16,029,663	59,560,593	75,590,256	69,730,422
Prior Period Adjustment to Net Position – Pensions (GASB 68) – Note 19					(13,054,664)	(1,129,042)	(14,183,706)	-
Adjusted Net Position - Beginning					2,974,999	58,431,551	61,406,550	69,730,422
<b>Net Position – Ending</b>					<b>\$ 11,522,598</b>	<b>\$59,004,695</b>	<b>\$70,527,293</b>	<b>\$75,590,256</b>

See accompanying independent auditors' report and notes.

**CITY OF ALCOA, TENNESSEE**  
**FUND FINANCIAL STATEMENTS**  
**June 30, 2015**

**CITY OF ALCOA, TENNESSEE**  
**BALANCE SHEET**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2015**  
**With Comparative Totals for the Fiscal Year Ended June 30, 2014**

<b><u>ASSETS AND DEFERRED OUTFLOWS</u></b> <b><u>OF RESOURCES</u></b>	<b><u>General</u></b>	<b><u>Education</u></b>	<b><u>Debt</u></b> <b><u>Service</u></b>	<b><u>General</u></b> <b><u>Obligation</u></b> <b><u>Public Works</u></b> <b><u>Construction</u></b>	<b><u>School</u></b> <b><u>Construction &amp;</u></b> <b><u>Improvement</u></b> <b><u>Fund</u></b>	<b><u>Alcoa High</u></b> <b><u>School</u></b> <b><u>Construction</u></b> <b><u>Fund</u></b>	<b><u>Non-Major</u></b> <b><u>Other</u></b> <b><u>Governmental</u></b> <b><u>Funds</u></b>	<b><u>Total Governmental Funds</u></b>	
								<b><u>2015</u></b>	<b><u>2014</u></b>
Assets:									
Cash and cash equivalents .....	\$ 3,470,623	\$ 1,125,358	\$ 2,945,179	\$ 3,736,447	\$ 135,696	\$ 272,771	\$ 1,160,683	\$ 12,846,757	\$ 10,064,389
Investments and certificates of deposit .....	-	-	-	-	-	2,820,701	-	2,820,701	13,448,267
Tennessee Local Government									
Investment Pool .....	-	-	-	-	-	-	302,976	302,976	303,199
Receivables:									
Sales Taxes .....	1,380,082	358,574	-	-	-	-	-	1,738,656	1,546,421
Property Taxes (net of allowance for uncollectible taxes) .....	10,449,998	-	-	-	-	-	-	10,449,998	10,299,429
Accounts .....	902,920	397,862	-	836,747	-	-	27,430	2,164,959	811,373
Note .....	1,982	-	-	-	-	-	-	1,982	1,982
Due from other governments .....	-	-	-	-	-	-	137,876	137,876	707,522
Due from grantors .....	-	-	-	1,145,881	-	-	-	1,145,881	56,528
Due from other funds .....	-	69,550	-	-	-	-	-	69,550	1,344,994
Due from credit union .....	-	-	-	-	-	-	-	-	265
Total Assets .....	16,205,605	1,951,344	2,945,179	5,719,075	135,696	3,093,472	1,628,965	31,679,336	38,584,369
Deferred Outflows of Resources.....	-	-	-	-	-	-	-	-	-
Total Assets and Deferred Outflows of Resources.....	<u>\$16,205,605</u>	<u>\$ 1,951,344</u>	<u>\$ 2,945,179</u>	<u>\$ 5,719,075</u>	<u>\$ 135,696</u>	<u>\$ 3,093,472</u>	<u>\$ 1,628,965</u>	<u>\$ 31,679,336</u>	<u>\$ 38,584,369</u>
<b><u>LIABILITIES, DEFERRED INFLOWS OF</u></b> <b><u>RESOURCES, AND FUND BALANCES</u></b>									
Liabilities:									
Accounts payable.....	\$ 415,047	\$ 210,197	\$ -	\$ 945,634	\$ 27,525	\$ 1,942,269	\$ 190,978	\$ 3,731,650	\$ 4,101,485
Due to other funds .....	-	-	-	-	-	-	69,550	69,550	1,318,684
Accrued payroll .....	317,850	-	-	-	-	-	-	317,850	182,521
Due to State of Tennessee.....	-	499,051	-	-	-	-	-	499,051	470,648
Deferred revenue .....	643,016	149,000	-	-	-	-	2,752	794,768	1,479,254
Unearned grant revenue.....	-	-	-	-	-	-	113,224	113,224	80,773
Due to Blount County.....	-	-	-	-	-	-	91,096	91,096	93,639
Total Liabilities.....	<u>1,375,913</u>	<u>858,248</u>	<u>-</u>	<u>945,634</u>	<u>27,525</u>	<u>1,942,269</u>	<u>467,600</u>	<u>5,617,189</u>	<u>7,727,004</u>
Deferred Inflows of Resources:									
Deferred Revenue .....	<u>9,681,393</u>	-	-	-	-	-	-	<u>9,681,393</u>	<u>8,757,435</u>
See accompanying independent auditors' report and notes.									

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**BALANCE SHEET (Continued)**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2015**  
**With Comparative Totals for the Fiscal Year Ended June 30, 2014**

	<u>General Fund</u>	<u>Education Fund</u>	<u>Debt Service Fund</u>	<u>General Obligation Public Works Construction</u>	<u>School Construction &amp; Improvement Fund</u>	<u>Alcoa High School Construction Fund</u>	<u>Non-Major Other Governmental Funds</u>	<u>Total Governmental Funds</u>	
								<u>2015</u>	<u>2014</u>
<b>Fund Balances:</b>									
Nonspendable.....	-	-	-	-	-	-	-	-	-
Restricted .....	63,674	-	-	4,773,441	-	-	635,033	5,472,148	2,776,314
Committed.....	-	-	-	-	-	-	-	-	-
Assigned.....	941,852	1,093,096	2,945,179	-	108,171	1,151,203	526,332	6,765,833	16,183,708
Unassigned.....	<u>4,142,773</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,142,773</u>	<u>3,139,908</u>
 Total Fund Balances .....	<u>5,148,299</u>	<u>1,093,096</u>	<u>2,945,179</u>	<u>4,773,441</u>	<u>108,171</u>	<u>1,151,203</u>	<u>1,161,365</u>	<u>16,380,754</u>	<u>22,099,930</u>
 <b>Total Liabilities, Deferred Inflows of Resources and Fund Balances .....</b>	<b><u>\$16,205,605</u></b>	<b><u>\$ 1,951,344</u></b>	<b><u>\$2,945,179</u></b>	<b><u>\$ 5,719,075</u></b>	<b><u>\$ 135,696</u></b>	<b><u>\$ 3,093,472</u></b>	<b><u>\$ 1,628,965</u></b>	<b><u>\$ 31,679,336</u></b>	<b><u>\$ 38,584,369</u></b>

See accompanying independent auditors' report and notes.



**CITY OF ALCOA, TENNESSEE**  
**RECONCILIATIONS OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE**  
**GOVERNMENT-WIDE STATEMENT OF NET POSITION – GOVERNMENTAL ACTIVITIES**  
**For the Fiscal Year Ended June 30, 2015**  
**With Comparative Totals for the Fiscal Year Ended June 30, 2014**

	<u>2015</u>	<u>2014</u>
<b>Fund Balances – Total Governmental Funds</b>	\$ 16,380,754	\$ 22,099,930
Amounts to be reported for governmental activities in the statement of net position are different because:		
(1) Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		
Capital Assets	<u>2015</u> \$ 98,170,024	<u>2014</u> \$ 76,313,755
	98,170,024	76,313,755
(2) Internal service funds are used by management to charge the cost of certain activities, such as employee health, service center, post retirement and flexible spending to individual funds. The assets and liabilities are included in governmental activities in the statement of net position.		
	1,161,240	829,810
(3) Long-term liabilities are not due and payable in the current period and therefore, are not reported in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when paid. All liabilities, both current and long-term are reported in the statement of net position as follows:		
Bonds Payable	<u>2015</u> \$ 78,150,000	<u>2014</u> 70,550,000
Compensated absences	974,749	1,203,808
Capital Leases	<u>9,650,129</u>	<u>9,802,394</u>
	<u>\$ 88,780,878</u>	<u>\$ 81,556,202</u>
	(88,780,878)	(81,556,202)
(4) The General pension plan liabilities are not due and payable in the current period and are not reported in the government funds.		
	(14,136,994)	(1,151,457)
(5) Net OPEB Obligation – current year funding for the City’s postemployment benefits was required as follows:		
Amount funded	<u>2015</u> \$ 95,593	<u>2014</u> \$ 391,998
Required	(374,493)	(374,493)
OPEB Excess (Liability)	(278,900)	17,505
OBEP Obligation – beginning of year	(158,353)	(175,858)
OPEB Obligation – end of year	<u>\$ (437,253)</u>	<u>\$ (158,353)</u>
	(437,253)	(158,353)
(6) OPEB Obligation – Education (not reported in the governmental fund)		
	(503,242)	(347,820)
(7) Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be amortized and recognized as components of pension expense in future years:		
Add: Deferred outflows related to pensions	\$ 4,189,165	
Less: Deferred inflows related to pensions	<u>(4,520,218)</u>	
	<u>\$ (331,053)</u>	<u>(331,053)</u>
	(331,053)	-
<b>NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<u><b>\$ 11,522,598</b></u>	<u><b>\$ 16,029,663</b></u>

See accompanying independent auditors’ report and notes.

**CITY OF ALCOA, TENNESSEE**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2015**  
**With Comparative Totals for the Fiscal Year Ended June 30, 2014**

	<u>General Fund</u>	<u>Education Fund</u>	<u>Debt Service Fund</u>	<u>General Obligation Public Works Construction</u>	<u>School Construction &amp; Improvement Fund</u>	<u>Alcoa High School Construction Fund</u>	<u>Non-Major Other Governmental Funds</u>	<u>Total Governmental Funds</u>	
								<u>2015</u>	<u>2014</u>
<b>Revenues:</b>									
Taxes.....	\$ 18,492,401	\$ 7,841,899	\$ -	\$ -	\$ -	\$ -	\$ 221,561	\$ 26,555,861	\$ 24,149,030
Licenses, permits and fees .....	139,093	83,390	-	-	-	-	-	222,483	527,213
Intergovernmental.....	1,989,248	9,571,219	-	5,380,365	-	-	1,359,319	18,300,151	15,992,077
Charges for services .....	304,002	-	-	-	-	-	530,267	834,269	1,025,789
Fines, forfeitures and costs .....	488,599	-	-	-	-	-	28,940	517,539	507,920
Property rental .....	143,388	-	-	-	-	-	-	143,388	143,547
Investment income.....	-	-	-	-	-	56,728	98	56,826	17,032
Miscellaneous revenue .....	231,917	237,650	-	-	-	-	-	469,567	54,734
Donations .....	-	29,955	-	-	162,709	-	-	192,664	-
Sale of property/equipment .....	<u>92,875</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,565</u>	<u>96,440</u>	<u>76,073</u>
Total Revenues .....	<u>21,881,523</u>	<u>17,764,113</u>	<u>-</u>	<u>5,380,365</u>	<u>162,709</u>	<u>56,728</u>	<u>2,143,750</u>	<u>47,389,188</u>	<u>42,493,415</u>
<b>Expenditures:</b>									
Current:									
General government .....	1,740,661	-	-	-	-	-	-	1,740,661	1,726,638
Public Safety .....	9,091,569	-	-	-	-	-	35,228	9,126,797	8,691,747
Public Works .....	4,894,927	-	-	-	-	-	79,657	4,974,584	5,167,334
Education.....	-	17,001,650	-	-	-	-	1,831,990	18,833,640	18,869,100
Recreation and Culture .....	783,056	-	-	-	-	-	68,842	851,898	747,727
Community Development.....	1,042,221	-	-	-	-	-	-	1,042,221	713,405
Capital Outlay/Capital Assets/ Capital Leases.....	-	-	-	7,673,417	54,538	15,646,904	1,527,948	24,902,807	20,274,934
Debt Service:									
Principal Retirement .....	-	-	5,269,964	-	-	-	-	5,269,964	4,157,023
Interest and Fiscal Charges ....	<u>-</u>	<u>-</u>	<u>4,003,952</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,003,952</u>	<u>3,433,555</u>
Total Expenditures.....	<u>17,552,434</u>	<u>17,001,550</u>	<u>9,273,916</u>	<u>7,673,417</u>	<u>54,538</u>	<u>15,646,904</u>	<u>3,543,665</u>	<u>70,746,524</u>	<u>63,781,463</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures.....	<u>4,329,089</u>	<u>762,463</u>	<u>(9,273,916)</u>	<u>(2,293,052)</u>	<u>108,171</u>	<u>(15,590,176)</u>	<u>(1,399,915)</u>	<u>(23,357,336)</u>	<u>(21,288,048)</u>

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (Continued)**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2015**  
**With Comparative Totals for the Fiscal Year Ended June 30, 2014**

	<u>General</u>	<u>Education</u>	<u>Debt Service</u>	<u>General Obligation Public Works Construction</u>	<u>School Construction &amp; Improvement Fund</u>	<u>Alcoa High School Construction Fund</u>	<u>Non-Major Other Governmental Funds</u>	<u>Total Governmental Funds 2015</u>	<u>2014</u>
<b>Other Financing Sources (Uses):</b>									
Transfers to other funds .....	(4,682,383)	(68,500)	-	-	(480,000)	-	-	(5,230,883)	(4,598,500)
Transfer from other funds .....	-	-	10,431,682	-	-	480,000	57,383	10,969,065	9,053,871
Payments in lieu of taxes .....	1,728,324	-	-	-	-	-	-	1,728,324	1,686,883
Issuance of debt .....				4,850,000		4,145,000	1,000,000	9,995,000	
Bond premium .....	-	-	-	95,250	-	81,404	-	176,654	20,850,000
Total Other Financing Sources (Uses) .....	<u>(2,954,059)</u>	<u>(68,500)</u>	<u>10,431,682</u>	<u>4,945,250</u>	<u>(480,000)</u>	<u>4,706,404</u>	<u>1,057,383</u>	<u>17,638,160</u>	<u>26,992,254</u>
Net Change in Fund Balance .....	1,375,030	693,963	1,157,766	2,652,198	(371,829)	(10,883,772)	(342,532)	(5,719,176)	5,704,206
Fund Balance, July 1 <sup>st</sup> .....	<u>3,773,269</u>	<u>399,133</u>	<u>1,787,413</u>	<u>2,121,243</u>	<u>480,000</u>	<u>12,034,975</u>	<u>1,503,897</u>	<u>22,099,930</u>	<u>16,395,724</u>
<b>Fund Balance, June 30<sup>th</sup> .....</b>	<b><u>\$ 5,148,299</u></b>	<b><u>\$ 1,093,096</u></b>	<b><u>\$ 2,945,179</u></b>	<b><u>\$ 4,773,441</u></b>	<b><u>\$ 108,171</u></b>	<b><u>\$ 1,151,203</u></b>	<b><u>\$ 1,161,365</u></b>	<b><u>\$ 16,380,754</u></b>	<b><u>\$ 22,099,930</u></b>

See accompanying independent auditors' report and notes.

**CITY OF ALCOA, TENNESSEE**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES**  
**For the Fiscal Year Ended June 30, 2015**  
**With Comparative Totals for the Fiscal Year Ended June 30, 2014**

	<u>2015</u>	<u>2014</u>
<b>Net Change in Fund Balances – Total Governmental Funds:</b>	\$ (5,719,176)	\$ 5,704,206
Amounts reported for the governmental activities in the statement of activities are different because:		
1) Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over the estimated lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period:		
	<u>2015</u>	<u>2014</u>
Capital Outlay	\$24,838,455	\$ 19,856,114
Depreciation	<u>(2,982,186)</u>	<u>(2,882,114)</u>
	<u>\$21,856,269</u>	<u>\$ 16,974,000</u>
	21,856,269	16,974,000
2) Lease payments are reported as expenditures in the governmental funds when paid. For the city as a whole, however, the principal portion of the payments serve to reduce the liability in the statement of net position while the acquisition of new leases increase the liability. This is the amount by which principal payments (exceed) or are less than new capital leases:		
	<u>2015</u>	<u>2014</u>
New Leases	\$ -	\$ -
Payments	<u>(146,266)</u>	<u>(270,585)</u>
	<u>\$ (146,266)</u>	<u>\$ (270,585)</u>
	146,266	270,585
3) The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This is the amount by which the bond proceeds (exceed) or are less than retirement in the current period:		
	<u>2015</u>	<u>2014</u>
Bonds issued	\$ 18,995,000	\$ 22,000,000
Retired	<u>(13,594,964)</u>	<u>(4,157,023)</u>
	<u>\$ 5,400,036</u>	<u>\$ 17,842,977</u>
	(5,400,036)	(17,842,977)
4) The net revenues (expenditures) of internal service funds activities are reported with governmental activities.		
	197,930	129,971
5) Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported in the governmental fund:		
a. OPEB Obligation – Education	(503,242)	(347,820)
b. OPEB Obligation – City	(437,253)	(158,353)
c. Unfunded Pension obligation	(14,136,994)	(1,151,457)
d. Change in compensated absences	229,059	(171,342)
e. Construction in-progress	<u>12,314,776</u>	<u>1,840,997</u>
<b>Changes in Net Position of Governmental Activities</b>	<u><b>\$ 8,547,599</b></u>	<u><b>\$ 5,247,810</b></u>

See accompanying independent auditors' report and notes.

**CITY OF ALCOA, TENNESSEE**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE – BUDGET AND ACTUAL**  
**For the Fiscal Year Ended June 30, 2015**  
**With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2014**

	June 30, 2015				
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)	June 30, 2014 Actual
	Original	Final			
REVENUES:					
Taxes .....	\$ 16,518,659	\$ 16,698,659	\$ 18,487,401	\$ 1,788,742	\$ 16,653,983
Licenses and permits .....	120,240	120,240	139,093	18,853	163,953
Fines and forfeits .....	475,712	475,712	488,599	12,887	464,448
Intergovernmental .....	2,038,503	2,038,503	1,989,248	(49,255)	2,058,508
Interest earned .....	1,694	1,694	-	(1,694)	-
Public works, labor and material .....	407,100	407,100	304,002	(103,098)	349,703
Miscellaneous .....	10,281	10,281	27,886	17,605	32,850
CATV franchise fee.....	77,579	77,579	90,233	12,654	83,521
Property rental .....	142,910	142,910	143,388	478	143,547
Department services .....	125,100	125,100	78,711	(46,389)	127,781
Fees development .....	9,000	9,000	11,549	2,549	28,680
Insurance refunds .....	9,000	9,000	8,838	(162)	-
Sale of property .....	15,000	15,000	92,875	77,875	64,258
Special events .....	-	-	19,700	19,700	-
Contributions and donations – business ..	<u>20,000</u>	<u>20,000</u>	<u>-</u>	<u>(20,000)</u>	<u>-</u>
 Total Revenues .....	<u>19,970,778</u>	<u>20,150,778</u>	<u>21,881,523</u>	<u>1,730,745</u>	<u>20,171,232</u>
EXPENDITURES:					
General government .....	1,796,112	1,796,112	1,740,661	55,451	1,726,638
Public works .....	5,107,877	5,107,877	4,894,927	212,950	4,934,270
Public safety – Police .....	5,299,540	5,429,540	5,374,846	54,694	5,229,276
Public safety – Fire.....	3,704,287	3,764,287	3,716,723	47,564	3,434,401
Contributions and grants to other agencies .....	<u>1,693,294</u>	<u>1,833,294</u>	<u>1,825,277</u>	<u>8,017</u>	<u>1,452,824</u>
 Total Expenditures .....	<u>17,601,110</u>	<u>17,931,110</u>	<u>17,552,434</u>	<u>378,676</u>	<u>16,777,409</u>
Excess of Revenues Over					
Expenditures .....	<u>2,369,668</u>	<u>2,219,668</u>	<u>4,329,089</u>	<u>2,109,421</u>	<u>3,393,823</u>

See accompanying independent auditors' report and notes.

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE – BUDGET AND ACTUAL (CONTINUED)**  
**For the Fiscal Year Ended June 30, 2015**  
**With Comparative Totals for the Fiscal Year Ended June 30, 2014**

	<u>June 30, 2015</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>	<u>June 30, 2014 Actual</u>
	<u>Budgeted Amounts</u>				
	<u>Original</u>	<u>Final</u>			
<b>OTHER FINANCING SOURCES (USES):</b>					
Operating transfers in (out):					
Payments in lieu of taxes.....	1,720,000	1,720,000	1,728,324	282,353	1,686,883
Debt Service .....	(4,125,000)	(4,625,000)	(4,625,000)	-	(4,050,000)
Capital Projects .....	(57,383)	(57,383)	(57,383)	-	-
Employment Benefits and Retirement.....	(140,000)	(140,000)	-	140,000	-
Issuance of debt.....	-	-	-	-	150,000
Total Other Financing Sources (Uses) .....	<u>(2,602,383)</u>	<u>(3,102,383)</u>	<u>(2,954,059)</u>	<u>422,353</u>	<u>(2,213,117)</u>
Excess (Deficit) of Revenues and Other Sources Over Expenditures and Other Uses.....	<u>(232,715)</u>	<u>(882,715)</u>	<u>1,375,030</u>	<u>2,531,774</u>	<u>1,180,706</u>
FUND BALANCE AT BEGINNING OF YEAR.....	<u>3,773,269</u>	<u>3,773,269</u>	<u>3,773,269</u>	<u>-</u>	<u>2,592,563</u>
<b>FUND BALANCE AT END OF YEAR .....</b>	<b><u>\$ 3,540,554</u></b>	<b><u>\$ 2,890,554</u></b>	<b><u>\$ 5,148,299</u></b>	<b><u>\$ 2,531,774</u></b>	<b><u>\$ 3,773,269</u></b>

See accompanying independent auditors' report and notes.

**CITY OF ALCOA, TENNESSEE**  
**EDUCATION FUND – SPECIAL REVENUE FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE – BUDGET AND ACTUAL**  
**For the Fiscal Year Ended June 30, 2015**  
**With Comparative Totals for the Fiscal Year Ended June 30, 2014**

	<u>June 30, 2015</u>				
	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>	<u>June 30,</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>	<u>2014</u>
			<u>(Budgetary</u>	<u>Positive</u>	<u>Actual</u>
			<u>Basis)</u>	<u>(Negative)</u>	
<b>Revenues:</b>					
Taxes.....	\$ 7,538,770	\$ 7,710,000	\$ 7,841,899	\$ 131,899	\$ 7,495,047
Miscellaneous .....	2,154,280	2,165,500	2,419,904	254,404	2,173,264
Revenue from other agencies .....	<u>7,542,875</u>	<u>7,532,500</u>	<u>7,502,310</u>	<u>(30,190)</u>	<u>7,507,994</u>
Total Revenues.....	<u>17,235,925</u>	<u>17,408,000</u>	<u>17,764,113</u>	<u>356,113</u>	<u>17,176,305</u>
<b>Expenditures:</b>					
Board of Education .....	241,374	266,964	264,826	2,138	240,498
Office of the Director .....	156,412	156,660	154,425	2,235	154,079
Office of Principals .....	933,179	1,046,110	1,015,054	31,056	1,055,757
Fiscal services .....	153,932	174,239	171,247	2,992	145,479
Transportation .....	254,581	284,509	274,699	9,810	258,313
Instruction/Elementary/Secondary .....	10,106,171	10,026,181	9,751,776	274,405	10,057,212
Instruction – Regular.....	456,894	449,786	425,882	23,904	436,071
Other student support .....	390,498	445,960	437,171	8,789	381,005
Health services .....	186,213	222,680	220,461	2,219	197,701
Operation of plant .....	1,120,531	1,124,688	1,104,114	20,574	1,075,284
Maintenance of plant.....	585,521	761,922	755,767	6,155	685,482
Food services .....	56,712	56,664	55,055	1,609	27,015
Capital outlay .....	225,000	20,000	19,586	414	71,704
Special education .....	1,148,427	1,138,911	1,114,120	24,791	1,100,953
Vocational education .....	305,317	310,863	310,208	655	299,485
Lottery Pre-K .....	224,189	226,433	226,217	216	223,117
Central and other.....	437,244	472,380	472,294	86	454,822
Human services .....	162,785	159,731	134,971	24,760	150,152
Family Resource Center.....	<u>105,020</u>	<u>105,319</u>	<u>93,777</u>	<u>11,542</u>	<u>93,579</u>
Total Expenditures .....	<u>17,250,000</u>	<u>17,450,000</u>	<u>17,001,650</u>	<u>448,350</u>	<u>17,107,708</u>
Excess (Deficiency) of Revenues Over					
Expenditures .....	(14,075)	(42,000)	762,463	804,463	68,597
Other Financing Sources (Uses):					
Transfer to School Construction and					
Improvement Fund.....	-	-	-	-	(480,000)
Transfer to School OPEB Insurance Fund ..	<u>-</u>	<u>-</u>	<u>(68,500)</u>	<u>(68,500)</u>	<u>(68,500)</u>
Net Change in Fund Balance .....	(14,075)	(42,000)	693,963	735,963	(479,903)
Fund Balance at Beginning of Year .....	<u>399,133</u>	<u>399,133</u>	<u>399,133</u>	<u>-</u>	<u>879,036</u>
<b>Fund Balance at End of Year.....</b>	<b><u>\$ 385,058</u></b>	<b><u>\$ 357,133</u></b>	<b><u>\$ 1,093,096</u></b>	<b><u>\$ 735,963</u></b>	<b><u>\$ 399,133</u></b>

See accompanying independent auditors' report and notes.

**CITY OF ALCOA, TENNESSEE  
PROPRIETARY FUNDS  
STATEMENT OF NET POSITION  
June 30, 2015  
With Comparative Totals for June 30, 2014**

	<b>Business-Type Activities – Enterprise Funds</b>					<b>Governmental Activities</b>		
	<b>2015</b>					<b>Internal Service Funds</b>		
	<b>Stormwater Utility</b>	<b>Water/ Sewer Utility</b>	<b>Electric Utility</b>	<b>Landfill</b>	<b>Total</b>	<b>2014 Total</b>	<b>2015</b>	<b>2014</b>
<b>ASSETS</b>								
<b>Current Assets:</b>								
Cash in bank/Certificate of deposit .....	\$ 826,839	\$ 6,003,947	\$ 4,408,033	\$ 1,662,359	\$ 12,901,178	\$ 16,777,432	\$ 1,635,638	\$ 1,059,541
Accounts receivable – Net.....	-	3,115	5,647,245	423,897	6,074,257	7,461,396	4,900	89,054
Due from other funds .....	-	-	-	-	-	-	-	65,000
Accrued interest .....	-	-	-	-	-	18,683	-	-
Inventory .....	-	768,700	409,679	-	1,178,379	1,447,121	-	-
Prepaid TVA Power Invoice Program.....	-	-	3,857,990	-	3,857,990	3,780,211	-	-
Certificates of deposit – bond redemption reserve .....	-	-	-	-	-	3,329,396	-	-
Total Current Assets.....	<u>826,839</u>	<u>6,775,762</u>	<u>14,322,947</u>	<u>2,086,256</u>	<u>24,011,804</u>	<u>32,814,239</u>	<u>1,640,538</u>	<u>1,213,595</u>
<b>NonCurrent Assets:</b>								
<b>Capital Assets:</b>								
Nondepreciable:								
Land and easements .....	-	1,193,236	336,481	673,647	2,204,364	2,204,364	-	-
Construction in progress.....	-	42,461	5,376,158	-	5,419,619	4,056,879	-	-
Plant and equipment – depreciable.....	652,742	84,659,310	80,424,720	13,711,915	179,448,687	169,365,612	-	-
Accumulated depreciation .....	<u>(307,520)</u>	<u>(25,418,444)</u>	<u>(32,485,433)</u>	<u>(8,375,642)</u>	<u>(66,587,039)</u>	<u>(61,762,764)</u>	-	-
Net Capital Assets .....	<u>345,222</u>	<u>60,478,563</u>	<u>53,651,926</u>	<u>6,009,920</u>	<u>120,485,631</u>	<u>113,864,091</u>	-	-
<b>Other NonCurrent Assets:</b>								
Receivables from customers for conservation loans/back utilities.....	-	-	2,101,803	-	2,101,803	2,255,890	-	-
Long-term note receivable.....	-	-	-	-	-	100,000	-	-
Cash in bank – Restricted.....	-	-	-	5,548,994	5,548,994	5,042,162	-	-
Investments – Certificates of deposits - restricted for construction.....	-	-	-	3,206,201	3,206,201	3,361,257	-	-
Total Other NonCurrent Assets .....	<u>-</u>	<u>-</u>	<u>2,101,803</u>	<u>8,755,195</u>	<u>10,856,998</u>	<u>10,759,309</u>	-	-
<b>TOTAL ASSETS.....</b>	<b><u>1,172,061</u></b>	<b><u>67,254,325</u></b>	<b><u>70,076,676</u></b>	<b><u>16,851,371</u></b>	<b><u>155,354,433</u></b>	<b><u>157,437,639</u></b>	<b><u>1,640,538</u></b>	<b><u>1,213,595</u></b>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>								
Deferred state regulatory charges	-	640,777	422,186	67,234	1,130,197	1,217,990	-	-
Pension deferrals .....	<u>57,433</u>	<u>274,712</u>	<u>415,157</u>	<u>120,600</u>	<u>867,902</u>	-	-	-
Total Deferred Outflows of Resources..	<u>57,433</u>	<u>915,489</u>	<u>837,343</u>	<u>187,834</u>	<u>1,998,099</u>	<u>1,217,990</u>	-	-

See accompanying independent auditors' report and notes.

(Continued)



**CITY OF ALCOA, TENNESSEE  
PROPRIETARY FUNDS  
STATEMENT OF NET POSITION (Continued)  
June 30, 2015  
With Comparative Totals for June 30, 2014**

	<b>Business-Type Activities – Enterprise Funds</b>					<b>Governmental Activities</b>		
	<b>2015</b>					<b>Internal Service Funds</b>		
	<b>Stormwater Utility</b>	<b>Water/ Sewer Utility</b>	<b>Electric Utility</b>	<b>Landfill</b>	<b>Total</b>	<b>2014 Total</b>	<b>2015</b>	<b>2014</b>
<b>LIABILITIES</b>								
Current Liabilities:								
Accounts payable.....	104,634	676,829	11,313,547	64,049	12,159,059	12,187,682	12,562	12,562
Medical claims payable.....	-	-	-	-	-	-	466,736	306,223
Other accrued payables.....	10,310	58,313	266,236	23,226	358,085	334,788	-	-
Bonds payable – current.....	-	905,000	-	765,000	1,670,000	1,659,964	-	-
Customer deposits.....	-	-	1,654,990	-	1,654,990	1,561,606	-	-
Due to other funds.....	-	-	-	-	-	37,429	-	65,000
Compensated absences.....	39,193	249,948	418,335	77,519	784,995	816,885	-	-
Revolving loan payable – current .....	-	155,136	785,000	-	940,136	840,000	-	-
Capital lease payable – current .....	-	-	-	-	-	27,947	-	-
Net pension liability.....	28,057	207,280	-	87,536	322,873	-	-	-
Total Current Liabilities.....	<u>182,194</u>	<u>2,252,506</u>	<u>14,438,108</u>	<u>1,017,330</u>	<u>17,890,138</u>	<u>17,466,301</u>	<u>479,298</u>	<u>383,785</u>
Long-Term Liabilities:								
Compensated absences.....	-	61,963	374,728	19,380	456,071	434,006	-	-
Bonds payable.....	-	42,695,000	16,765,000	4,865,000	64,325,000	66,780,000	-	-
Estimated liability for Landfill closure and postclosure care costs.....	-	-	-	8,777,906	8,777,906	8,248,362	-	-
Revolving loan payable.....	-	3,398,701	-	-	3,398,701	3,553,837	-	-
Capital lease payable .....	-	-	314,551	-	314,551	-	-	-
Advances – TVA Conservation Loans.....	-	-	2,207,353	-	2,207,353	2,334,992	-	-
Deferred Credits.....	-	-	141,097	-	141,097	277,538	-	-
Total Long-Term Liabilities.....	<u>-</u>	<u>46,155,664</u>	<u>19,802,729</u>	<u>13,662,286</u>	<u>79,620,679</u>	<u>81,628,735</u>	<u>-</u>	<u>-</u>
<b>TOTAL LIABILITIES.....</b>	<b><u>182,194</u></b>	<b><u>48,408,170</u></b>	<b><u>34,240,837</u></b>	<b><u>14,679,616</u></b>	<b><u>97,510,817</u></b>	<b><u>99,095,036</u></b>	<b><u>479,298</u></b>	<b><u>383,785</u></b>
<b>DEFERRED INFLOWS OF RESOURCES</b>								
Pension deferrals.....	<u>64,598</u>	<u>262,745</u>	<u>398,718</u>	<u>110,959</u>	<u>837,020</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET POSITION:</b>								
Unrestricted.....	637,480	6,174,173	134,228	391,587	7,337,468	16,550,292	1,161,240	829,810
Restricted for property acquisitions .....	-	-	-	1,477,123	1,477,123	1,407,958	-	-
Net investment in capital assets .....	345,222	13,324,726	36,140,236	379,920	50,190,104	41,602,343	-	-
<b>TOTAL NET POSITION.....</b>	<b><u>\$ 982,702</u></b>	<b><u>\$ 19,498,899</u></b>	<b><u>\$ 36,274,464</u></b>	<b><u>\$ 2,248,630</u></b>	<b><u>\$ 59,004,695</u></b>	<b><u>\$ 59,560,593</u></b>	<b><u>\$ 1,161,240</u></b>	<b><u>\$ 829,810</u></b>

See accompanying independent auditors' report and notes.

**CITY OF ALCOA, TENNESSEE**  
**PROPRIETARY FUNDS**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN NET POSITION**  
**For the Fiscal Year Ended June 30, 2015**  
**With Comparative Totals for the Fiscal Year Ended June 30, 2014**

	<u>Business-Type Activities – Enterprise Funds</u>					<u>Governmental Activities</u>		
	<u>2015</u>					<u>Internal Service Funds</u>		
	<u>Stormwater</u> <u>Utility</u>	<u>Water/</u> <u>Sewer</u> <u>Utility</u>	<u>Electric</u> <u>Utility</u>	<u>Landfill</u>	<u>Total</u>	<u>2014</u> <u>Total</u>	<u>2015</u>	<u>2014</u>
<b>Operating Revenues:</b>								
Charges for services.....	\$ 1,035,588	\$ 10,829,770	\$ 62,859,684	\$ 3,531,471	\$ 78,256,513	\$ 77,185,513	\$ 5,462,115	\$ 5,219,750
Forfeited discounts .....	-	-	436,879	-	436,879	451,428	-	-
Miscellaneous revenues .....	-	22,528	835,745	2,086	860,359	874,863	568	4,939
Total Operating Revenues.....	<u>1,035,588</u>	<u>10,852,298</u>	<u>64,132,308</u>	<u>3,533,557</u>	<u>79,553,751</u>	<u>78,511,804</u>	<u>5,462,683</u>	<u>5,224,689</u>
<b>Operating Expenses:</b>								
Medical claims paid.....	-	-	-	-	-	-	3,519,804	3,444,629
Insurance premiums/administration .....	-	-	-	-	-	-	1,430,848	1,363,814
Administrative .....	276,393	761,744	3,136,359	371,027	4,545,523	4,528,544	-	-
Accounting and collections.....	-	775,014	-	-	775,014	805,409	-	-
Supervision .....	-	276,192	-	-	276,192	254,265	-	-
Water plant operation .....	-	1,502,677	-	-	1,502,677	1,568,618	-	-
Distribution and transmission .....	-	744,488	1,389,892	-	2,134,380	1,759,362	-	-
Meter reading and repair .....	-	596,592	-	-	596,592	305,468	-	-
Water maintenance .....	-	229,829	-	-	229,829	229,214	-	-
Sewage collection/disposal/pumping .....	-	339,145	-	-	339,145	61,837	-	-
Customer accounts.....	-	2,018,333	1,732,911	-	3,751,244	3,317,248	-	-
Purchased power.....	-	-	51,078,680	-	51,078,680	49,618,161	-	-
Landfill operation .....	-	-	-	2,293,443	2,293,443	2,440,926	-	-
Environmental compliance .....	-	119,010	-	125,244	244,254	236,206	-	-
Depreciation .....	75,394	2,425,742	2,463,035	702,856	5,667,027	5,469,901	-	-
Operations and maintenance .....	667,884	-	2,346,168	-	3,014,052	3,244,325	-	-
Street cleaning .....	89,326	-	-	-	89,326	119,104	-	-
Special projects.....	-	233	-	-	233	-	-	-
Service center operations .....	-	-	-	-	-	-	314,101	286,275
Total Operating Expenses .....	<u>1,108,997</u>	<u>9,788,999</u>	<u>62,147,045</u>	<u>3,492,570</u>	<u>76,537,611</u>	<u>73,958,588</u>	<u>5,264,753</u>	<u>5,094,718</u>

See accompanying independent auditors' report and notes.

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**PROPRIETARY FUNDS**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN NET POSITION (Continued)**  
**For the Fiscal Year Ended June 30, 2015**  
**With Comparative Totals for the Fiscal Year Ended June 30, 2014**

	<b>Business-Type Activities – Enterprise Funds</b>						<b>Governmental Activities</b>	
	<b>2015</b>						<b>Internal Service Funds</b>	
	<b>Stormwater Utility</b>	<b>Water/ Sewer Utility</b>	<b>Electric Utility</b>	<b>Landfill</b>	<b>Total</b>	<b>2014 Total</b>	<b>2015</b>	<b>2014</b>
Operating Income (loss) .....	(73,409)	1,063,299	1,985,263	40,987	3,016,140	4,553,216	197,930	129,971
<b>Other Income (Expense):</b>								
Grant.....	-	-	-	75,718	75,718	90,559	-	-
Other income (expense).....	-	-	2,559	63,722	66,281	(40,667)	-	-
Amortization expense.....	-	(26,617)	(26,387)	(14,789)	(67,793)	(83,039)	-	-
Interest expense .....	-	(1,857,975)	(340,000)	(208,830)	(2,406,805)	(2,243,914)	-	-
Interest income .....	-	603	5,240	1,479	7,322	22,752	-	-
Total Other Income (Expense).....	-	(1,883,989)	(358,588)	(82,700)	(2,325,277)	(2,254,309)	-	-
Net Income (loss) Before Contributions and Transfers.....	(73,409)	(820,690)	1,626,675	(41,713)	690,863	2,298,907	197,930	129,971
Transfers In (Out) .....	-	-	-	-	-	-	133,500	68,500
Capital Contributions.....	-	1,610,605	-	-	1,610,605	-	-	-
Payments in Lieu of Taxes .....	-	(400,000)	(1,328,324)	-	(1,728,324)	(1,686,883)	-	-
Change in Net Position .....	(73,409)	389,915	298,351	(41,713)	573,144	612,024	331,430	198,471
Net Position – Beginning, as previously reported .....	1,127,061	19,468,901	36,522,292	2,442,339	59,560,593	58,948,569	829,810	631,339
Prior period adjustment (Note 7) .....	(70,950)	(359,917)	(546,179)	(151,996)	(1,129,042)	-	-	-
Net Position – Beginning, as restated .....	1,056,111	19,108,984	35,976,113	2,290,343	58,431,551	-	-	-
<b>Net Position – Ending.....</b>	<b>\$ 982,702</b>	<b>\$ 19,498,899</b>	<b>\$ 36,274,464</b>	<b>\$ 2,248,630</b>	<b>\$ 59,004,695</b>	<b>\$ 59,560,593</b>	<b>\$ 1,161,240</b>	<b>\$ 829,810</b>

See accompanying independent auditors' report and notes.

**CITY OF ALCOA, TENNESSEE**  
**PROPRIETARY FUNDS**  
**STATEMENT OF CASH FLOWS**  
**For the Fiscal Year Ended June 30, 2015**  
**With Comparative Totals for the Fiscal Year Ended June 30, 2014**

	<u>Business-Type Activities – Enterprise Funds</u>					<u>2014 Total</u>	<u>Governmental Activities Internal Service Funds</u>	
	<u>Stormwater Utility</u>	<u>Water/ Sewer Utility</u>	<u>Electric Utility</u>	<u>Landfill</u>	<u>Total</u>		<u>2015</u>	<u>2014</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>								
Cash received from customers/employees' insurance .....	\$ 1,121,184	\$11,937,490	\$64,563,031	\$ 3,528,831	\$ 81,150,536	\$ 78,364,332	\$ 5,462,683	\$ 5,015,368
Cash payments to suppliers for goods and services/ medical claims .....	(400,961)	(5,403,954)	(55,808,601)	(1,987,679)	(63,601,195)	(60,061,723)	(5,085,086)	(4,814,360)
Cash payments to employees for services.....	(513,278)	(1,782,020)	(3,763,885)	(820,139)	(6,879,322)	(7,703,073)	-	-
Net Cash Flows From Operating Activities .....	<u>206,945</u>	<u>4,751,516</u>	<u>4,990,545</u>	<u>721,013</u>	<u>10,670,019</u>	<u>10,599,536</u>	<u>377,597</u>	<u>201,008</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>								
Transfers out – in lieu of taxes.....	-	(400,000)	(1,328,324)	-	(1,728,324)	(1,686,883)	-	-
Closure/postclosure payments .....	-	-	-	529,544	529,544	499,785	-	-
Receipts from other funds.....	-	-	-	-	-	-	133,500	68,500
Net Cash Flows From Non-Capital Financing Activities .....	<u>-</u>	<u>(400,000)</u>	<u>(1,328,324)</u>	<u>529,544</u>	<u>(1,198,780)</u>	<u>(1,187,098)</u>	<u>133,500</u>	<u>68,500</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>								
Advances from TVA .....	-	-	583,114	-	583,114	617,242	-	-
Utility plant removal costs .....	-	-	(51,278)	-	(51,278)	(8,082)	-	-
Principal paid on bonds/notes/capital leases/revolving loan .....	(27,947)	(1,024,964)	(730,000)	(745,000)	(2,527,911)	(2,006,514)	-	-
Interest paid on bonds/notes/capital leases/revolving loan ...	-	(1,857,975)	(340,000)	(208,830)	(2,406,805)	(2,243,914)	-	-
Customer deposits received .....	-	-	371,615	-	371,615	334,399	-	-
Customer deposits refunded .....	-	-	(278,231)	-	(278,231)	(277,643)	-	-
Repayments of advances.....	-	-	(457,380)	-	(457,380)	(523,775)	-	-
Deferred credits .....	-	-	(136,441)	-	(136,441)	(8,794)	-	-
Merchandizing, jobbing, and contract work revenue .....	-	-	-	51,933	51,933	8,971	-	-
Collection on conservation loans .....	-	-	329,354	-	329,354	617,242	-	-
Payments for acquisition and construction of capital assets .....	(2,500)	(3,115,791)	(8,807,683)	(413,871)	(12,339,845)	(8,008,935)	-	-
Additional long-term bond/capital outlay notes/ revolving loans .....	-	-	-	-	-	1,145,000	-	-
Acquisition of conservation loans.....	-	-	(591,363)	-	(591,363)	(531,539)	-	-
Proceeds from sale of assets .....	-	-	-	-	-	3,832	-	-
Grant proceeds .....	-	-	-	75,718	75,718	90,559	-	-
Pension deferral .....	(63,785)	(371,884)	-	-	(435,669)	-	-	-
Service fees.....	-	-	-	(3,000)	(3,000)	-	-	-
Other revenue .....	-	20,600	-	-	20,600	-	-	-
Contributions in aid of construction .....	-	1,610,605	-	-	1,610,605	-	-	-
Net Cash Flows From Capital and Related Financing Activities.....	<u>(94,232)</u>	<u>(4,739,409)</u>	<u>(10,108,293)</u>	<u>(1,243,050)</u>	<u>(16,184,984)</u>	<u>(10,791,951)</u>	<u>-</u>	<u>-</u>
See accompanying independent auditors' report and notes.								

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**PROPRIETARY FUNDS**  
**STATEMENT OF CASH FLOWS (Continued)**  
**For the Fiscal Year Ended June 30, 2015**  
**With Comparative Totals for the Fiscal Year Ended June 30, 2014**

	Business-Type Activities – Enterprise Funds					Governmental Activities		
	2015					Internal Service Funds		
	Stormwater Utility	Water/ Sewer Utility	Electric Utility	Landfill	Total	2014 Total	2015	2014
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>								
Purchase of investment securities.....	-	-	-	(522,038)	(522,038)	(7,596,242)	-	-
Proceeds from sale and maturities of investment Securities .....	-	-	3,329,396	22,914	3,352,310	6,920,510	-	-
Interest and dividends on investments .....	-	-	5,240	1,479	6,719	22,752	-	-
Net Cash Flows From Investing Activities ..	-	-	3,334,636	(497,645)	2,836,991	(652,980)	-	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS .....	112,713	(387,893)	(3,111,436)	(490,138)	(3,876,754)	(2,032,493)	511,097	269,508
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR .....	714,126	6,391,840	7,519,469	2,151,997	16,777,432	18,809,925	1,124,541	855,033
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	<u>\$ 826,839</u>	<u>\$ 6,003,947</u>	<u>\$ 4,408,033</u>	<u>\$ 1,661,859</u>	<u>\$12,900,678</u>	<u>\$16,777,432</u>	<u>\$ 1,635,638</u>	<u>\$ 1,124,541</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Flows Provided by (Used) in Operating Activities:</b>								
Operating Income (loss) .....	<u>\$ (73,409)</u>	<u>\$ 1,063,299</u>	<u>\$ 1,985,263</u>	<u>\$ 40,987</u>	<u>\$ 3,016,140</u>	<u>\$ 4,553,216</u>	<u>\$ 197,930</u>	<u>\$ 129,971</u>
Adjustments to reconcile operating income to net cash provided by operating activities:								
Depreciation .....	75,394	2,425,742	2,463,035	702,856	5,667,027	5,469,901	-	-
Amortization .....	-	-	26,387	-	26,387	26,387	-	-
Changes in assets and liabilities:								
Accounts receivable.....	85,596	1,005,457	300,812	(4,726)	1,387,139	(147,472)	84,154	(58,523)
Prepaid expenses .....	-	-	(77,779)	-	(77,779)	(357,098)	-	-
Inventory .....	-	79,735	189,007	-	268,742	(152,996)	-	-
Other receivables .....	-	-	18,683	-	18,683	(17,068)	-	-
Accounts payable.....	83,793	33,470	(112,863)	(33,021)	(28,621)	1,223,709	160,513	64,560
Other liabilities .....	28,057	207,280	93,906	53,490	382,733	50,453	(65,000)	65,000
Accrued payroll .....	2,474	6,684	9,758	3,859	22,775	29,859	-	-
Retainage payable.....	-	-	-	-	-	(221,256)	-	-
Due to employee insurance fund .....	(3,382)	-	-	-	(3,382)	-	-	-
Compensated absences .....	8,422	(70,151)	94,336	(42,432)	(9,825)	141,901	-	-
Total Adjustments .....	280,354	3,688,217	3,005,282	680,026	7,653,879	6,046,320	179,667	71,037
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES .....	<u>\$ 206,945</u>	<u>\$ 4,751,516</u>	<u>\$ 4,990,545</u>	<u>\$ 721,013</u>	<u>\$10,670,019</u>	<u>\$10,599,536</u>	<u>\$ 377,597</u>	<u>\$ 201,008</u>

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**PROPRIETARY FUNDS**  
**STATEMENT OF CASH FLOWS (Continued)**  
**For the Fiscal Year Ended June 30, 2015**  
**With Comparative Totals for the Fiscal Year Ended June 30, 2014**

**(1) Cash and cash equivalents are as follows:**

	<b><u>Cash in Bank</u></b>	<b><u>Certificates of Deposit/ Cash Equivalents</u></b>	<b><u>Total</u></b>
StormWater Utility .....	\$ 826,839	\$ -	\$ 826,839
Water/Sewer Utility .....	6,003,947	-	6,003,947
Electric Utility .....	4,388,970	19,063	4,408,033
Landfill .....	<u>1,662,359</u>	<u>-</u>	<u>1,662,359</u>
<b>Totals.....</b>	<b><u>\$ 12,882,115</u></b>	<b><u>\$ 19,063</u></b>	<b><u>\$ 12,901,178</u></b>

Accounting Policy Note:

Cash and cash equivalents consist of demand deposits and certificates of deposit with original maturities of three (3) months or less.

See accompanying independent auditors' report and notes.

**CITY OF ALCOA, TENNESSEE**  
**EMPLOYEES' RETIREMENT SYSTEM - FIDUCIARY FUND**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>ASSETS:</b>		
Investments:		
Cash and cash equivalents.....	\$ 1,014,343	\$ 890,505
U.S. Treasury obligations.....	4,935,281	3,538,433
Corporate and foreign bonds .....	5,416,343	5,345,952
Common equity securities.....	10,589,964	11,308,475
Municipal obligations.....	1,454,306	2,116,289
Accrued interest .....	<u>126,639</u>	<u>129,752</u>
<b>Total Assets .....</b>	<u>23,536,876</u>	<u>23,329,406</u>
<b>LIABILITIES .....</b>	<u>-</u>	<u>-</u>
<b>NET POSITION:</b>		
Held in trust for pension benefits .....	<u>23,536,876</u>	<u>23,329,406</u>
<b>Total Net Position .....</b>	<u><b>\$ 23,536,876</b></u>	<u><b>\$ 23,329,406</b></u>

See accompanying independent auditors' report and notes.

**CITY OF ALCOA, TENNESSEE**  
**EMPLOYEES' RETIREMENT SYSTEM - FIDUCIARY FUND**  
**STATEMENT OF CHANGES IN FIDUCIARY PLAN NET POSITION**  
**For the Fiscal Year Ended June 30, 2015**  
**With Comparative Totals for the Fiscal Year Ended June 30, 2014**

	<u>2015</u>	<u>2014</u>
<b>Additions:</b>		
Employer contributions .....	\$ 2,173,944	\$ 1,451,649
Interest and dividend income .....	654,065	667,231
Net appreciation in fair value of investments .....	-	1,781,486
Realized gain on sale of investments .....	<u>139,004</u>	<u>163,898</u>
Total Additions.....	<u>2,967,013</u>	<u>4,064,264</u>
<b>Deductions:</b>		
Benefit payments .....	2,587,026	2,549,182
Administrative expenses .....	73,003	75,650
Net depreciation in fair value of investments .....	<u>99,514</u>	<u>-</u>
Total Deductions .....	<u>2,759,543</u>	<u>2,624,832</u>
Change in Net Position .....	207,470	1,439,432
Net Position – Beginning of Year .....	<u>23,329,406</u>	<u>21,889,974</u>
<b>Net Position – End of Year.....</b>	<b><u>\$ 23,536,876</u></b>	<b><u>\$ 23,329,406</u></b>

See accompanying independent auditors' report and notes.



**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

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**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

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**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The City of Alcoa, Tennessee, was incorporated July 1, 1919, under the provisions of Act 116, P.A. 1919, as amended. The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety (police and fire), highways and streets, public utilities, education, public improvements, planning and zoning, and general administrative services.

The accounting policies of the City of Alcoa are in conformity with all applicable statements of the Governmental Accounting Standards Board (GASB). The following is a summary of the more significant policies:

**(A) FINANCIAL REPORTING ENTITY:**

The City of Alcoa, Tennessee, is a municipal corporation governed by an elected five-member Board of Commissioners. As required by accounting principles generally accepted in the United States of America, the accompanying financial statements present the City of Alcoa, Tennessee (primary government) and all funds, organizations, agencies, departments, and offices that are a part of the primary government. The criteria for determining a primary government consist of the following:

- (1) A separately elected governing body.
- (2) Separate legal standing - corporate power with the capacity to have a name; the right to sue and be sued in its own name without recourse to a state or local governmental unit; and, the right to buy, sell, lease or mortgage property in its own name.
- (3) Fiscal independence of other state and local governments by determining its budget, levying taxes, setting rates or charges, and issuing bonded debt without approval by another government.

A component unit is defined as a legally separate organization for which the elected officials of the primary government are financially accountable. In addition, a component unit can be another organization for which the nature and significance of its relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Based on the criteria applicable to *GASB No. 14*, as amended by *GASB Statement No. 39*, for component units, the City has no financial accountability for any component units. Therefore, the financial reporting entity is limited to those funds, departments, and offices which comprise the City's legally adopted jurisdictions.

The following organizations are excluded from the accompanying financial statements in that they do not meet the prescribed GASB Statement 39 criteria:

City of Alcoa Schools' Student Activity Funds:

The Alcoa Board of Education, through its school principals, governs the Student Activity Funds of the Alcoa City Schools as provided for in the Internal School Accounting Act (Tennessee Code Annotated Section 49-2-110). The Activity Fund monies are used to finance school extra-curricular activities for the benefit of the student body as a whole. Separate financials (available at the Board of Education Office) are issued for the Student Activity Funds. The City cannot access the Student Activity Funds' resources, nor does the City have any legal obligation to subsidize the Activity Funds. The Student Activity Funds are used only for the benefit of the students.

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

**(A) FINANCIAL REPORTING ENTITY (Continued):**

Tennessee Consolidated Retirement System (TCRS):

The City's teachers and other City employees participate in the TCRS, an employee benefit plan established as an individual entity, and is liable for its proportionate costs associated with the operation and administration of its plan. However, control over the operation and administration of the plan, including investment decisions, is vested in the State of Tennessee along with custody of the plan assets.

**(B) BASIC FINANCIAL STATEMENTS:**

The basic financial statements (in accordance with GASB No. 34) include both government-wide (based on the City as a whole and its component units, (if any) and fund financial statements. Both the government-wide and fund financial statements categorize activities as either governmental activities or business-type activities. *Governmental activities* are normally supported by taxes and intergovernmental revenues. *Business-type activities* rely to a significant extent, on fees and charges for support. All activities, both governmental and business-type, are reported in the government-wide financial statements using the economic resources measurement focus and the accrual basis of accounting, which includes long-term assets as well as long-term obligations. The government-wide financial statements focus more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The government-wide financial statements (the statement of net position and the statement of activities) report on the government as a whole. The statements include the City of Alcoa and any applicable component units, except that neither fiduciary funds nor the component units that are fiduciary in nature are included.

The government-wide Statement of Activities demonstrates the degree to which the direct expenses, including depreciation, on the various departments of the City are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific department. Interest on general long-term debt and depreciation expense on assets shared by multiple departments, are not allocated to the various departments. Program revenues include revenues from fines and forfeitures, licenses and permit fees, special assessment taxes, certain intergovernmental grants, other entities participation and charges for services. Taxes and other items not properly included among program revenues are reported as general revenues.

Generally, the effect of interfund activity has been removed from the government-wide financial statements. Net interfund activity and balances between governmental activities and business-type activities are shown in the government-wide financial statements.

The City does not currently utilize an indirect cost allocation system. The General Fund charges certain administrative fees to departments within other operating funds to support general services used by those funds. The expenditures/expenses are recorded as a reduction of expense in the allocating fund. Therefore, no elimination is required from either the government-wide or fund level financial statements.

The fund financial statements are, in substance, very similar to the financial statements presented in the previous financial reporting model. Emphasis here is on the major funds in either the governmental or business-type categories. Non-major funds are summarized into a single column.

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

**(B) BASIC FINANCIAL STATEMENTS (Continued):**

Unless an internal service fund is combined with the business-type activities (deemed to be an infrequent event), totals on the proprietary fund statement should directly reconcile to the business-type activity column presented in the government-wide statements.

Internal service funds of a government (which traditionally provide services primarily to other funds of the City) are presented as part of the proprietary fund financial statements. Since the principal users of the internal services are the City's governmental activities, financial statements of internal service funds are consolidated into the governmental column when presented at the government-wide level. To the extent possible, the costs of these services are reflected in the appropriate department.

**(C) BASIS OF PRESENTATION:**

The City uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid in the City's financial management by segregating transactions related to certain functions or activities.

The following fund categories are used by the City:

**GOVERNMENTAL FUND TYPES:** All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Sales taxes are considered "measurable" (susceptible to accrual) when in the hands of intermediary collecting agencies and are recognized as revenues at that time. All other intergovernmental revenues are recorded as revenue when received. Property tax revenues are recognized in the fiscal year for which they are levied. Expenditures are recognized when the related fund liability is incurred.

Governmental Funds include the following fund types:

**General Fund:** The General Fund is established to account for resources devoted to financing the general services that the City performs for its citizens. General tax revenues and other sources of revenue used to finance the fundamental operations of the City are included in this fund. The General Fund is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is always considered a major fund in the basic financial statements.

**Special Revenue Funds:** Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes as defined by GASB 54 – *Fund Balance Reporting and Governments Fund Type Definition*. There is one special revenue fund presented as a major fund in the basic financial statements:

**Education Fund:** The Education Fund is used to account for the general operations of the Alcoa City Schools. Major funding for the Education Fund is provided by State Education funds, shared revenues provided by Blount County, and property tax revenue from the City's General Fund.

**Debt Service Fund:** The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general obligation long-term debt principal, interest, and related costs. The debt service fund is presented as a major fund in the basic financial statements.

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

**(C) BASIS OF PRESENTATION (Continued)**

Capital Projects Funds: Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of capital facilities and/or related improvements, other than those financed by Enterprise operations. There are three capital project funds presented as major funds in the basic financial statements:

- (1) School Construction and Improvement Fund: The School Construction and Improvement Fund is used to account for expenditures incurred in the renovation of schools within the Alcoa City School System.
- (2) Alcoa High School Construction Fund: This fund is used to account for expenditures incurred for the construction of a new high school.
- (3) General Obligation Public Works Construction Fund: This fund is used to account for public works construction and improvements.

Proprietary Fund Types: Proprietary funds are used to account for the City's ongoing operations and activities, which are similar to those often found in the private sector. The focus of Proprietary Fund measurement is upon the determination of operating income, changes in net position, financial position and cash flows. Each proprietary fund is reported as a major fund in the basic financial statements.

Proprietary funds include the following fund types:

Enterprise Funds: Enterprise Funds are used to account for operations, including debt service, (a) that are financed and operated in a manner similar to private businesses – where the intent of the government body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis is financed or recovered primarily through user charges; or (b) where the governing body has determined that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The following Enterprise funds are used by the City:

Water and Sewer Utility Fund: The Water and Sewer Utility Fund is used to account for the operation of the City's water and sewer system.

Electric Utility Fund: The Electric Department Fund is used to account for the operation of the City's electric system.

Landfill Fund: The Landfill Fund is used to account for the operation by the City of the Blount County Landfill.

Stormwater Utility Fund: The Stormwater Utility Fund is used to account for the operations of the City's stormwater utility system.

Internal Service Funds: Internal Service Funds are used to account for the providing of goods or services to other governmental operating units such as departments, bureaus, and agencies. The services provided may include duplicating services, data processing, legal services, motor pools, and centralized maintenance. Also, an Internal Service Fund may produce goods as does a manufacturer. For example, products may be provided by government printing shops, repair facilities, and processing facilities.

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

**(C) BASIS OF PRESENTATION (Continued)**

Internal Service Funds (Continued)

The purpose of centralizing certain activities in an Internal Service Fund is to achieve a level of operating efficiency that may not be available if the same activities were performed by multiple units within the governmental organization. Costs associated with the centralized activity are usually recovered from those governmental units that benefit from the goods or services provided through the Internal Service Funds. Thus, the objective of an Internal Service Fund is not to make a profit but rather to recover, over a period of time, the total cost of providing the goods or services.

The following Internal Service Funds are used by the City:

Employee's Insurance Trust Fund: The Employee's Trust Fund is used to account for the City of Alcoa's self-insured health insurance program. Premiums charged to various operating funds and employee payroll deductions are placed in this fund for the payment of medical claims and administrative expenses.

Flexible Spending Account Fund: The Flexible Spending Account Fund is used to account for the City of Alcoa's flexible spending program. Employee payroll deductions are placed in this fund for the payment of dependent care and medical claims.

Service Center Fund: This fund is used to account for services provided to other departments of the City by the Service Center, on a cost reimbursement basis.

OPEB Insurance Fund: This fund is used to account for the City's liability for postemployment benefits, including payments and required contributions for all City employees.

School OPEB Insurance Fund: This fund is used to account for the Alcoa Board of Education's liability for postemployment benefits, including payments and required contributions for all school employees.

Fiduciary Funds Types: These Funds account for assets held by the City as trustee or agent, and are as follows:

Pension Trust Fund: This fund was established to provide pension benefits for City employees. The Pension Trust Fund is used to account for assets held by the City of Alcoa in a fiduciary capacity for employees or former employees of the City. The Pension Trust Fund, like Proprietary Funds, uses the accrual method of accounting.

**(D) MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to 1) demonstrate legal and covenant compliance, 2) demonstrate the source and use of liquid resources, and 3) demonstrate how the City's actual experience conforms to the biennial budget. Under the modified accrual basis of accounting, revenues are recorded when

(Continued)



**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

**(D) MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Continued)**

susceptible to accrual, i.e., both measurable and available. “Measurable” means the amount of the transaction can be determined and “available” is defined as collectible within the current period or within 60 days of the end of the current fiscal period. Expenditures, other than interest on long-term debt, are recorded when the related fund liability is incurred, if measurable. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Revenues susceptible to accrual include property tax, local sales tax, state-shared sales tax, highway user tax, vehicle license tax, franchise fees, special assessments and interest earned on pooled investments. Licenses and permits, charges for services, fines and forfeitures and miscellaneous revenues are generally recorded as revenues when received in cash because they are not measurable until actually received. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended for a specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to the purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

The City reports deferred revenues in the governmental funds if the potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenues also arise when resources are received by the City before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for deferred revenue is removed and revenue is recognized.

Since the governmental fund financial statements are presented on a basis different than the governmental activities column of the government-wide financial statements, a reconciliation is provided immediately following each fund statement. These reconciliations briefly explain the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. An exception to this rule is charges between the government’s water and sewer function and various functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the applicable functions.

Amounts reported as program revenue include 1) charges to customers or users who purchase, use or directly benefit from goods or services provided by a particular department 2) operating grants and contributions that are restricted to meeting the operational requirements of a particular department and 3) capital grants and contributions that are restricted. Taxes, investment income and other revenues not identifiable with a particular department are included as general revenues. The general revenues support the net costs of the departments not covered by the program revenues.

When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first, then unrestricted resources, as they are needed.

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

**(D) MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Continued)**

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing goods and services of the fund's principal ongoing operations. Operating expenses include the cost of providing the goods and services, administrative expenses, and depreciation on capital assets. Non-operating revenues and expenses are items such as investment income and interest expense, which are not a result of the direct operations of the activity.

***Management's Discussion and Analysis*** – In accordance with GASB Statement No. 34, the financial statements are accompanied by a narrative introduction and analytical overview of the City's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to the analysis provided in the annual reports of private-sector organizations.

***Government-Wide Financial Statements*** – The financial statements are prepared using full accrual accounting for all of the City's activities. This approach includes not just current assets and liabilities but also capital and other long-term assets as well as long-term liabilities. Accrual accounting also reports all of the revenues and costs of providing services each year, not just those received or paid in the current year or soon thereafter.

***Statement of Net Position*** – The statement of net position is designed to display the financial position of the primary government (government and business-type activities). The City reports all capital assets in the government-wide statement of net position and reports depreciation expense – the cost of "using up" capital assets – in the statement of activities. The net position of the City are broken down into three categories – 1) net investment in capital assets; 2) restricted; and 3) unrestricted.

***Statement of Activities*** – The government-wide statement of activities reports expenses and revenues in a format that focuses on the cost of each of the City's functions. The expense of individual functions is compared to the revenue generated directly by the function. Accordingly, the City has recorded capital and certain other long-term assets and liabilities in the statement of net position, and has reported all revenues and the cost of providing services under the accrual basis of accounting in the statement of activities.

**(E) BUDGETS AND BUDGETARY ACCOUNTING:**

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In a timely manner, the City Manager submits to the Board of Commissioners a proposed operating budget for the fiscal year commencing the following July 1st. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted by the City to obtain taxpayer comments.
3. Prior to July 1st, the budget is legally enacted through passage of an ordinance.

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

**(E) BUDGETS AND BUDGETARY ACCOUNTING:**

The City follows these procedures in establishing the budgetary data reflected in the financial statements (Continued):

4. The City Manager is authorized to transfer budgeted amounts within a department of any fund; however, any revisions that alter the total expenditures of any department or fund must be approved by the Board of Commissioners.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, and Capital Projects Funds. Formal budgetary integration is not employed for Debt Service Funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions.
6. Budgets for the General Fund, Special Revenue Funds (excluding the Special Assessment Fund), and Capital Projects Funds are adopted on a basis consistent with generally accepted accounting principles.

Budgeted amounts are as originally adopted, or as amended by the Commissioners. Individual amendments were not material in relation to the original appropriations. All appropriations lapse at year end.

**(F) ENCUMBRANCES:**

Encumbrance accounting, under which purchase orders, contracts, or other commitments for the expenditures of funds are recorded in order to restrict that portion of the applicable appropriation, is employed in the governmental funds. Open encumbrances are reported as restricted, since the commitments will be honored through subsequent years' budget appropriations.

**(G) CASH:**

The City pools cash resources of some of its various funds (excluding fiduciary funds) in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements.

Cash in excess of current requirements is invested in various interest-bearing securities and disclosed as part of the City's investments. Cash and cash equivalents consist of demand deposits and certificates of deposit with original maturities of three (3) months or less, primarily with local financial institutions. The deposits and investments of the pension funds are held separately from those of other governmental funds.

Custodial Credit Risk is the risk that, in the event of a bank failure, the City's deposits may not be returned to it. The City's policy is to only maintain funds in financial institutions which are members of the Tennessee Bank Collateral Pool.

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

**(G) CASH (Continued)**

The captions "cash and cash equivalents" and "investments and certificates of deposits" in the accompanying combined financial statements includes cash and equity in the pooled cash account described as follows:

	<u>Equity Pooled In Cash Account</u>	<u>Other Cash Accounts</u>	<u>Combined Cash Total</u>
<b>General Fund</b> .....	\$ 3,469,423	\$ 1,200	\$ 3,470,623
<b>Special Revenue Funds:</b>			
State Street Aid Fund .....	559,095	-	559,095
Education Fund .....	1,125,358	-	1,125,358
Cafeteria Fund .....	28,523	-	28,523
Extended Day Program Fund .....	129,225	-	129,225
Federal Projects Fund .....	175,880	-	175,880
Drug Control Fund .....	15,250	-	15,250
Commercial Vehicle Fines Fund .....	1,517	-	1,517
Total Special Revenue Funds .....	<u>2,034,848</u>	<u>-</u>	<u>2,034,848</u>
<b>Debt Service Fund</b> .....	<u>2,945,179</u>	<u>-</u>	<u>2,945,179</u>
<b>Capital Projects Funds:</b>			
Capital Projects Fund .....	6,366	-	6,366
Alcoa High School Construction Fund .....	272,771	2,820,701	3,093,472
2001 Special Projects Fund .....	41,760	302,976	344,736
Equipment Replacement Fund .....	121,849	-	121,849
General Obligation Public Works .....	3,736,447	-	3,736,447
Landscaping Fund .....	80,475	-	80,475
Home Grant Fund .....	743	-	743
School Construction and Improvement Fund .....	135,696	-	135,696
Total Capital Projects Funds .....	<u>4,396,107</u>	<u>3,123,677</u>	<u>7,519,784</u>
<b>Internal Service Funds:</b>			
Employees' Insurance Fund .....	-	748,977	748,977
Flexible Spending Fund .....	10,945	-	10,945
Service Center .....	56,216	-	56,216
City OPEB Fund .....	401,000	-	401,000
School OPEB Fund .....	418,500	-	418,500
Total Internal Service Funds .....	<u>886,661</u>	<u>748,977</u>	<u>1,635,638</u>
Total Governmental Funds .....	<u>13,732,218</u>	<u>3,873,854</u>	<u>17,606,072</u>
<b>Proprietary Funds:</b>			
Water and Sewer Utility Fund .....	6,003,947	-	6,003,947
Electric Utility Fund .....	-	4,408,033	4,408,033
Landfill Fund .....	-	1,662,359	1,662,359
Stormwater Utility Fund .....	826,839	-	826,839
Total Proprietary Funds .....	<u>6,830,786</u>	<u>6,070,392</u>	<u>12,901,178</u>
<b>TOTAL GOVERNMENT</b> .....	<u>\$ 20,563,004</u>	<u>\$ 9,944,246</u>	<u>\$ 30,507,250</u>

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

**(H) RECEIVABLES AND UNBILLED REVENUE:**

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

During the fiscal year 1983, the City adopted a procedure whereby the Electric Utility Fund purchases the receivables of the Water and Sewer Utility Fund. This procedure results in one billing to customers for user charges.

The Enterprise Funds delay the recording of some accrued revenues. This comes about by staggering their meter reading dates during the month. Consequently, there is a lag in meter reading time and billing dates as the Utilities do not bill at a cut-off date of June 30th, the year-end. Unbilled revenues are estimated by calculation of the number of days unrecorded based on the following month's billing.

The Utilities' approximate unbilled revenues at June 30, 2015 are as follows:

Electric Utility Fund .....	\$ 3,699,557
Water and Sewer Utility Fund .....	<u>876,776</u>
<b>Total .....</b>	<b><u>\$ 4,576,333</u></b>

**(I) CASH AND INVESTMENTS:**

Cash and cash equivalents in governmental type funds consist of petty cash demand deposits, and all highly liquid investments with original maturities of three months or less. Investments in fiduciary funds are stated at fair value. Investments and non-cash equivalents consist of certificates of deposit, United States government securities, commercial paper and bonds with an original maturity date greater than three (3) months.

In order to provide a safe temporary medium for investment of idle funds, the City adopted an investment policy that allows investment in the following:

1. Bonds, notes and treasury bills of the United States;
2. Non-convertible debt securities of certain government sponsored enterprises that are chartered by the Congress of the United States;
3. Other obligations which are guaranteed as to principal and interest by the United States or any of its agencies;
4. Certificates of Deposit at state and federal chartered banks and savings and loan associations;
5. The Local Government Investment Pool created by TCA, Title 9, Chapter 4, Part 2;

**(J) DUE TO AND DUE FROM OTHER FUNDS, AND INTERFUND TRANSFERS:**

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

Operating transfers represent intragovernmental transactions, and therefore, cannot be considered as revenues or expenditures of the related funds for financial reporting purposes. The exception to transfers between funds are transactions between funds whereby the transaction is classified as a revenue, expenditure, or expense, such as routine service charges for inspection, engineering, utilities, or similar services provided by a department financed from one fund to a department financed from another fund. These transactions give rise to the recording of revenues, expenditures, and expenses by the funds involved in the transaction, as if the transaction had been consummated with an external entity.

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

**(J) DUE TO AND DUE FROM OTHER FUNDS, AND INTERFUND TRANSFERS (Continued):**

Interfund receivables/payables (due to/from) at June 30, 2015, are as follows:

<b>Fund</b>	<b><u>Amount</u></b>	<b><u>Fund</u></b>	<b><u>Amount</u></b>
<b><u>INTERFUND</u></b>		<b><u>INTERFUND</u></b>	
<b><u>RECEIVABLES:</u></b>		<b><u>PAYABLES:</u></b>	
Education Fund	\$ <u>69,550</u> (1)	Federal Projects	\$ <u>69,550</u> (1)

- (1) The above balances resulted from the time lag between the dates that reimbursable expenditures occur and payments between funds are made.

Interfund transfers during the fiscal year ended June 30, 2015 are as follows:

<b><u>From:</u></b>	<b><u>To:</u></b>						<b><u>Totals</u></b>
	<b><u>Debt Service</u></b>	<b><u>General Fund</u></b>	<b><u>City OPEB</u></b>	<b><u>School OPEB</u></b>	<b><u>AHS Construction</u></b>	<b><u>Equipment Replacement</u></b>	
General Fund	\$ 4,560,000	\$ -	\$ 65,000	\$ -	\$ -	\$ 57,383	\$ 4,682,383
Electric Utility	1,448,056	1,328,324	-	-	-	-	2,776,380
Water/Sewer Utility	3,424,495	400,000	-	-	-	-	3,824,495
Education Fund	-	-	-	68,500	-	-	68,500
School Construction	-	-	-	-	480,000	-	480,000
Landfill Fund	<u>999,131</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>999,131</u>
Total	<u>\$10,431,682</u>	<u>\$ 1,728,324</u>	<u>\$ 65,000</u>	<u>\$ 68,500</u>	<u>\$ 480,000</u>	<u>\$ 57,383</u>	<u>\$12,830,889</u>

**(K) INTEREST RECEIVABLE:**

Interest on investments is recorded as revenue in the year the interest is earned and is available to pay liabilities of the current period.

**(L) INVENTORIES AND PREPAID ITEMS:**

Materials and supplies inventories of the proprietary funds are maintained by a perpetual inventory accounting system and are valued on a basis of the lower of average cost or market, using first-in first-out method. Inventory of the Alcoa City Schools' Cafeteria Fund is accounted for on the purchase (cost) basis, using the first-in first-out method.

Prepaid items consist of payments to vendors for costs applicable to future accounting periods. These items are recorded as prepaid items in both the government wide and fund financial statements.

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

**(M) OTHER ASSETS:**

Other assets held are recorded and accounted for at cost.

**(N) RESTRICTED ASSETS:**

State and federal laws and regulations require the Landfill Fund to restrict cash and investments for closure and postclosure costs of the Landfill. Restricted at June 30, 2015 is \$8,755,195.

**(O) USE OF ESTIMATES:**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**(P) COMPENSATED ABSENCES:**

The City of Alcoa, Tennessee, accounts for compensated absences in conformity with the *Governmental Accounting Standards Board (GASB) Statement Number 16*, whereby a liability is accrued for the amounts employees are entitled to receive for future absences. Such accruals include related costs such as payroll taxes and retirement contributions as required by *GASB Statement Number 16*.

The City of Alcoa employees are granted vacation and sick leave in varying amounts. Vacation is generally granted for periods from two (2) to five (5) weeks based on the number of years employed. Employees earning more than two (2) weeks of vacation during the previous calendar year may carry over one (1) week (40 hours) of vacation leave in addition to that earned the preceding year. In the event of termination, an employee is reimbursed for accumulated vacation days. Sick leave is accumulated at one (1) day per month for an unlimited amount. Employees are reimbursed for accumulated sick leave up to a maximum of eighty (80) days only after reaching the established normal retirement age. If an employee terminates prior to attaining the normal retirement age, the accumulated sick leave is forfeited.

Employees of the City of Alcoa Board of Education accumulate sick leave at the rate of one (1) day per month or a maximum of ten (10) days per year based upon a ten (10) month period. Non-professional employees of the Board have the same sick leave policies as other employees of the City of Alcoa.

Compensated absences are those absences for which employees will be paid for services already rendered and that are not contingent on a specific event that is outside the control of the employer and employee. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the employer and employee are accounted for in the period those services are rendered or those events take place.

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

**(P) COMPENSATED ABSENCES (Continued):**

Accumulated unpaid vacation and vested sick pay are accrued in the Government-wide and all Proprietary Fund statements. Long-term liabilities of the governmental funds are not shown on the fund financial statements, as these benefits are not expected to be liquidated with expendable available financial resources.

In governmental funds, compensated absences that have matured (i.e. unused reimbursable leave still outstanding following an employee's resignation or retirement) are reported as an expenditure and fund liability in the fund that will pay for the compensated absences. The remainder of the compensated absences liability is reported as General Long Term Debt. In the proprietary funds, compensated absences are recorded as an expense and liability of the fund that will pay for them.

**(Q) CAPITAL ASSETS**

Capital assets, including public domain infrastructure (e.g. roads, bridges, sidewalks and culverts) are reported in applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life greater than one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add value to the asset, or materially extend its life, are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are completed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed, if material. Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives (land and construction-in-progress) are not depreciated:

<u>Assets</u>	<u>Useful life (years)</u>
Buildings	50
Improvements	20 – 50
Equipment and vehicles	5 - 25
Infrastructure	60

**(R) LONG-TERM OBLIGATIONS:**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type. Debt issuance costs which are recovered through rate charges established by regulatory authority are deferred and amortized over the life of the debt. Debt payable is reported net of the applicable premium or discount.

(Continued)



**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

**(R) LONG-TERM OBLIGATIONS (Continued)**

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

Proprietary fund financial statements recognize debt issuance costs recovered through rate charges as deferrals that are amortized to interest expense over the life of the debt. Debt payable is reported net of the applicable premium discount. Under GASB statement No. 62, debt issue costs that are recovered through rate charges established by the regulatory authority are recognized as deferred regulatory charges. They are amortized over the life of the debt.

**(S) COMPARATIVE TOTAL DATA:**

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the City's financial position and operations. Certain comparative data for the prior year was reclassified to be comparable with June 30, 2015 accounts in the government wide and fund financial statements. However, comparative data (i.e., presentation of prior year's totals by fund type) have not been presented in each of the statements, since their inclusion would make the statements unduly complex and difficult to read.

**(T) IMPLEMENTATION OF NEW ACCOUNTING STANDARDS:**

The City follows Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Under this statement fund balances are classified into the following categories:

- a. Nonspendable fund balances comprise those amounts that are legally or contractually required to be maintained intact.
- b. Restricted fund balances comprise those amounts constrained to be used for a specific purpose by external parties, constitution provisions or enabling legislation.
- c. Committed fund balances comprise those amounts constrained by the government itself using its highest level of authority (commission) using its highest level of formal action (ordinance).  
This amount can also include amounts needed to balance the next year's budget when the budget is approved by ordinance.
- d. Assigned fund balances are amounts intended to be used for a specific purpose by the governing body through action other than the highest level of authority or an official expressly authorized by the governing body. Only the City Council has the authority to assign funds for specified purposes, by a majority vote system.
- e. Unassigned fund balances are any amounts other than those described above and are available for any purpose.

The City has no formal policy with regard to classifying expenditures among the various classifications. Thus, the default provision under GASB Statement 54 apply expenditures first to restricted resources, then to committed resources, then to assigned resources, and finally to unassigned resources. No City official is granted the authority to assign fund balance. In addition, the City has no formal policy with regard to stabilization funds.

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

**(T) IMPLEMENTATION OF NEW ACCOUNTING STANDARDS:**

The Governmental Accounting Standards Board (GASB) issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement establishes standards for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and also requires related disclosures. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011.

In addition, the GASB has issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement specifies the items that were previously reported as assets and liabilities that should now be reported as deferred outflows of resources, deferred inflows of resources, outflows of resource, or inflows of resources. Since this Statement closely correlates to Statement No. 63, the City has elected to early implement the provisions of this statement.

**(U) PENSIONS:**

**Primary Government** - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City of Alcoa's participations in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System (TCRS) and the City's Employees Retirement System, and additions to/deductions from the City's fiduciary net position have been determined on the same basis as they are reported by the TCRS for the Public Employee Retirement Plan, and the City's Employee Retirement System. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Public Employee Retirement Plan of TCRS, and the City's Employees Retirement System. Investments are reported at fair value.

**City of Alcoa Education** - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Teacher Retirement Plan and the Teacher Legacy Pension Plan in the Tennessee Consolidated Retirement System, and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the TCRS. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Teacher Retirement Plan and the Teacher Legacy Pension Plan. Investments are reported at fair value.

**(V) IMPLEMENTATION OF NEW ACCOUNTING PRONOUNCEMENT**

In June 2012 the Governmental Accounting Standards Board issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective for the fiscal year beginning July 1, 2014. This statement revises existing standards for measuring and reporting pension liabilities for pensions provided by the City to its employees. This Statement requires recognition of a liability equal to the net pension liability, which is measured as the total pension liability, less the amount of the pension plan's fiduciary net position. The City implemented this standard effective July 1, 2014.

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

**(V) IMPLEMENTATION OF NEW ACCOUNTING PRONOUNCEMENT (Continued):**

The Agency's Net Position at July 1, 2014 was restated to reflect the effects of this pronouncement as follows:

	<u>Total Government Activities</u>	<u>Total Business Activities</u>	<u>Total</u>
Net position, June 30, 2014	\$ 16,029,663	\$ 59,560,593	\$ 75,590,256
Recognition of Pension liability	<u>(13,054,664)</u>	<u>(1,129,042)</u>	<u>(14,183,706)</u>
Restated Net Position, July 1, 2014	<u>\$ 2,974,999</u>	<u>\$ 58,431,551</u>	<u>\$ 61,406,550</u>

**(W) RECLASSIFICATIONS/NET POSITION RESTATED:**

Certain prior year assets, liabilities, equity, revenues and expenditures of the General Fund, Special Revenue Funds, Fiduciary Fund and Enterprise Funds have been reclassified to facilitate comparison with June 30, 2015 amounts. The reclassification causes no effect on the "excess of revenues and other sources over expenditures and other uses" or on beginning fund equities.

**NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position:

Total fund balances of the City's governmental funds differ from net position of governmental activities reported in the statement of net position. The difference primarily results from the long-term economic focus in the statement of net position versus the current financial resources focus in the governmental fund balance sheets.

**Balance Sheet/Statement of Net Position**

	<u>Total Governmental Funds</u>	<u>Long-term Assets, Liabilities (1)</u>	<u>Internal Service Funds (2)</u>	<u>Reclassifications and Eliminations</u>	<u>Statement of Net Position</u>
<b><u>Assets</u></b>					
Cash on hand/equity in pooled					
Cash/certificates of deposit.....	\$ 12,846,757	\$ -	\$ 1,635,638	\$ -	\$ 14,482,395
Investments .....	2,820,701	-	-	302,976	3,123,677
Tennessee Local					
Government Investment Pool .....	302,976	-	-	(302,976)	-
Receivables:					
Property Taxes, net.....	10,449,998	-	-	-	10,449,998
Accounts, net.....	2,166,941	-	4,900	-	2,171,841
Internal balances.....	69,550	-	-	(69,550)	-
Due from other governments.....	3,022,413	-	-	-	3,022,413
Capital Assets, Net .....	-	88,162,110	-	-	88,162,110
Capital lease property .....	-	<u>10,007,914</u>	-	-	<u>10,007,914</u>
Total Assets .....	<u>31,679,336</u>	<u>98,170,024</u>	<u>1,640,536</u>	<u>(69,550)</u>	<u>131,420,348</u>
Deferred Outflows of Resources:					
Deferred Outflows – Pensions.....	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,189,165</u>	<u>4,189,165</u>

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

**(Continued):**

**Balance Sheet/Statement of Net Position**

	<b><u>Total</u></b> <b><u>Governmental</u></b> <b><u>Funds</u></b>	<b><u>Long-term</u></b> <b><u>Assets,</u></b> <b><u>Liabilities</u></b> <b><u>(1)</u></b>	<b><u>Internal</u></b> <b><u>Service</u></b> <b><u>Funds</u></b> <b><u>(2)</u></b>	<b><u>Reclassifications</u></b> <b><u>and</u></b> <b><u>Eliminations</u></b>	<b><u>Statement</u></b> <b><u>of</u></b> <b><u>Net Position</u></b>
<b><u>Liabilities</u></b>					
Accounts payable.....	3,822,746	-	479,298	-	4,302,044
Accrued liabilities.....	816,901	-	-	-	816,901
Unapplied grant funds .....	-	-	-	-	-
Unearned revenue.....	907,992	-	-	-	907,992
Long-term debt .....	-	88,780,878	-	-	88,780,878
Internal balances.....	69,550	-	-	(69,550)	-
Unfunded pension obligation.....	-	-	-	14,136,994	14,136,994
Unfunded OPEB obligation.....	-	940,495	-	-	940,495
Total Liabilities.....	<u>5,617,189</u>	<u>89,721,373</u>	<u>479,298</u>	<u>14,067,444</u>	<u>109,885,304</u>
Deferred Inflow of Resources:					
Property taxes .....	9,681,393	-	-	-	9,681,393
Deferred Inflows – Pension .....	-	-	-	4,520,218	4,520,218
Total Deferred Inflow of Resources.....	<u>9,681,393</u>	<u>-</u>	<u>-</u>	<u>4,520,218</u>	<u>14,201,611</u>
<b>Net Position .....</b>	<b><u>\$ 16,380,754</u></b>	<b><u>\$ 8,448,651</u></b>	<b><u>\$ 1,161,240</u></b>	<b><u>\$ (14,468,047)</u></b>	<b><u>\$ 11,522,598</u></b>

When capital assets (land, infrastructure, buildings, and equipment) that are to be used in governmental activities are purchased or constructed the cost of those assets are reported as expenditures in governmental funds. However, the statement of net position includes those capital assets among the assets of the City as a whole.

Cost of Capital Assets/Lease Property	\$ 141,837,815
Accumulated depreciation	<u>(43,667,791)</u>
	<b><u>\$ 98,170,024</u></b>

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net position.

	<b><u>Current</u></b>	<b><u>Non-Current</u></b>	<b><u>Total</u></b>
Compensated absences	\$ 89,524	\$ 885,225	\$ 974,749
Bonds, capital improvement notes, loans	2,850,000	75,300,000	78,150,000
Capital lease obligations	<u>101,387</u>	<u>9,554,742</u>	<u>9,656,129</u>
	<b><u>\$3,040,911</u></b>	<b><u>\$ 85,739,967</u></b>	<b><u>\$ 88,780,878</u></b>

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

**(Continued):**

Internal service funds are used by management to charge the costs of self-insurance, service center operations, fleet maintenance, and data processing services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.

Cash	\$ 1,635,638
Accounts receivable	4,900
Accounts payable	<u>(479,298)</u>
Net Position	<u>\$ 1,161,240</u>

The net change in fund balances for governmental funds differ from the change in net position for governmental activities reported in the statement of activities. The differences arise primarily from the long-term economic focus in the statement of activities versus the current financial resources focus in the governmental funds. The effect of the differences is illustrated below.

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities:

	<b>Total Governmental Funds</b>	<b>Capital- Related Items (4)</b>	<b>Long-term Debt Transactions (5)</b>	<b>Internal Service Funds</b>	<b>Reclass- ifications</b>	<b>Statement of Activities</b>
<b><u>Revenues</u></b>						
Taxes.....	\$ 26,555,861	\$ -	\$ -	\$ -	\$ (12,821,645)	\$ 13,734,216
Sales taxes.....	-	-	-	-	13,883,961	13,883,961
State income & excise tax.....	-	-	-	-	95,095	95,095
Licenses, permits and fees .....	222,483	-	-	-	18,392	240,875
Business taxes.....	-	-	-	-	897,280	897,280
Intergovernmental.....	18,300,151	-	-	-	(18,300,151)	-
Intergovernmental:						
State sales taxes .....	-	-	-	-	636,151	636,151
Federal grants.....	-	-	-	-	1,310,480	1,310,480
USDA revenues .....	-	-	-	-	477,162	477,162
Other state revenues .....	-	-	-	-	7,827,627	7,827,627
Other local revenues .....	192,664	-	-	-	669,079	861,743
Capital grants/contributions .....	-	-	-	-	5,202,207	5,202,207
Charges for services.....	834,269	-	-	197,930	526,524	1,558,723
Fines, forfeitures, and costs.....	517,539	-	-	-	(517,539)	-
Investment income .....	56,826	-	-	-	-	56,826
Miscellaneous taxes .....	469,567	-	-	-	(276,577)	192,990
Property rentals .....	143,388	-	-	-	-	143,388
Proceeds from sale/deletion of capital assets .....	96,440	-	-	-	-	96,440
In-lieu of taxes .....	-	-	-	-	371,954	371,954
 Total Revenues .....	 <u>47,389,188</u>	 <u>-</u>	 <u>-</u>	 <u>197,930</u>	 <u>-</u>	 <u>47,587,118</u>

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

**(Continued):**

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities (Continued):

	<b>Total Governmental <u>Funds</u></b>	<b>Capital- Related <u>Items</u> (4)</b>	<b>Long-term Debt <u>Transactions</u> (5)</b>	<b>Internal Service <u>Funds</u></b>	<b>Reclass- ifications</b>	<b>Statement of <u>Activities</u></b>
<b>Expenditures/Expenses</b>						
Current:						
General government	1,740,661	485,752	-	-	-	2,226,413
Public safety – Police/Fire	9,126,797	417,703	-	-	-	9,544,500
Public works - Streets	4,974,584	723,724	-	-	-	5,698,308
Recreation and Culture	851,898	258,801	-	-	-	1,110,699
Community development	1,042,221	-	-	-	-	1,042,221
Education	18,833,640	1,164,706	-	-	-	19,998,346
Debt service -						
principal retirement	5,269,964	-	(5,269,964)	-	-	-
Debt service - interest and						
fiscal fees	4,003,952	-	(2,679,942)	-	-	1,324,010
Capital Outlay	<u>24,902,807</u>	<u>(24,902,807)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>70,746,524</u>	<u>(21,852,121)</u>	<u>(7,949,906)</u>	<u>-</u>	<u>-</u>	<u>40,944,497</u>
<b>Other Financing Sources (Uses)/</b>						
<b>Changes in Net Position</b>						
Transfers (Out)	(5,230,883)	-	5,230,883	-	-	-
Transfers In	10,969,065	-	(10,969,065)	-	-	-
Issuance of debt	9,995,000	-	(9,995,000)	-	-	-
In lieu of tax payments	1,728,324	-	-	-	-	1,728,324
Bond premiums	<u>176,654</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>176,654</u>
Total Other Financing						
Sources (Uses)/Changes						
In Net Position	<u>17,638,160</u>	<u>-</u>	<u>(15,733,182)</u>	<u>-</u>	<u>-</u>	<u>1,904,978</u>
<b>Net Change for the Year</b>	<b><u>\$ (5,719,176)</u></b>	<b><u>\$ 21,852,121</u></b>	<b><u>\$ (7,782,276)</u></b>	<b><u>\$ 197,930</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 8,547,599</u></b>

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Accrual for compensated absences **\$ 974,749**

When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, fund balance decreases by the amount of financial resources expended, whereas, net position decrease by the amount of depreciation expense charged for the year, and the loss on disposal of capital assets.

Capital expenditures	\$ 24,834,307
Depreciation	<u>(2,982,186)</u>
Net Change	<b><u>\$ 21,852,121</u></b>

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**  
**(Continued):**

Repayment of debt principal is reported as a expenditure in governmental funds and, thus, has the effect of reducing fund balance because current financial resources have been used. For the City as a whole, however, the principal payments reduce the liabilities in the statement of net position and do not result in an expense in the statement of activities. The City's long-term debt was reduced because principal payments were made to holders of long-term debt.

Principal payments made	<b><u>\$ 5,269,964</u></b>
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**NOTE 3 – CASH AND INVESTMENTS:**

In order to provide a safe temporary medium for investment of idle funds, municipalities are authorized by TCA 6-56-106 to invest in the following:

- (1) Bonds, notes, or treasury bills of the United States;
- (2) Other obligations which are guaranteed as to principal and interest by the United States or any of its agencies;
- (3) Certificates of deposit at state and federal chartered bank and savings and loan associations;
- (4) Obligations of the United States or its agencies under a repurchase agreement if approved as an authorized investment by the State Director of Local Finance;
- (5) Money market funds whose portfolios consist of any of the foregoing investments if approved as an authorized investment by the State Director of Local Finance; and
- (6) The Local Government Investment Pool under which local monies are transferred to and invested with the State Treasurer's cash portfolio.

Cash and investment include bank balances and investments that at the balance sheet date were either entirely insured or collateralized with securities held by the Tennessee Investment Collateral Pool.

Interest rate risk: The City has no formal investment policy regarding interest rate risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's internal management procedures limits investments to maturities of less than twelve months.

Credit risk of investments: The City has no formal policy relating to the credit risk of investments, but has internal management procedures restricts the purchase of securities to the highest possible ratings. Certain bond proceeds are temporarily invested with Morgan Keegan which is unrated. Other investments consist of certificates of deposits in fully insured financial institutions. The City also invests in the LGIP (Local Government Investment Pool) which is unrated.

The City's investment policy allows investments in obligations of the U.S. Treasury and other authorized investments as more fully explained in Note 1.

Cash and investments include bank balances and investments that at the balance sheet date were either entirely insured or collateralized with securities held by the Tennessee Investment Collateral Pool.

Investments are shown at fair value; except that investments that have a remaining maturity at the time of purchase of one year or less are shown at amortized cost (none at June 30, 2015). Fair value is based on quoted market prices.

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 3 – CASH AND INVESTMENTS (Continued):**

Presented below is a summary of Combined Cash, Certificates of Deposit and Investments by Fund as of June 30, 2015:

**SUMMARY OF CASH AND INVESTMENTS BY FUNDS:**

Fiduciary Funds – Pension Trust .....	<b><u>\$ 23,536,876</u></b>
Statement of Net Position:	
Capital Projects Funds – Investments and Local Government Investment Pool .....	\$ 3,123,677
Enterprise Funds – Restricted Assets.....	8,755,195
Enterprise Funds - Non-restricted Assets .....	<u>12,901,178</u>
Total Governmental and Enterprise Funds .....	<u>24,780,050</u>

**SUMMARY OF CHECKING ACCOUNTS BY FUNDS:**

General Fund (includes cash on hand of \$1,200).....	3,470,623
Special Revenue Funds.....	2,034,848
Debt Service Fund .....	2,945,179
Capital Projects Funds .....	4,396,107
Internal Service Funds .....	<u>1,635,638</u>
Total Checking Accounts By Funds .....	<u>14,482,395</u>
Total Checking/ Certificates of Deposit/Investments/Restricted Cash – Statement of Net Position .....	<b><u>\$ 39,262,445</u></b>

Total cash and investments presented on the statement of net position are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Investments .....	\$ 3,123,677	\$ -	\$ 3,123,677
Cash and Certificates of Deposit .....	14,482,395	12,901,178	27,383,573
Restricted Cash/Certificates of Deposit .....	-	8,755,195	<u>8,755,195</u>
Totals .....	<b><u>\$ 17,606,072</u></b>	<b><u>\$ 21,656,373</u></b>	39,262,445
Fiduciary Funds – Investments, at fair values (Employees Retirement System).....			<u>23,536,876</u>
Total Cash and Investments .....			<b><u>\$ 62,799,321</u></b>

As of June 30, 2015 the City had the following investments and maturities:

	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>1 – 5 Years</u>	<u>6 – 10 Years</u>	<u>More Than 10 Years</u>
Investments	\$ 2,820,701	\$ 2,820,701	\$ -	\$ -	\$ -
State of Tennessee Local Government Investment Pool	<u>302,976</u>	<u>302,976</u>	-	-	-
Total Investment and Maturities	<b><u>\$ 3,123,677</u></b>	<b><u>\$ 3,123,677</u></b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Investments in the Local Government Investment Pool, if applicable, are reported at amortized cost. The State Pooled Investment Fund, of which the Local Government Investment Pool is a part, is managed like a SEC 2a-7 fund. The same investment guidelines are followed, but the State Pooled Investment Fund does not report to the SEC.

(Continued)



**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 3 – CASH AND INVESTMENTS (Continued):**

The shares in the Local Government Investment Pool are constant dollar. Therefore, the fair value of the position in the Pool is the same as the value of the Pool shares.

The State Pooled Investment Fund is governed by the State Funding Board in accordance with Tennessee Code Annotated. The Funding Board is comprised of the State Treasurer, the Comptroller, the Commissioner of Finance and Administration, the Secretary of State, and the Governor. Reporting is done monthly, quarterly, and annually and there are regularly scheduled meetings. The Funding Board has developed an Investment Policy which meets SEC 2a-7 requirements and state law. The Investment Pool has received no credit quality rating from a credit rating agency.

Additional financial information regarding the Local Government Investment Pool is available from the Local Government Investment Pool, P. O. Box 198785, Nashville, Tennessee 37219-8785 (telephone (615) 532-1163).

The Employees' Retirement System Fund is additionally authorized to invest in U.S. Government Securities and corporate equity securities. Investments and non-cash equivalents in this Fiduciary Fund at June 30, 2015, are described below:

	<b><u>Carrying Amount</u></b>	<b><u>Fair Value</u></b>
Government Bonds.....	\$ 4,935,281	\$ 4,935,281
Savings Certificates.....	1,014,343	1,014,343
Corporate Securities .....	16,006,307	16,006,307
Accrued interest.....	126,639	126,639
Municipal Obligations.....	<u>1,454,306</u>	<u>1,454,306</u>
<b>Total Retirement System ...</b>	<b><u>\$ 23,536,876</u></b>	<b><u>\$ 23,536,876</u></b>

**Credit Risk – Employees' Retirement System Fund**

The credit quality rating of investments in debt securities – the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. A nationally recognized statistical rating organization assigns a rating. The City's investments in U.S. Agencies are rated Aaa, whereas the corporate securities investments are unrated. First Tennessee Bank is the investment agent for the Employees' Retirement System Fund. No separate audited GAAP-based benefit plan report is available for the defined benefit plan. Additional financial information regarding the Employees' Retirement System Fund is available from First Tennessee Bank, 4385 Poplar Avenue, Memphis, TN 38117.

**Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates that will adversely affect the fair value of an investment. Generally the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. While the City has no formal policy to limit its interest rate risk, it manages its exposure to interest rate risk by purchasing a combination of shorter term and longer term certificates of deposit and by timing cash flows from maturities so that a portion of the portfolio is maturing evenly over time as necessary to provide cash flow and liquidity needed for operations.

**Concentrations of Credit Risk**

The City places no limit on the amount the City may invest in any one issuer.

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 4 – PROPERTY TAX:**

The City's property tax is levied each September 1st on the assessed value as listed by the County Assessor and is payable by each October 1st. Property taxes are delinquent after October 1st, and are recorded as such on June 30th. The assessed values are established by the County Assessment Board. The City's tax rate for the years ended June 30, 2011 through 2015 was 1.96 per \$100.00 of assessed value.

Property taxes levied for 2014 are recorded as receivables, net of estimated uncollectibles. The taxes collected during the fiscal year 2014-15 and expected to be collected in the subsequent sixty (60) days are recognized as revenues in the fiscal year ended June 30, 2015.

Property taxes for 2015 are recorded (estimated at \$9,681,393) as receivables, since the enforceable legal claim to the asset (2015 taxes) is effective as of January 1, 2015 (lien date) in accordance with the "Codification of Governmental Accounting and Financial Reporting Standards – Section No. 50.114."

**NOTE 5 – CAPITAL ASSETS:**

Fixed assets are stated at cost. Below is a summary of changes in Capital Fixed Assets and Accumulated Depreciation used in Governmental Activities:

	<b><u>Balance</u></b> <b><u>July 1, 2014</u></b>	<b><u>Additions</u></b>	<b><u>Retirements</u></b>	<b><u>Transfer</u></b> <b><u>In (Out)</u></b>	<b><u>Balance</u></b> <b><u>June 30, 2015</u></b>
Non-depreciable assets:					
Land	\$ 1,999,450	\$ -	\$ -	\$ -	\$ 1,999,450
Depreciable assets:					
Parks & Greenway	3,640,849	627,473	-	-	4,268,322
Accumulated depreciation	(1,014,862)	(135,167)	-	-	(1,150,029)
	<u>2,625,987</u>	<u>492,306</u>	<u>-</u>	<u>-</u>	<u>3,118,293</u>
Buildings	29,672,905	-	-	-	29,672,905
Accumulated depreciation	(10,986,734)	(575,359)	-	-	(11,562,093)
	<u>18,686,171</u>	<u>(575,359)</u>	<u>-</u>	<u>-</u>	<u>18,110,812</u>
Swimming Pools	991,178	55,768	-	-	1,046,946
Accumulated depreciation	(594,707)	(52,347)	-	-	(647,054)
	<u>396,471</u>	<u>3,421</u>	<u>-</u>	<u>-</u>	<u>399,892</u>
Improvements other than buildings	39,566,968	12,675,424	-	-	52,242,392
Accumulated depreciation	(22,711,861)	(1,570,242)	-	-	(24,282,103)
	<u>16,855,107</u>	<u>11,105,182</u>	<u>-</u>	<u>-</u>	<u>27,960,289</u>
Equipment	7,594,050	744,777	(312,595)	562,257	8,588,489
Accumulated depreciation	(5,222,298)	(628,994)	303,033	(391,256)	(5,939,515)
	<u>2,371,752</u>	<u>115,783</u>	<u>(9,562)</u>	<u>171,001</u>	<u>2,648,974</u>
Construction in progress	<u>23,179,825</u>	<u>15,545,988</u>	<u>(4,801,413)</u>	<u>-</u>	<u>33,924,400</u>
Capital Lease Property:					
Civic Center	9,142,400	-	-	-	9,142,400
Communications Center	751,750	-	-	-	751,750
Other Capital leases	763,018	-	-	(562,257)	200,761
Accumulated depreciation	(458,176)	(20,077)	-	391,256	(86,997)
	<u>10,198,992</u>	<u>(20,077)</u>	<u>-</u>	<u>(171,001)</u>	<u>10,007,914</u>
<b>Capital Assets, net of</b>					
<b>Accumulated depreciation</b>	<b><u>\$ 76,313,755</u></b>	<b><u>\$ 26,667,244</u></b>	<b><u>\$ (4,810,975)</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 98,170,024</u></b>

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 5 – CAPITAL ASSETS (Continued):**

A summary of business type capital assets and accumulated depreciation is as follows:

**CAPITAL ASSETS:**

		<b>Non- Depreciable Land, Land Rights and Easements</b>	<b>Electric Distribution and Buildings</b>	<b>Electric Station Equipment and Improvements Other than Buildings</b>	<b>Equipment</b>	<b>Construction in Progress</b>	<b>Totals</b>
<b>ELECTRIC</b>	Balance 7-1-14	\$ 336,481	\$ 50,299,056	\$11,468,383	\$ 12,070,372	\$ 3,750,074	\$ 77,924,366
	Additions	-	2,808,923	3,970,487	402,189	1,626,084	8,807,683
	Retirements	-	(303,594)	-	(291,096)	-	(594,690)
	Other reclassify	-	-	-	-	-	-
	Balance 6-30-15	<u>336,481</u>	<u>52,804,385</u>	<u>15,438,870</u>	<u>12,181,465</u>	<u>5,376,158</u>	<u>86,137,359</u>
<b>WATER</b>	Balance 7-1-14	1,020,097	19,219,761	23,358,706	16,141,944	-	59,740,508
	Additions	-	-	1,405,981	110,453	-	1,516,434
	Retirements	-	-	-	(33,734)	-	(33,734)
	Balance 6-30-15	<u>1,020,097</u>	<u>19,219,761</u>	<u>24,764,687</u>	<u>16,218,663</u>	<u>-</u>	<u>61,223,208</u>
<b>SEWER</b>	Balance 7-1-14	174,138	4,728,135	16,987,331	878,033	306,805	23,074,442
	Additions	-	-	1,561,487	301,214	-	1,862,701
	Retirements	-	-	-	-	(263,344)	(263,344)
	Balance 6-30-15	<u>174,138</u>	<u>4,728,135</u>	<u>18,548,818</u>	<u>1,179,247</u>	<u>43,461</u>	<u>24,673,799</u>
<b>LANDFILL</b>	Balance 7-1-14	673,647	10,979,123	-	2,584,527	-	14,237,297
	Additions	-	-	-	413,871	-	413,871
	Retirements	-	-	-	(265,606)	-	(265,606)
	Balance 6-30-15	<u>673,647</u>	<u>10,979,123</u>	<u>-</u>	<u>2,732,792</u>	<u>-</u>	<u>14,385,562</u>
<b>STORMWATER</b>	Balance 7-1-14	-	-	-	650,242	-	650,242
	Additions	-	-	-	2,500	-	2,500
	Retirements	-	-	-	-	-	-
	Balance 6-30-15	<u>-</u>	<u>-</u>	<u>-</u>	<u>652,742</u>	<u>-</u>	<u>652,742</u>
<b>TOTALS</b>		<u>\$ 2,204,363</u>	<u>\$ 87,731,404</u>	<u>\$ 58,752,375</u>	<u>\$ 32,964,909</u>	<u>\$ 5,419,619</u>	<u>\$ 187,072,670</u>

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 5 – CAPITAL ASSETS (Continued):**

**ACCUMULATED DEPRECIATION:**

		<b>Land, Land Rights and Easements</b>	<b>Electric Distribution and Buildings</b>	<b>Electric Station Equipment and Improvements Other than Buildings</b>	<b>Equipment</b>	<b>Construction in Progress</b>	<b>Totals</b>
<b>ELECTRIC</b>	Balance 7-1-14	\$ -	\$ 19,544,243	\$ 6,677,743	\$ 4,343,824	\$ -	\$ 30,565,810
	Additions	-	1,777,910	310,375	374,750	-	2,463,035
	Retirements	-	(303,595)	-	(291,095)	-	(594,690)
	Removal Costs	-	-	-	51,278	-	51,278
	Other reclassify	-	-	-	-	-	-
	Balance 6-30-15	-	<u>21,018,558</u>	<u>6,988,118</u>	<u>4,478,757</u>	-	<u>32,485,433</u>
<b>WATER</b>	Balance 7-1-43	-	3,201,935	5,805,921	6,954,608	-	15,962,464
	Additions	-	422,908	506,550	886,915	-	1,816,373
	Retirements	-	-	-	(33,734)	-	(33,734)
	Balance 6-30-15	-	<u>3,624,843</u>	<u>6,312,471</u>	<u>7,807,789</u>	-	<u>17,745,103</u>
<b>SEWER</b>	Balance 7-1-14	-	1,524,248	4,814,687	725,037	-	7,063,972
	Additions	-	130,640	439,993	38,736	-	609,369
	Retirements	-	-	-	-	-	-
	Balance 6-30-15	-	<u>1,654,888</u>	<u>5,254,680</u>	<u>763,773</u>	-	<u>7,673,341</u>
<b>LANDFILL</b>	Balance 7-1-14	-	6,036,867	-	1,901,525	-	7,938,392
	Additions	-	527,660	-	175,196	-	702,856
	Retirements	-	-	-	(265,606)	-	(265,606)
	Balance 6-30-15	-	<u>6,564,527</u>	-	<u>1,811,115</u>	-	<u>8,375,642</u>
<b>STORMWATER</b>	Balance 7-1-14	-	-	-	232,126	-	232,126
	Additions	-	-	-	75,394	-	75,394
	Retirements	-	-	-	-	-	-
	Balance 6-30-15	-	-	-	<u>307,520</u>	-	<u>307,520</u>
	TOTALS	-	<u>32,862,816</u>	<u>18,555,269</u>	<u>15,168,954</u>	-	<u>66,587,039</u>
<b>NET CAPITAL ASSETS</b>		<u>\$ 2,204,363</u>	<u>\$ 54,868,588</u>	<u>\$ 40,197,106</u>	<u>\$ 17,795,955</u>	<u>\$ 5,419,619</u>	<u>\$ 120,485,631</u>

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 5 – CAPITAL ASSETS (Continued):**

Depreciation expense was charged to functions/programs of the City as follows:

<b>Governmental activities:</b>	
General Government.....	\$ 223,452
Police .....	254,406
Fire .....	163,297
Recreation .....	258,801
Public works/streets .....	723,724
Solid waste .....	120,557
Education .....	1,096,206
Service center.....	141,743
<b>Total depreciation expense – governmental activities .....</b>	<b><u>\$ 2,982,186</u></b>
<b>Business – type activities:</b>	
Water and sewer.....	\$ 2,425,742
Electric.....	2,463,035
Landfill .....	702,856
Stormwater.....	75,394
<b>Total depreciation expense – business-type activities .....</b>	<b><u>\$ 5,667,027</u></b>

The City uses the straight-line depreciation method for property, plant and equipment based on the following estimated useful lives by major class of depreciable fixed assets:

Class .....	
Building and Improvements .....	40-50 years
Machinery and equipment .....	4-10 years
Water and sewer systems .....	50 years
Infrastructure .....	20-50 years

**NOTE 6 – LONG-TERM LIABILITIES:**

A summary of changes in the Long-Term Debt is as follows:

	<b>Balance July 1, 2014</b>	<b>Additions</b>	<b>Retired Deletions</b>	<b>Total Balance June 30, 2015</b>	<b>Non-Current Balance June 30, 2015</b>	<b>Current Balance</b>
<b>Governmental Activities:</b>						
General Obligation Bonds/ Revenue Bonds.....	\$ 70,550,000	\$ 18,995,000	\$ (11,395,000)	\$ 78,150,000	\$ 75,300,000	\$ 2,850,000
Compensated Absences.....	1,203,808	-	(229,059)	974,749	885,225	89,524
Capital Leases Payable.....	<u>9,802,394</u>	<u>-</u>	<u>(146,265)</u>	<u>9,656,129</u>	<u>9,554,742</u>	<u>101,387</u>
<b>Totals-Governmental Activities ....</b>	<b><u>\$ 81,556,202</u></b>	<b><u>\$ 18,995,000</u></b>	<b><u>\$ (11,770,324)</u></b>	<b><u>\$ 88,780,878</u></b>	<b><u>\$ 85,739,967</u></b>	<b><u>\$ 3,040,911</u></b>
<b>Business-type Activities:</b>						
General Obligation Bonds/ Revenue Bonds.....	\$ 72,833,801	\$ -	\$ (2,499,964)	\$ 70,333,837	\$ 67,723,701	\$ 2,610,136
Compensated absences .....	1,250,891	1,241,066	(1,250,891)	1,241,066	456,071	784,995
Capital leases.....	27,947	-	(27,947)	-	-	-
Estimated liability for closure/ Post-closure care cost .....	<u>8,248,362</u>	<u>529,544</u>	<u>-</u>	<u>8,777,906</u>	<u>8,777,906</u>	<u>-</u>
<b>Totals-Business Type Activities.....</b>	<b><u>\$ 82,361,001</u></b>	<b><u>\$ 1,770,610</u></b>	<b><u>\$ (3,778,802)</u></b>	<b><u>\$ 80,352,809</u></b>	<b><u>\$ 76,957,678</u></b>	<b><u>\$ 3,395,131</u></b>
<b>Totals-Governmental and Business-Type Activities .....</b>	<b><u>\$ 163,917,203</u></b>	<b><u>\$ 20,765,610</u></b>	<b><u>\$ (15,549,126)</u></b>	<b><u>\$ 169,133,687</u></b>	<b><u>\$ 162,697,645</u></b>	<b><u>\$ 6,436,042</u></b>

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 6 – LONG-TERM LIABILITIES (Continued):**

The following is a summary of bond and capital outlay note transactions of the City for the fiscal year ended June 30, 2015.

	<b><u>General Obligation Bonds</u></b>	<b><u>Revenue Bonds</u></b>	<b><u>Total</u></b>
Debt payable at July 1, 2014.....	\$ 139,680,000	\$ 3,703,801	\$ 143,383,801
Debt retired .....	(13,445,000)	(149,964)	(13,594,964)
Issued during fiscal year .....	18,995,000	-	18,995,000
Debt released by Maryville College .....	<u>(300,000)</u>	<u>-</u>	<u>(300,000)</u>
<b>Debt Payable – June 30, 2015 .....</b>	<b><u>\$ 144,930,000</u></b>	<b><u>\$ 3,553,837</u></b>	<b><u>\$ 148,483,837</u></b>

Bonds payable at June 30, 2015, are comprised of the following individual issues:

<b>General Obligation Bonds:</b>	<b><u>Total</u></b>	<b><u>Long-term Amount Outstanding</u></b>	<b><u>Current Amount Outstanding</u></b>
\$2,000,000 – 2006 Public Improvement Bonds due in annual installments of \$100,000 to \$200,000 through June 2021, variable interest .....	\$ 150,000	\$ -	\$ 150,000
\$5,200,000 – 2008 Water and Sewer General Obligation Bonds, due in installments of \$50,000 to \$1,000,000, average interest at 4.74% .....	5,100,000	5,050,000	50,000
\$2,400,000 – 2008 General Obligation Bonds, due in installments of \$50,000 to \$400,000 average interest at 4.68% .....	2,150,000	2,100,000	50,000
\$3,000,000 – 2008 Local Government Public Improvement Bonds Series B-17-A due in installments of \$100,000 to \$230,000 through June 2028 variable interest .....	2,255,000	2,130,000	125,000
\$10,365,000 – 2008 Local Government Improvement Bonds, Series E-3-E, due in annual installments of \$155,000 to \$1,065,000 through June 2017, interest at 5% .....	1,780,000	35,000	1,745,000
\$77,370,000 – 2008 Local Government Improvement Bonds, Series E-5-B, due in annual installments of \$100,000 to \$2,090,000 through June 2042, variable interest .....	72,130,000	70,880,000	1,250,000
\$9,925,000 – 2010 Industrial Development Board of Blount County, TN, Civic Arts Center, due in annual installments of \$310,000 to \$565,000 through June 2036, interest at 4.5% .....	6,500,000	6,500,000	-
\$6,075,000 – 2009 Landfill General Obligation Bonds due in annual installments of \$300,000 to \$815,000 through June 2022, variable interest.....	4,745,000	4,495,000	250,000

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 6 – LONG-TERM LIABILITIES (Continued):**

	<b><u>Total</u></b>	<b><u>Long-term Amount Outstanding</u></b>	<b><u>Current Amount Outstanding</u></b>
<b>General Obligation Bonds (Continued)</b>			
\$1,390,000 – General Obligation, Series 2011, due in annual installments of \$270,000 to \$300,000 through June 2016, interest at 3% .....	300,000	-	300,000
\$10,000,000 – 2012 General Obligation Bonds – due in annual installments of \$225,000 to \$650,000 through June 2043, variable interest.....	9,550,000	9,325,000	225,000
\$10,000,000 – 2013A General Obligation Bonds due in annual installments of \$25,000 to \$700,000 through June 2043 .....	9,975,000	9,950,000	25,000
\$2,000,000 – 2013B General Obligation Bonds due in annual installments of \$400,000 through June 2019 .....	1,600,000	1,200,000	400,000
\$10,000,000 – 2014 General Obligation Bonds due in annual installments of \$75,000 to \$750,000 through June 2043 .....	9,925,000	9,850,000	75,000
\$9,000,000 – General Obligation Bonds Series 2014 (taxable), due in annual installments of \$660,000 to \$830,000 through June 2026, variable interest .....	8,775,000	8,115,000	660,000
\$9,995,000 – 2015 General Obligation Bonds – due in annual installments of \$245,000 to \$545,000 through June 2045, variable interest.....	9,995,000	9,995,000	-
<b>Revenue Bonds:</b>			
\$4,064,166 – 2011 State Revolving Funds – due in annual installments of \$35,642 to \$207,313 through March 2033, interest at 3.4% .....	<u>3,553,837</u>	<u>3,398,701</u>	<u>155,136</u>
<b>Total Bonds Outstanding .....</b>	<b><u>\$148,483,837</u></b>	<b><u>\$143,023,701</u></b>	<b><u>\$ 5,460,136</u></b>

Total Bonds and Capital Outlay Notes Outstanding are classified in the financial statements as follows:

Proprietary Fund Types .....	\$ 70,333,837
Governmental Activities.....	<u>78,150,000</u>
Total Bonds Outstanding .....	<b><u>\$ 148,483,837</u></b>

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 6 – LONG-TERM LIABILITIES (Continued):**

The annual requirements to amortize all Bonds and Capital Outlay Notes outstanding as of June 30, 2015, including interest payments, are \$235,802,780 as follows:

<b>Fiscal Year Ending June 30<sup>th</sup></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
2016	\$ 5,460,136	\$ 6,013,207	\$ 11,473,343
2017	5,430,500	5,813,590	11,244,090
2018	5,851,032	5,609,332	11,460,364
2019	6,081,768	5,383,859	11,465,627
2020	<u>5,917,708</u>	<u>5,140,273</u>	<u>11,057,981</u>
Subtotal	<u>28,741,144</u>	<u>27,960,261</u>	<u>56,701,405</u>
2021	6,173,840	4,893,995	11,067,835
2022	6,565,188	4,925,757	11,490,945
2023	5,146,752	4,642,241	9,788,993
2024	5,358,556	4,433,546	9,792,102
2025	<u>5,530,576</u>	<u>4,213,007</u>	<u>9,743,583</u>
Subtotal	<u>28,774,912</u>	<u>23,108,546</u>	<u>51,883,458</u>
2026	5,752,848	3,980,155	9,733,003
2027	5,400,372	3,736,906	9,137,278
2028	5,588,160	3,501,088	9,089,248
2029	5,936,212	3,254,896	9,191,108
2030	<u>6,249,540</u>	<u>2,993,606</u>	<u>9,243,146</u>
Subtotal	<u>28,927,132</u>	<u>17,466,651</u>	<u>46,393,783</u>
2031	5,528,156	2,717,202	8,245,358
2032	4,682,072	2,476,798	7,158,870
2033	4,657,265	2,280,712	6,937,977
2034	4,903,156	2,078,074	6,981,230
2035	<u>5,060,000</u>	<u>1,865,057</u>	<u>6,925,057</u>
Subtotal	<u>24,830,649</u>	<u>11,417,843</u>	<u>36,248,492</u>
2036	5,330,000	1,644,269	6,974,269
2037	4,205,000	1,406,857	5,611,857
2038	4,355,000	1,224,107	5,579,107
2039	4,555,000	1,034,876	5,589,876
2040	<u>4,815,000</u>	<u>832,531</u>	<u>5,647,531</u>
Subtotal	<u>23,260,000</u>	<u>6,142,640</u>	<u>29,402,640</u>
2041	5,000,000	617,375	5,617,375
2042	5,275,000	390,276	5,665,276
2043	2,605,000	150,751	2,755,751
2044	525,000	42,800	567,800
2045	<u>545,000</u>	<u>21,800</u>	<u>566,800</u>
Subtotal	<u>13,950,000</u>	<u>1,223,002</u>	<u>15,173,002</u>
Totals	<u>\$ 148,483,837</u>	<u>\$ 87,318,943</u>	<u>\$ 235,802,780</u>

In the Electric Utility Fund, there are certain limitations and restrictions on annual debt service requirements, maintenance of and flow of monies through various restricted accounts, and minimum amounts to be maintained in various sinking funds.

(Continued)



**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 7 – RETIREMENT COMMITMENTS:**

**(A) EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF ALCOA:**

*Effective Date:*

The retirement system was restated in its entirety effective July 1, 1989. The original effective date was January 1, 1955.

*Eligibility:*

All full-time employees of the City employed at least 30 hours per week, except school personnel eligible for membership in the Tennessee Teachers' Retirement System, shall become members of the system on the first day of the calendar month coincident with or next following the date of employment. The City Manager may, by affirmative written election, choose to be a member of the system. Certain department heads may elect not to become members of the system. Each employee shall be classified as a general employee, fireman, policeman or lineman.

Employees hired on or after May 18, 2000 shall not be eligible to participate in the system.

*Credited Service:*

Credited service shall mean the period of a member's continuous service since his last date of employment with the City; authorized leaves of absence do not interrupt continuous service, but no credit is given for the period of absence except for certain periods of military service. Prior periods of employment may be credited subject to certain conditions. Credited service does not include employment beyond age 65 for members classified as fireman, policemen or linemen.

*Compensation of a Member:*

For system purposes, compensation shall mean the total cash compensation paid to a member by the City.

*Normal Retirement:*

Condition – The normal retirement date is the last day of the calendar month during which the member's 55<sup>th</sup> birthday occurs and the member completes 25 years of credited service, but not beyond the later of age 65 and the date the member completes 5 years of credited service.

Benefit – The normal retirement benefit, commencing on the last day of the third calendar month following the member's normal retirement date and payable monthly for life, is equal to 1/12<sup>th</sup> of the total of (i) and (ii) as follows:

- (i) 1.4% of average earnings multiplied by total years of credited service.
- (ii) .316% of average earnings in excess of covered compensation multiplied by the total years of credited service not in excess of 35 years

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 7 – RETIREMENT COMMITMENTS (Continued):**

**(A) EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF ALCOA (Continued):**

Benefit – (Continued)

“Average earnings” is the average annual earnings of a member for the five consecutive years of credited service which produce the highest average.

“Covered compensation” is the average (without indexing) of the contribution and benefit based in effect under Section 230 of the Social Security Act for each calendar year in the 35 year period ending with the last day of the calendar year in which the member attains (or will attain) his Social Security retirement age.

Upon retirement, the member shall receive a severance allowance in the amount of his regular rate of compensation, excluding overtime and other special forms of pay, for three (3) months after the date of his termination of employment.

If a member's normal retirement benefit payments are to commence before age 62, then the member will receive a temporary supplemental retirement benefit in addition to his normal retirement benefit described above. This benefit will be a monthly benefit in the normal form, with payments commencing at the same time as the normal retirement benefit and ceasing on the last day of the month immediately preceding the earlier of the member's date of death and age 62. The amount of the member's supplemental retirement benefit shall be equal to the member's projected primary annual retirement benefit under the Social Security Act to which the member would be entitled upon attainment of age 62, based on the assumption that his compensation for purposes of the Social Security Act would be at the same rate until such date as the annual rate he was receiving from the City at the determination date and that the Social Security Act remains unchanged after the determination date.

If a member retires under the normal retirement provisions of the system before July 1, 1999 and prior to attaining age 65, then the member will receive an additional temporary supplemental retirement benefit in addition to the benefits described above. This benefit will be a monthly benefit in the normal form, with payments commencing at the same time as the normal retirement benefit and ceasing on the last day of the month immediately preceding the earlier of the member's date of death and age 65. The amount of this benefit shall be \$150 per month.

“Social Security retirement age” shall mean age 65 in the case of a member born before January 1, 1938, age 66 for a member born after December 31, 1937, but before January 1, 1955, and age 67 for a member born after December 31, 1954.

**Employees Covered by Benefit Terms:**

At the measurement date of June 30, 2014, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	62
Inactive employees entitled to but not yet receiving benefits	<u>188</u>
	<u>250</u>

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 7 – RETIREMENT COMMITMENTS (Continued):**

**(A) EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF ALCOA (Continued):**

*Early Retirement:*

Condition – If the employment of a member is terminated after his normal retirement date, he is eligible for a delayed retirement benefit.

Benefit – The benefit, commencing on the last day of the third calendar month following the member's actual date of retirement, is computed in the same manner as the normal retirement benefit described above, with the computation being made as of the member's actual retirement date.

Upon retirement, the member shall receive a severance allowance in the amount of his regular rate of compensation, excluding overtime and other special forms of pay, for three (3) months after the date of his termination of employment.

If a member's delayed retirement benefit payments are to commence before age 62, then the member will receive a temporary supplemental retirement benefit in addition to his delayed retirement benefit described above. This benefit shall be a monthly benefit in the normal form. The terms and amount of the member's supplemental retirement benefit shall be the same as the supplemental retirement benefit described for normal retirement, with the computation of the amount being made as of the member's date of termination of service using the member's rate of annual compensation at his date of termination for purposes of determining his projected primary insurance amount.

*Delayed Retirement:*

Condition – If the employment of a member is terminated after his normal retirement date, he is eligible for a delayed retirement benefit.

Benefit – The benefit, commencing on the last day of the third calendar month following the member's actual date of retirement, is computed in the same manner as the normal retirement benefit described above, with the computation being made as of the member's actual retirement date.

Upon retirement, the member shall receive a severance allowance in the amount of his regular rate of compensation, excluding overtime and other special forms of pay, for three (3) months after the date of his termination of employment.

If a member's delayed retirement benefit payments are to commence before age 62, then the member will receive a temporary supplemental retirement benefit in addition to his delayed retirement benefit described above. This benefit shall be a monthly benefit in the normal form. The terms and amount of the member's supplemental retirement benefit shall be the same as the supplemental retirement benefit described for normal retirement, with the computation of the amount being made as of the member's date of termination of service using the member's rate of annual compensation at his date of termination for purposes of determining his projected primary insurance amount.

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 7 – RETIREMENT COMMITMENTS (Continued):**

**(A) EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF ALCOA (Continued):**

*Disability Retirement:*

Condition – In the event a member becomes totally and permanently disabled, as determined by the Board, after completion of 5 years of credited service, and remains so disabled until the benefit commencement date described below, he will be entitled to a disability retirement benefit.

Benefit – The disability retirement benefit will commence on the last day of the calendar month after all the member's sick leave, salary continuation or vacation benefits of whatever kind provided to him by the City are exhausted, but not before the last day of the later of:

- (i) The sixth calendar month following the member's date of disablement as determined by the Board, and
- (ii) The calendar month coincident with or immediately following age 65.

The benefit is computed in the same manner as the normal retirement benefit described above, except that such computation shall be based on the member's average earnings as of the date he became disabled and shall include credit for credited service for the period of time after disability occurs and prior to the disability retirement benefit commencement date.

*Death Before Retirement:*

Condition – In the event of the death of a member after becoming eligible for vested, early, normal or delayed retirement benefits, but before benefits commence, a monthly survivorship benefit shall be payable to the member's surviving spouse.

Benefit – The monthly survivorship benefit, payable on the last day of the calendar month following the later of the member's death and his earliest retirement age, and continuing for the lifetime of the surviving spouse, is determined as 50% of the member's vested accrued benefit at the time of his death.

If there is no surviving spouse, the monthly benefit is payable for five years to the member's designated beneficiary.

*Termination of Employment After 5 Years of Service:*

If a participant terminates employment after completion of 5 or more years of service, he is entitled to a deferred vested benefit to commence as his normal retirement date. The amount of the benefit is computed in the same manner as the deferred benefit for early retirement described above, with the computation being made as of his date of termination, and is multiplied by the vesting percentage in the following table:

<u>Years of Service</u>	<u>Vesting Percentage</u>
Less than 5	0%
5	100%

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 7 – RETIREMENT COMMITMENTS (Continued):**

**(A) EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF ALCOA (Continued):**

*Other Termination of Employment:*

If employment is otherwise terminated before retirement, no benefits are provided under the system.

*Optional Methods of Benefit Payment:*

Subject to the applicable system conditions, a member may select an optional method of benefit payment, in lieu of the prescribed straight life income, which is actuarially equivalent. The purpose of the optional method is to permit the guarantee of retirement income payments for a minimum period of time or to provide a continued life income to a surviving beneficiary after the death of the member. Optional methods of benefit payment are as follows:

- Life income, 60 payments guaranteed
- Life income, 120 payments guaranteed
- Life income, 180 payments guaranteed
- Joint and 50% survivor
- Joint and 75% survivor
- Joint and 100% survivor

*Employer Contributions:*

The City contributes actuarially determined amounts to finance the system benefits; no contributions are required by members of the system.

*Investment of Funds:*

The funds of the retirement system are invested in a trust fund custodied by First Tennessee Bank. The investments are managed by Martin & Company.

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 7 – RETIREMENT COMMITMENTS (Continued):**

**(A) EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF ALCOA (Continued):**

*Investment of Funds (Continued):*

**Schedule of Changes in Net Pension Liability, Deferrals, and Pension Expense**

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Net Position (b)	Net Pension Liability (a) – (b)
<b>Balances – 06/30/2013</b>	<b>\$ 36,109,338</b>	<b>\$ 21,889,974</b>	<b>\$ 14,219,364</b>
<b>Changes for the Year:</b>			
Service cost	232,880	-	232,880
Interest expense	2,612,606	-	2,612,606
Experience losses (gains)	547,119	-	547,119
Contributions – Employer	-	1,451,649	(1,451,649)
Net investment income	-	2,612,615	(2,612,615)
Benefits paid	(2,549,182)	(2,549,182)	-
Plan administrative expenses	-	(75,650)	75,650
<b>Net Changes</b>	<b>843,423</b>	<b>1,439,432</b>	<b>(596,009)</b>
<b>Balances – 06/30/2014</b>	<b><u>\$ 36,952,761</u></b>	<b><u>\$ 23,329,406</u></b>	<b><u>\$ 13,623,355</u></b>

The following presents the net pension liability using the stated discount rate of 7.5%, as well as what the net position liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Net Pension Liability	<u>\$ 17,236,749</u>	<u>\$ 13,682,480</u>	<u>\$ 10,678,525</u>

**Summary of Actuarial Assumptions and Methods**

	<u>Age 20</u>	<u>Age 35</u>	<u>Age 50</u>	<u>Age 60</u>
Mortality Rates				
RP-2000 Mortality Table, with current future mortality improvement estimated by projecting improvement to the valuation year using Scale AA				
Male	0.26	0.72	1.66	5.38
Female	0.15	0.41	1.32	4.71

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 7 – RETIREMENT COMMITMENTS (Continued):**

**(A) EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF ALCOA (Continued):**

*Investment of Funds (Continued):*

**Summary of Actuarial Assumptions and Methods (Continued)**

	<u>Age 20</u>	<u>Age 35</u>	<u>Age 50</u>	<u>Age 60</u>
Withdrawal Rates				
Male and Female				
Estimated Experience (1 <sup>st</sup> Year Select)	342.00	329.00	277.00	219.40
Estimated Experience (2 <sup>nd</sup> Year Select)	140.80	137.40	123.00	105.90
Estimated Experience (Ultimate)	105.60	59.80	38.40	31.30
Rate of Disablement				
Railroad Retirement System	0.80	0.80	5.20	33.50
Disabled Mortality/Recovery Rates				
1965 Railroad Retirement Board	44.06	44.06	45.30	53.30
Salary Scale				
4.0% annual increase to normal retirement, adjustment for longevity and sick pay	1.04	1.04	1.04	1.04
Rate of Retirement		<b><u>AGE</u></b>	<b><u>% RETIRING</u></b>	
Participants are assumed to retire according to a variable age distribution		55	50%	
		56-57	4 %	
		58-61	3%	
		62	10%	
		63-64	5%	
		65	10%	
Rate Of Investment Return		7.5% per annum for funding		
Social Security Projection		Wage base at 4.0% per annum		
		Cost of living escalation at 4.0% per annum		
Actuarial Valuation Method		Entry age normal method (level percentage of pay)		
Asset Valuation Method		Market value		
Provision for Expenses		None assumed		
Adjustment to Credited Service		Credited service adjusted to reflect accumulated sick leave		
Amortization Method		Level dollar		

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 7 – RETIREMENT COMMITMENTS (Continued):**

**(B) TENNESSEE CONSOLIDATED RETIREMENT SYSTEM:**

*Plan Description:*

Employees of the City of Alcoa 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 I, Chapters 34-37. TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at [www.treasury.tn.gov/tcrs](http://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 percent 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 (COLA's) after retirement. A COLA is granted each July for annuitants retired prior to the 2<sup>nd</sup> 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 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one-percent COLA is granted if the CPI is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

*Employees Covered by Benefit Terms:*

At the measurement date of June 30, 2014, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	47
Inactive employees entitled to but not yet receiving benefits	107
Active employees	<u>253</u>
	<u>407</u>

(Continued)



**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 7 – RETIREMENT COMMITMENTS (Continued):**

**(B) TENNESSEE CONSOLIDATED RETIREMENT SYSTEM (Continued):**

*Contributions:*

Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5 percent of salary. The City makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2015, employer contributions for the City were \$109,330 based on a rate of 16.24% of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept the City's state share revenue if required employer contributions are not remitted. The employer's actuarially determined contribution (ADC) and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as amortized portion of any unfunded liability.

**Net Pension Liability (Asset)**

The City's net pension liability (asset) was measured as of June 30, 2014, and the total pension liability used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date.

*Actuarial assumptions:*

The total pension liability as of June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of pension plan investment expenses, including inflation
Cost-of-Living Adjustment	2.5 percent

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, 2014 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.

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 7 – RETIREMENT COMMITMENTS (Continued):**

**(B) TENNESSEE CONSOLIDATED RETIREMENT SYSTEM (Continued):**

**Net Pension Liability (Asset) (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 percent.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation</u>
<u>Asset Class</u>		
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%
		<u>100%</u>

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent 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 percent. 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.

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 7 – RETIREMENT COMMITMENTS (Continued):**

**(B) TENNESSEE CONSOLIDATED RETIREMENT SYSTEM (Continued):**

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

	Total Pension Liability <u>(a)</u>	Plan Fiduciary Net Position <u>(b)</u>	Net Pension Liability (Asset) <u>(a) – (b)</u>
<b>Balance at June 30, 2013</b>	<b><u>\$ 28,853,208</u></b>	<b><u>\$ 24,563,542</u></b>	<b><u>\$ 4,289,666</u></b>
<b>Changes for the year:</b>			
Service cost	894,770	-	894,770
Interest	2,204,346	-	2,204,346
Differences between expected and actual experience	(23,187)	-	(23,187)
Contributions – employer	-	1,770,618	(1,770,618)
Contributions - employees	-	-	-
Net investment income	-	4,154,442	(4,154,442)
Benefit payments, including refunds of employee contributions	(713,405)	(713,405)	-
Administrative expense	<u>-</u>	<u>(10,211)</u>	<u>10,211</u>
<b>Net Changes</b>	<b><u>2,362,524</u></b>	<b><u>5,201,444</u></b>	<b><u>(2,838,920)</u></b>

*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 percent, 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 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease <u>(6.5%)</u>	Current Discount Rate <u>(7.5%)</u>	1% Increase <u>(8.5%)</u>
The City's net pension liability (asset)	\$ 6,236,222	\$ 1,450,746	\$(2,498,365)

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

*Pension expense:*

For the year ended June 30, 2015, The City recognized pension expense of \$770,640.

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 7 – RETIREMENT COMMITMENTS (Continued):**

**(B) TENNESSEE CONSOLIDATED RETIREMENT SYSTEM (Continued):**

*Deferred outflows of resources and deferred inflows of resources:*

For the year ended June 30, 2015, The City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 20,611
Net difference between projected and actual earnings on pension plan investments	-	1,818,331
Contributions subsequent to the measurement date of June 30, 2014	<u>1,803,941</u>	<u>-</u>
Total	<u>\$ 1,803,941</u>	<u>\$ 1,838,942</u>

The amount shown above for “Contributions subsequent to the measurement date of June 30, 2014,” will be recognized as a reduction to net pension liability in the following measurement period.

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

Year Ended June 30:	
2016	\$ (457,159)
2017	(457,159)
2018	(457,159)
2019	(457,159)
2020	(2,576)
Thereafter	(7,728)

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

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 7 – RETIREMENT COMMITMENTS (Continued):**

**(C) ALCOA CITY SCHOOLS – TEACHER LEGACY PENSION PLAN OF TCRS**

*Plan Description*

Teachers with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014 of Alcoa City Schools are provided with pensions through the Teacher Legacy Pension Plan, a cost sharing multiple-employer pension plan administered by the TCRS. The Teacher Legacy Pension Plan closed to new membership on June 30, 2014, but will continue providing benefits to existing members and retirees. Beginning July 1, 2014, the Teacher Retirement Plan became effective for teachers employed by Local Education Agencies (LEAs) after June 30, 2014. The Teacher Retirement Plan is a separate cost-sharing, multiple-employer defined benefit plan. 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 all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at [www.treasury.tn.gov/tcrs](http://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. Members of the Teacher Legacy Pension Plan are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service 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. A reduced early retirement benefit is available at age 55 and vested. Members are vested 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 percent 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 2<sup>nd</sup> 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 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

*Contributions*

Contributions for teachers are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Teachers contribute 5 percent of salary. The Local Education Agencies (LEAs) make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the Teacher Legacy Pension Plan are required to be paid. The TCRS may intercept the state shared taxes of the sponsoring governmental entity of the LEA if the required employer contributions are not remitted. Employer contributions by Alcoa City Schools for the year ended June 30, 2015 to the Teacher Legacy Pension Plan were \$789,609 which is 9.04 percent of covered payroll. The employer rate, when combined with member contributions, is 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.

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 7 – RETIREMENT COMMITMENTS (Continued):**

**(C) ALCOA CITY SCHOOLS – TEACHER LEGACY PENSION PLAN OF TCRS (Continued)**

**Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

*Pension Liabilities*

Since the measurement date is June 30, 2014, which is prior to the July 1, 2014 inception of the Teacher Retirement Plan, there is not a net pension liability to report at June 30, 2015.

*Pension Income*

Since the measurement. Date is June 30, 2014, Alcoa City Schools did not recognize a pension expense at June 30, 2015.

*Deferred Outflows of Resources and Deferred Inflows of Resources*

For the year ended June 30, 2015, Alcoa City Schools reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 87,495	\$ -
Net difference between projected and actual earnings on pension plan investments	-	2,969,432
Changes in proportion of Net Pension Liability (Asset)	41,326	-
LEA's contributions subsequent to the measurement date of June 30, 2014	<u>789,609</u>	<u>-</u>
TOTAL	<u>\$ 918,430</u>	<u>\$ 2,969,432</u>

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 7 – RETIREMENT COMMITMENTS (Continued):**

**(C) ALCOA CITY SCHOOLS – TEACHER LEGACY PENSION PLAN OF TCRS (Continued)**

**Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)**

Alcoa City Schools employer contributions of \$918,430, reported as pension related deferred outflows of resources, subsequent to the measurement date will be recognized as an increase in net pension asset in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ended June 30</b>	
2016	\$ (720,888)
2017	(720,888)
2018	(720,888)
2019	(720,888)
2020	21,470
Thereafter	21,470

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

*Actuarial Assumptions*

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of pension plan investment expenses, including inflation
Cost-of-Living Adjustment	2.5 percent

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, 2014 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.

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 7 – RETIREMENT COMMITMENTS (Continued):**

**(C) ALCOA CITY SCHOOLS – TEACHER LEGACY PENSION PLAN OF TCRS (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 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation</u>
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%	<u>1%</u>
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent 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 percent. 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 District 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.

(Continued)



**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 7 – RETIREMENT COMMITMENTS (Continued):**

**(C) ALCOA CITY SCHOOLS – TEACHER LEGACY PENSION PLAN OF TCRS (Continued)**

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

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

	1% Decrease <u>(6.5%)</u>	Current Discount Rate <u>(7.5%)</u>	1% Increase <u>(8.5%)</u>
Alcoa City Schools' proportionate share of the net pension liability (asset)	\$ 6,078,483	\$ (36,040)	\$(5,098,201)

**(D) ALCOA CITY SCHOOLS – TEACHER'S RETIREMENT PLAN OF TCRS:**

*Plan Description*

Teachers with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014 of Alcoa City Schools are provided with pensions through the Teacher Legacy Pension Plan, a cost sharing multiple-employer pension plan administered by the TCRS. The Teacher Legacy Pension Plan closed to new membership on June 30, 2014, but will continue providing benefits to existing members and retirees. Beginning July 1, 2014, the Teacher Retirement Plan became effective for teachers employed by Local Education Agencies (LEAs) after June 30, 2014. The Teacher Retirement Plan is a separate cost-sharing, multiple-employer defined benefit plan. 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 all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at [www.treasury.tn.gov/tcrs](http://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. Members of the Teacher Retirement Plan are eligible to retire at age 65 with 5 years of service credit or pursuant to the rule of 90 in which the member's age and service credit total 90. Members are entitled to receive unreduced service retirement benefits, which are determined by a formula using the member's highest five consecutive year average compensation and the member's 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

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 7 – RETIREMENT COMMITMENTS (Continued):**

**(D) ALCOA CITY SCHOOLS – TEACHER’S RETIREMENT PLAN OF TCRS (Continued):**

*Benefits Provided (Continued)*

related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent 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 2<sup>nd</sup> 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 percent, and applied to the current benefit. No COLA is granted if the change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest. Under the Teacher Retirement Plan, benefit terms and conditions, including COLA, can be adjusted on a prospective basis. Moreover, there are defined cost controls and unfunded liability controls that provide for the adjustment of benefit terms and conditions on an automatic basis.

*Contributions*

Contributions for teachers are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Teachers contribute 5 percent of salary. The Local Education Agencies (LEAs) make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. Per the statutory provisions governing the TCRS, the employer contribution rate cannot be less than 4 percent, except for in years when the maximum funded level, approved by the TCRS Board of Trustees, is reached. By law, employer contributions for the Teacher Retirement Plan are required to be paid. The TCRS may intercept the state shared taxes of the sponsoring governmental entity of the LEA if the required employer contributions are not remitted. Employer contributions by Alcoa City Schools for the year ended June 30, 2015 to the Teacher Retirement Plan were \$3,019 which is 4 percent of covered payroll. The employer rate, when combined with member contributions, is 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.

**Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

*Pension Liabilities*

Since the measurement date is June 30, 2014, which is prior to the July 1, 2014 inception of the Teacher Retirement Plan, there is not a net pension liability to report at June 30, 2015.

*Pension Expense*

Since the measurement date is June 30, 2014, Alcoa City Schools’ did not recognize a pension expense at June 30, 2015.

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 7 – RETIREMENT COMMITMENTS (Continued):**

**(D) ALCOA CITY SCHOOLS – TEACHER’S RETIREMENT PLAN OF TCRS (Continued):**

*Deferred Outflows of Resources and Deferred Inflows of Resources*

For the year ended June 30, 2015, Alcoa City Schools reported deferred outflows of resources to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Alcoa City Schools’ contributions subsequent to the measurement date of June 30, 2014	\$ 3,019	\$ -
Net difference between projected and actual earnings on pension plan investments	-	2,969,432

Alcoa City Schools’ employer contributions of \$3,019 reported as pension related deferred outflows of resources, subsequent to the measurement date, will be recognized as a reduction in net pension liability in the year ended June 30, 2016.

**(E) DEFERRED COMPENSATION PLAN:**

The City of Alcoa, Tennessee offers its employees a deferred compensation plan known as the City of Alcoa Thrift Plan. The Plan, available to all city employees, permits them to defer a portion of their salary until future years. Contributions to the plan are optional. The deferred compensation is not available to employees until termination, retirement, or death. Investments in the plan are managed by SEI Private Trust Company through Wachovia Bank as sub-custodian.

The City of Alcoa Thrift Plan qualifies under Internal Revenue Section 457(g). The assets of the deferred compensation plan are held in trust (not available to the creditors of the City) and the City does not act as a fiduciary or administrator of the trust. The Plan administrator provides an annual valuation report to the City. The Plan assets totaled \$18,490,734 and \$17,962,748 as of June 30, 2015 and 2014, respectively.

The following is a summary of activity in the Plan for the year:

Asset balance at July 1, 2014 .....	\$ 17,962,748
Deferrals of compensation .....	1,031,973
Investment appreciation/depreciation .....	573,080
Withdrawals .....	<u>(1,077,067)</u>
Asset balance at June 30, 2015.....	<u><b>\$ 18,490,734</b></u>

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 7 – RETIREMENT COMMITMENTS (Continued):**

**(F) OTHER POST-EMPLOYMENT BENEFITS:**

In addition to the pension benefits described above, the City of Alcoa provides post-retirement health care benefits to all employees who retire from the City. Currently 39 City retirees and 25 Education retirees meet the eligibility requirements.

**CITY OF ALCOA – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS:**

*Background*

On July 1, 2008, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pension*. This standard addresses how local governments should account for and report their costs related to post-employment health care and other non-pension benefits, such as the City's retiree health benefits. Historically, the City's post retirement benefits were funded on a pay-as-you-go basis, but GASB 45 requires that the City accrue the cost of the retiree health subsidy and any other post-employment benefits during the period of the employees' active employment, while the benefits are being earned, and disclose the unfunded actuarial accrued liability in order to accurately account for the total future cost of post-employment benefits and the financial impact on the City. The funding methodology mirrors the funding approach used for pension benefits.

*Plan Description*

The City established a policy that provides medical insurance benefits to eligible retirees and their spouses. In order to participate, retirees must have reached the age of 55 or be on disability retirement and must have health benefit coverage in the self-insured plan provided by the City. The retiree can remain on the City plan from age 55 through age 65 by paying half of the coverage premium to the City.

At July 1, 2014 the date of the actuarial valuation, membership included:

	<u>Primary Government</u>
Retirees and beneficiaries receiving benefits .....	30
Terminated employees entitled to, but not yet receiving benefits .....	0
Active employees .....	272

*Funding Policy*

GASB Statement No. 45 requires recognition of the current expense of OPEB based on the City's annual required contribution, but does not require the funding of the related liability. The City has established an internal service fund where assets are set aside for payment of OPEB.

The City's annual OPEB cost (expense) is calculated based on the annual required contribution of the City (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 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 and unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 7 – RETIREMENT COMMITMENTS (Continued):**

**(F) OTHER POST-EMPLOYMENT BENEFITS (Continued):**

**CITY OF ALCOA – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS:**

**ANNUAL OPEB COST AND NET OPEB OBLIGATION**

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB asset is as follows for June 30:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Annual required contribution (ARC) for June 30			
Normal Cost .....	\$ 149,775	\$ 149,775	\$ 147,947
Interest on Net OPEB Obligation .....	7,272	7,272	6,781
Amortization of unfunded accrued liability .....	<u>217,446</u>	<u>217,446</u>	<u>194,462</u>
Annual OPEB Costs .....	374,493	374,493	349,190
Annual employer contributions .....	<u>(95,593)</u>	<u>(391,998)</u>	<u>(93,075)</u>
Percentage of annual postemployment benefit cost contributed .....	25.52%	104.68%	26.65%
Increase (decrease) in net OPEB obligation .....	278,900	(17,505)	256,115
Net OPEB obligation – beginning of year .....	<u>158,353</u>	<u>175,858</u>	<u>(80,257)</u>
Net OPEB obligation – end of year .....	<u><b>\$ 437,253</b></u>	<u><b>\$ 158,353</b></u>	<u><b>\$ 175,858</b></u>

Actuarial valuations of an ongoing plan involve estimates of the value of the 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 employers are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

For the year ended June, 2015 (based on an actuarial as of July 1, 2014), the City's OPEB funding progress is as follows:

Actuarial Valuation Date*	Actuarial Value of Assets	Actuarial Accrued Liability Entry Age	Unfunded AAL(UAAL) (Funding Excess)	Funded Ratio	Covered Payroll	UAAL (Funding Excess as a Percentage of Covered Payroll)
7/01/10	\$ -	4,187,184	4,187,184	0%	13,540,995	30.9%
7/01/11	\$ -	4,231,148	4,231,148	0%	13,540,995	31.2%
7/01/12	\$ -	5,424,471	5,424,471	0%	12,441,103	43.6%
7/01/13	\$ -	5,561,497	5,561,497	0%	12,441,103	44.7%
7/01/14	\$ -	5,655,719	5,655,719	0%	13,076,017	43.3%
7/01/15	\$ -	5,655,719	5,655,719	0%	13,076,017	43.3%

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 7 – RETIREMENT COMMITMENTS (Continued):**

**(F) OTHER POST-EMPLOYMENT BENEFITS (Continued):**

**CITY OF ALCOA – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued):**

**ANNUAL OPEB COST AND NET OPEB OBLIGATION (Continued):**

\* Information for the 2010-2011 fiscal years is based on results from an actuarial valuation that was performed as of July 1, 2010, information for the 2012 and 2013 fiscal years is based on an actuarial valuation as of July 1, 2012, and information for the 2014 and 2015 fiscal years is based on an actuarial valuation as of July 1, 2014.

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 evaluation. The actuarial method 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.

**ACTUARIAL METHOD AND ASSUMPTION**

The ARC for fiscal year ended June 30, 2015 was determined as part of the July 1, 2012, actuarial valuation using the entry age normal method – a method under which the Actuarial Present Value of the Projected Benefits is allocated on a level basis over the earnings or service of the individual between entry age and assumed exit ages.

Funding Investment Rate .....	4%
Medical Trend Rate .....	10% graded down to 6% after 8 years, and 6% thereafter
Inflation Rate Assumption .....	3%
Ultimate Trend Rate.....	5%
Actuarial Cost Method .....	Entry Age Normal
Annual Payroll Growth Rate.....	4.00%
Remaining amortization period at June 30, 2015 .....	26 years

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 7 – RETIREMENT COMMITMENTS (Continued):**

**(G) ALCOA CITY SCHOOLS – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)**

*Background*

On July 1, 2008, the Alcoa Schools adopted the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pension*. This standard addresses how local governments should account for and report their costs related to post-employment health care and other non-pension benefits, such as the School's retiree health benefit subsidy. Historically, the School's subsidy was funded on a pay-as-you-go basis, but GASB 45 requires that the Schools accrue the cost of the retiree health subsidy and any other post-employment benefits during the period of the employees' active employment, while the benefits are being earned, and disclose the unfunded actuarial accrued liability in order to accurately account for the total future cost of post-employment benefits and the financial impact on the Schools. The funding methodology mirrors the funding approach used for pension benefits.

*Plan Description*

The Schools maintain a policy that provides medical insurance benefits to eligible retirees and their spouses. In order to participate, retirees must have reached the age of 55 or be on disability retirement and must have health benefit coverage in the self-insured plan provided by the Schools.

*Funding Policy*

At July 1, 2014 the date of the actuarial valuation, membership included:

	<u>Alcoa City Schools</u>
Retirees and beneficiaries receiving benefits.....	28
Terminated employees entitled to, but not yet receiving benefits.....	0
Active employees.....	171

GASB Statement No. 45 requires recognition of the current expense of OPEB based on the School's annual required contribution, but does not require the funding of the related liability.

The School's annual OPEB cost (expense) is calculated based on the annual required contribution of the School (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 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 and unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 7 – RETIREMENT COMMITMENTS (Continued):**

**(G) ALCOA CITY SCHOOLS – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)**

**ANNUAL OPEB COST AND NET OPEB OBLIGATION**

The School's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB asset is as follows for June 30:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Annual required contribution (ARC)			
for June 30, 2015.....	\$ 223,969	\$ 223,969	\$ 182,546
Interest on net OPEB obligation .....	10,097	10,097	2,239
Adjustment on annual required contribution....	<u>(10,144)</u>	<u>(10,144)</u>	<u>(2,249)</u>
Annual OPEB Costs.....	223,922	223,922	182,536
Annual employer contributions.....	<u>(68,500)</u>	<u>(128,525)</u>	<u>(68,500)</u>
Percentage of annual postemployment			
Benefit cost contributed .....	30.6%	57.4%	37.53%
Increase (decrease) in net OPEB obligation.....	155,422	95,397	114,036
Net OPEB obligation – beginning of year .....	347,820	252,423	138,387
Net OPEB obligation – end of year.....	<u><b>\$ 503,242</b></u>	<u><b>\$ 347,820</b></u>	<u><b>\$ 252,423</b></u>

Actuarial valuations of an ongoing plan involve estimates of the value of the 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 employers are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

For the year ended June, 2015, the School's OPEB funding progress is as follows:

Actuarial Valuation <u>Date*</u>	Actuarial Value of <u>Assets</u>	Actuarial Accrued Liability <u>Entry Age</u>	Unfunded AAL(UAAL) (Funding <u>Excess</u> )	Funded <u>Ratio</u>	Covered <u>Payroll</u>	UAAL (Funding Excess as a Percentage of Covered <u>Payroll</u> )
7/01/09	\$ -	\$ 3,543,694	\$ 3,543,694	0%	\$ 8,128,471	43.6%
7/01/10	\$ -	\$ 1,786,267	\$ 1,786,267	0%	\$ 8,396,138	21.3%
7/01/11	\$ -	\$ 1,846,396	\$ 1,846,396	0%	\$ 8,396,138	22.0%
7/01/12	\$ -	\$ 1,799,973	\$ 1,799,973	0%	\$ 8,519,194	21.1%
7/01/13	\$ -	\$ 1,849,957	\$ 1,849,957	0%	\$ 8,519,194	21.1%
7/01/14	\$ -	\$ 2,291,375	\$ 2,291,375	0%	\$ 8,507,101	27%
7/01/15	\$ -	\$ 2,291,375	\$ 2,291,375	0%	\$ 8,507,101	27%

(Continued)



**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 7 – RETIREMENT COMMITMENTS (Continued):**

**(G) ALCOA CITY SCHOOLS – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)**

**ANNUAL OPEB COST AND NET OPEB OBLIGATION (Continued)**

\* Information for the 2009 fiscal year is based on results from an actuarial valuation that was performed as of July 1, 2010 and information for the 2010-2011 fiscal years is based on an actuarial performed as of July 1, 2010. Information for the 2012 and 2013 fiscal years is based on an actuarial valuation performed as of July 1, 2012. Information for the 2014 and 2015 fiscal years is based on an actuarial valuation performed as of July 1, 2014.

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 evaluation. The actuarial method 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.

*Actuarial Method and Assumption*

The ARC for fiscal year ended June 30, 2015 was determined as part of the July 1, 2012 actuarial valuation using the entry age normal method – a method under which the Actuarial Present Value of the Projected Benefits is allocated on a level basis over the earnings or service of the individual between entry age and assumed exit ages.

Significant assumptions used in the actuarial valuation include:

Investment Return Rate .....	4%
Medical Trend Rate .....	10% graded down to 6% over 8 years, and 6% thereafter
Inflation Assumption .....	3%
Ultimate Trend Rate.....	5%
Actuarial Cost Method.....	Entry Age Normal
Annual Payroll Growth Rate.....	3.00%
Remaining amortization period at June 30, 2015 .....	27 years

The actuarial value of the OPEB assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. Any excess of these assets over actuarial accrued liability is amortized as a level percentage of projected payroll over an open 30 year period. The remaining amortization period is thirty years.

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 8 – EMPLOYEE HEALTH INSURANCE, INTERNAL SERVICE FUND:**

The City of Alcoa, Tennessee has chosen to establish the Employees' Insurance Trust Fund for risks associated with the employee's health insurance plan. The Employees Insurance Trust is accounted for as an internal service fund where assets are set aside for claim settlements. The City retains the risk of loss to a limit of \$60,000 per specific loss. The City has obtained a stop/loss commercial insurance policy to cover claims beyond the \$60,000 per specific loss. The maximum liability approximates \$29.6 million for the year (based on 493 employees at a maximum of \$60,000 per employee).

All full-time employees of the primary government are eligible to participate. A premium charge is allocated to each fund that accounts for full-time employees. This premium charge is based on actuarial estimates of the amounts needed to pay prior and current-year claims and to establish a reserve for catastrophe losses. Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The Employees' Insurance Trust Fund establishes claims liabilities based on estimates of the ultimate cost of claims that have been incurred but not reported. The process used to compute claims liabilities does not necessarily result in an exact amount.

Changes in the balance of claims liabilities during the past three fiscal years are as follows:

<u>Year Ended</u> <u>June 30,</u>	<u>Beginning of</u> <u>Fiscal Year</u> <u>Liability</u>	<u>Current Year</u> <u>Claims</u>	<u>Liability</u> <u>Balance at</u> <u>Fiscal</u> <u>Year End</u>
2013	\$ 153,647	\$ 3,613,331	\$ 241,663
2014	241,663	3,311,882	306,223
2015	306,223	3,368,049	466,736

The City of Alcoa carries commercial insurance for all other risks of loss, including general liability, property and casualty, workers' compensation and environmental. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**NOTE 9 – CONTRACTS WITH THE TENNESSEE VALLEY AUTHORITY (TVA):**

The Electric Utility has a power contract with TVA whereby the Utility purchases all its electric power from TVA subject to certain restrictions and conditions. The restrictions and conditions include prohibitions against diverting Utility assets to other operations of the Municipality, securing indebtedness of other operations, or paying more than the Utility's equitable share of tax equivalents.

The Utility participates in TVA's Home Energy Conservation Program. TVA advances the funds from which the Utility disburses for approved customer home insulation and heat pumps. In event of customer default, the Utility does not have loss exposure.

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 10 – JOINT VENTURES:**

In order to pool resources and share the costs, risks and rewards of providing services for the benefit of the general public, the City of Alcoa, Tennessee, participates (has an ongoing financial interest and financial responsibility) in the following joint ventures:

(A) **INDUSTRIAL DEVELOPMENT BOARD OF BLOUNT COUNTY AND THE CITIES OF ALCOA AND MARYVILLE, TENNESSEE**

The Industrial Development Board of Blount County and the Cities of Alcoa and Maryville, Tennessee was organized pursuant to a resolution of the Blount County Quarterly Court in a special called session on September 30, 1969. A certificate of incorporation was received from the Secretary of State of the State of Tennessee dated October 1, 1969. The Industrial Development Board is governed by seven (7) directors. The purpose of the Industrial Development Board is to promote industrial development, provide additional job opportunities in Blount County, Tennessee and surrounding areas, and to exercise the authority and pursue the objectives of an industrial development corporation as provided for in Title 7, Chapter 53, of the Tennessee Code Annotated.

For the fiscal year ended June 30, 2015, the City of Alcoa contributed \$570,727 to the Industrial Development Board of Blount County.

Summary financial information, as required by accounting principles generally accepted in the United States of America, for the fiscal year ended June 30, 2014 is presented below:

Industrial Development Board of Blount County and  
the Cities of Alcoa and Maryville, Tennessee (Summary)

Revenues .....	\$ 5,056,511
Expenditures .....	<u>(5,474,112)</u>
Excess (deficit) of Expenditures Over Revenues .....	(417,601)
 Net Position – July 1, 2013.....	 <u>46,664,586</u>
 Net Position – June 30, 2014.....	 <u>\$ 46,246,985</u>
 Total Assets .....	 <u>\$ 74,728,232</u>
Total Liabilities .....	<u>\$ 28,481,247</u>
Net Position .....	<u>\$ 46,246,985</u>

The Industrial Development Board of Blount County and the Cities of Alcoa and Maryville, Tennessee issues a publicly available report. A copy may be obtained by writing to Industrial Development Board of Blount County and the Cities of Alcoa and Maryville, Tennessee, 201 S. Washington Street, Maryville, Tennessee 37804.

(B) **BLOUNT COUNTY PUBLIC LIBRARY:**

The Blount County Public Library (a special revenue fund of Blount County, Tennessee) is funded jointly by Blount County, the City of Maryville, Tennessee, and the City of Alcoa, Tennessee, pursuant to an agreement entered into on effective date January 1, 1969, and continuing until any party shall furnish a six (6) months written notice to terminate its participation. Effective July 1, 1989, Blount County, Tennessee became the fiscal agent for the Library, a component unit of Blount County, Tennessee. Financial statements for the Blount County Public Library can be obtained by writing to Blount County Courthouse, 341 Court Street, Maryville, TN 37801.

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 10 – JOINT VENTURES (Continued):**

**(B) BLOUNT COUNTY PUBLIC LIBRARY (Continued):**

The Blount County Public Library (a special revenue fund of Blount County, Tennessee) is funded jointly by Blount County, the City of Maryville, Tennessee, and the City of Alcoa, Tennessee, pursuant to an agreement entered into on effective date January 1, 1969, and continuing until any party shall furnish a six (6) months written notice to terminate its participation. Effective July 1, 1989, Blount County, Tennessee became the fiscal agent for the Library, a component unit of Blount County, Tennessee. Financial statements for the Blount County Public Library can be obtained by writing to Blount County Courthouse, 341 Court Street, Maryville, TN 37801.

For the fiscal year ended June 30, 2015, the City of Alcoa contributed \$184,595 to the Library. A summary of the Library's financial information as required by accounting principles generally accepted in the United States of America for the fiscal year ended June 30, 2015, is presented below:

Revenues .....	\$ 1,105,881
Other Sources – Operating Transfers .....	899,520
Expenditures .....	<u>(2,387,106)</u>
Excess of Revenues and Other Sources Over Expenditures .....	(381,705)
Fund Balance – July 1, 2014 .....	<u>1,211,453</u>
Fund Balance – June 30, 2015 .....	<u>\$ 829,748</u>
Total Assets .....	<u>\$ 865,407</u>
Total Liabilities .....	<u>\$ 35,659</u>
Total Fund Balance .....	<u>\$ 829,748</u>

**(C) EMERGENCY COMMUNICATIONS DISTRICT OF BLOUNT COUNTY, TENNESSEE**  
**(formerly Blount County Communications Center):**

Pursuant to agreement dated August 28, 1984, between Blount County, Tennessee, the City of Maryville, Tennessee, and the City of Alcoa, Tennessee, a Communications Center was established for the purpose of handling emergency calls for all three governmental units. The intergovernmental cooperative was known as the Blount County Communications Center, which has now merged with the Blount County Emergency Communications District, a component unit of Blount County, Tennessee. The City's Board is composed of nine directors, whom are appointed by the Blount County Board of County Commissioners. The City of Alcoa has control over budget and financing of the joint venture only to the extent of representation by the committee members and is responsible for funding 25% of operations. The City of Alcoa contributed \$151,064 to the City during the fiscal year ended June 30, 2015. Summary financial information as required by accounting principles generally accepted in the United States of America for the fiscal year ended June 30, 2015, is presented at the top of the next page:

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 11 – JOINT VENTURES (Continued):**

(C) **EMERGENCY COMMUNICATIONS DISTRICT OF BLOUNT COUNTY, TENNESSEE**  
**(formerly Blount County Communications Center) (Continued):**

Operating Revenues.....	\$ 1,320,225
Operating Expenses .....	<u>(1,828,143)</u>
Operating Income (loss) .....	(507,918)
Non-Operating Revenues .....	<u>657,002</u>
Change in Net Position .....	149,084
Net Position – July 1, 2014.....	<u>2,922,746</u>
Net Position – June 30, 2015 .....	<u>\$ 3,071,830</u>
Total Assets .....	<u>\$ 5,112,539</u>
Total Liabilities .....	<u>\$ 2,010,709</u>
Total Net Position.....	<u>\$ 3,071,830</u>

The Emergency Communications District of Blount County issues a publicly available financial report. The financial statements can be obtained by writing the Emergency Communications District of Blount County at P. O. Box 4609, Maryville, TN 37802.

(D) **BLOUNT COUNTY CABLE TELEVISION AUTHORITY:**

Blount County, the City of Maryville, and the City of Alcoa jointly regulate the operation of cable television through the Blount County Cable Television Authority. The Authority is composed of nine members, three of whom are appointed by the City of Alcoa Commission. The remaining six members are appointed by the County and the City of Maryville. The City of Alcoa has control over budget and financing of the joint venture only to the extent of representation by the three board members appointed. The Authority funds its budget through the collection of cable television franchise fees from companies under its jurisdiction. After payment of the Authority's expenses, the residual of those collections is remitted to the county and the two cities based on point of collection.

Alcoa's share for the year ended June 30, 2015, amounted to \$90,233. Summary financial information required by accounting principles generally accepted in the United States of America for the fiscal year ended June 30, 2015, is presented below:

Revenues .....	\$ 1,002,295
Expenditures.....	<u>(26,521)</u>
Excess of Revenues Over Expenditures Before Franchise	
Fee Distributions .....	975,774
Franchise Fee Distributions to County and Cities.....	<u>(975,757)</u>
Excess (Deficiency) of Revenues Over Expenditures .....	17
Fund Balance – July 1, 2014 .....	<u>18,442</u>
Fund Balance – June 30, 2015.....	<u>\$ 18,459</u>
Total Assets.....	<u>\$ 253,990</u>
Total Liabilities .....	<u>\$ 235,531</u>
Total Fund Balance .....	<u>\$ 18,459</u>

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 10 – JOINT VENTURES (Continued):**

(D) **BLOUNT COUNTY CABLE TELEVISION AUTHORITY (Continued)**

No joint venture debt was reported on the financial statements of the Cable Television Authority as of June 30, 2015. Publically available financial statements can be obtained by writing to the Blount County Cable Television Authority, P. O. Box 4338, Maryville, TN 37802.

(E) **RECREATION AND PARKS COMMISSION:**

Blount County, the City of Maryville, and the City of Alcoa jointly operate a recreation and parks system through a joint Recreation and Parks Commission. The Commission is composed of seven members, two of whom are appointed by the City of Alcoa Commission. Two members each are appointed by the County and the City of Maryville and one member is appointed by the joint commission. The City of Alcoa has control over budget and financing of the Commission only to the extent of representation by the two board members appointed. Contributions toward operations are provided annually by the county and the cities based on a per capita cost sharing formula. The City of Alcoa contributed \$483,210 to the operations of the Commission during the fiscal year ended June 30, 2015, and expended an additional \$70,177 for recreation and parks improvements. For the year ended June 30, 2014, the City contributed \$462,150 for Commission operations and \$32,479 for park improvements.

Summary financial information required by accounting principles generally accepted in the United States of America for the fiscal year ended June 30, 2014, is presented below.

Revenues.....	\$ 2,702,279
Expenditures .....	<u>(2,659,362)</u>
Excess of Revenues Over Expenditures .....	42,917
Fund Balance – July 1, 2013.....	<u>1,275,496</u>
Fund Balance – June 30, 2014.....	<u>\$ 1,318,413</u>
Total Assets .....	<u>\$ 1,579,508</u>
Total Liabilities.....	<u>\$ 261,095</u>
Total Fund Balance.....	<u>\$ 1,318,413</u>

Complete publically available financial statements are available by writing the office of the Recreation and Parks Commission at 316 Everett High School Road, Maryville, TN 37801.

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 10 – JOINT VENTURES (Continued):**

(E) **RECREATION AND PARKS COMMISSION** (Continued)

Bonds issued by Blount County, Tennessee on behalf of the Recreation and Parks Commission for the construction of a new Senior Citizen Center totaled \$1,325,000. The City of Alcoa's share (10%) is as follows:

<b><u>Year Ending June 30,</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
2016	\$ 11,000	\$ 1,725	\$ 12,725
2017	11,500	1,175	12,675
2018	<u>12,000</u>	<u>600</u>	<u>12,600</u>
<b>Total</b>	<b><u>\$ 34,500</u></b>	<b><u>\$ 3,500</u></b>	<b><u>\$ 38,000</u></b>

**JOINT DEVELOPMENT OF INDUSTRIAL PARKS:**

(F) **PARTNERSHIP PARK NORTH – PARTNERSHIP PARK SOUTH:**

Pursuant to an Intergovernmental Agreement dated December 16, 1997, between the City of Maryville, Tennessee, the City of Alcoa, Tennessee, Blount County, Tennessee, and the Industrial Development Board of Blount County, Tennessee, the two (2) cities and Blount County agreed to provide financial assistance to the Industrial Development Board and Blount County, Tennessee in connection with the purchase of certain property and the development and operation of such property as two (2) industrial parks. Such financial assistance is to be provided as follows: Blount County – forty percent (40%); City of Maryville – thirty percent (30%); and City of Alcoa – thirty percent (30%).

Bonds issued by the Industrial Board and Blount County, Tennessee for the projects total \$7,915,000. The City of Alcoa's share is as follows:

<b><u>Year Ending June 30,</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
<b>2015</b>	<b><u>\$ 81,000</u></b>	<b><u>\$ 5,000</u></b>	<b><u>\$ 86,000</u></b>

Under the terms of the Agreement, a Joint Operating Committee, composed of one (1) representative from each of the parties to the agreement, shall have overall control of the two (2) industrial parks – the Partnership Park South (Herron property) and the Partnership Park North (Burkhart property). Such overall control shall include the right to approve all sales of the property in the Industrial Parks; approve all budgets related to the operation of the Industrial Parks; approve all capital improvements to the Industrial Parks; and approve all design guidelines, restrictive covenants, and management policies regarding the Industrial Parks.

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 10 – JOINT VENTURES (Continued):**

**JOINT DEVELOPMENT OF INDUSTRIAL PARKS (Continued):**

**(F) PARTNERSHIP PARK NORTH – PARTNERSHIP PARK SOUTH (Continued):**

In addition to financial assistance provided to the Industrial Development Board by the City of Maryville, the City of Alcoa, and Blount County, the Industrial Development Board is to receive the proceeds from the sale of land in the Industrial Parks together with other receipts in connection with the operation, development, and maintenance of the Industrial Parks. Also, amounts equivalent to the property taxes received with respect to any property within either of the Industrial Parks is to be contributed to the Industrial Board.

**(G) THE PELLISSIPPI RESEARCH CENTRE ON THE OAK RIDGE CORRIDOR:**

Pursuant to an Intergovernmental Cooperation Agreement dated May 2006, by and among the City of Maryville, Tennessee, the City of Alcoa, Tennessee, Blount County, Tennessee, Knox County, Tennessee, and the Industrial Development Board of Blount County, Tennessee, the two (2) cities and two (2) counties agreed to provide financial assistance to the Industrial Development Board in connection with the purchase of certain property and the development and operation of such property as a research and development industrial park. Such financial assistance is to be provided as follows: Blount County – twenty-five percent (25%); Knox County – twenty-five percent (25%); City of Maryville – twenty-five percent (25%); and City of Alcoa – twenty-five percent (25%).

Under the terms of the agreement, a joint operating committee, composed of one (1) representative from each of the parties to the agreement, shall have overall control of the industrial park. Such overall control shall include the right to approve all sales of property in the Industrial park; approve all budgets related to the operation of the Industrial Park; approve all capital improvements to the Industrial Park; and approve all design guidelines, restrictive covenants, and management policies regarding the Industrial Park.

In addition to financial assistance provided to the Industrial Development Board by the City of Maryville, the City of Alcoa, Blount County and Knox County, the Industrial Development Board is to receive the proceeds from the sale of land in the Industrial Park together with other receipts in connection with the operation, development, and maintenance of the Industrial Park. Also, amounts equivalent to the property taxes received with respect to any property within the Industrial Park is to be contributed to the Industrial Board if needed for operation. Otherwise, the property taxes are remitted to the two (2) cities and two (2) counties based upon the above percentages.

The City's funding pursuant to this agreement is \$5,000,000 which is complete at June 30, 2015.

An agreement between the City of Alcoa Utilities (AUB) and the City of Maryville Utilities (MUB) provides for MUB to treat wastewater from AUB. During the current year, AUB paid MUB \$2,018,333 in operating costs for the year ended June 30, 2015 (June 30, 2014 amount paid \$1,945,440).

(Continued)



**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 11 –LANDFILL OPERATIONS:**

**SOLID WASTE AUTHORITY:**

In accordance with the Solid Waste Management Act of 1989, the Solid Waste Authority was established. The Authority's eleven members, appointed by the Blount County Executive and the Mayors of Maryville and Alcoa, are comprised of the following representatives:

City of Alcoa .....	2
City of Maryville .....	2
Blount County .....	3
Citizens-At-Large .....	2
Private Hauler.....	1
Industrial.....	1

Expenditures of the Authority for management and a solid waste plan are paid by the City of Alcoa Landfill Fund and amounted to \$87,297 and \$118,628 for the years ended June 30, 2015 and June 30, 2013, respectively.

**LANDFILL CLOSURE AND POSTCLOSURE CARE:**

Blount County, Tennessee and the Cities of Maryville and Alcoa are currently being served by one landfill area operated by the City of Alcoa. The existing landfill (Phase I) began operations in 1974, and was expanded in July 1986 and in April 1991. The original design and both expansions were based on a variation of an area landfill using the trench method to develop refuse filled cells.

State and Federal laws and regulations require the Landfill to place a final cover on its Phase I site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty (30) years after the closure. Although closure and postclosure care costs will be paid only near or after the date that the Landfill stops accepting waste (including Phase II in 1996 through Phase IV which will all interface with the existing Phase I Landfill), the Landfill reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$8,755,195 reported as restricted cash and landfill closure and postclosure care liability at June 30, 2015, represents the cumulative amount reported to date based on the use of twenty-eight (28%) percent of the estimated capacity of the Landfill. The amounts are based on what it would cost to perform all closure and postclosure care in 2014. The Landfill expects to close the Landfill site in 2028. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

**NOTE 12 – ECONOMIC DEPENDENCY (ALUMINUM COMPANY OF AMERICA):**

The Aluminum Company of America (ALCOA) provides the City of Alcoa with substantial property tax revenues, approximately 25%. Eight additional entities provide an additional 10% in property tax revenues.

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 13 – REFUNDING OF DEBT/NEW DEBT:**

**REFUNDING:**

During a prior year, the City of Alcoa issued \$87,735,000 of fixed rate Local Government Improvement Bonds to provide resources for the current refunding of ten (10) General Obligation and Revenue Bonds. The purpose of these transactions was to reduce the City's exposure to interest rate volatility in the insured bond market. As a result, the refunding bonds were redeemed, and the liability has been removed from the governmental activities column of the statement of net position. The reacquisition price exceeded the net carrying amount of the old debt by \$701,880. This amount was netted against the new debt and amortized over the remaining life of the refunded debt. The City's financial advisors were not able to determine the cumulative savings or economic gain from the refunding transactions due to the variable rate debt instruments involved.

**(A) GENERAL OBLIGATION REFUNDING BONDS – SERIES 2002:**

In 2002, the City of Alcoa issued General Obligation Refunding Bonds, Series 2002 amounting to \$1,545,000. The purpose of the bonds was to reduce debt service payable by the City over the term of the bonds by taking advantage favorable conditions in the municipal bond market, thereby effecting a cost savings to the public. The Refunding Bonds were issued to refund Series 1996 Bonds General Obligation Public Works Bonds of \$5,610,000, exclusive of \$745,000 of the Series 1996 Bonds (non-refunded) maturing on April 1, 2003 (\$365,000) and April 1, 2004 (\$380,000). The 2002 Refunding Bonds (\$1,545,000) mature serially in amounts ranging from \$10,000 on April 1, 2003 to \$105,000 on April 1, 2016. Average coupon interest rate is 4.1%.

**(B) WATER AND SEWER REVENUE AND TAX REFUNDING BONDS – SERIES 2002:**

In 2002, the City of Alcoa issued Water and Sewer and Tax Refunding Bonds, Series 2002 amounting to \$2,865,000. The purpose of the bonds was to reduce debt service payable by the City over the term of the bonds by taking advantage of favorable conditions in the municipal bond market, thereby effecting a cost savings to the public. The Refunding Bonds were issued to refund 2 bonds: (1) Series 1996 General Obligation Public Works Bonds of \$5,610,000, exclusive of \$745,000 of the Series 1996 Bonds (non-refunded) maturing on April 1, 2003 (\$365,000) and April 1, 2004 (\$380,000) and (2) Series 1993 Water and Sewer Revenue Tax Refunding Bonds of \$2,570,000. The 2002 Refunding Bonds (\$2,865,000) mature serially in amounts ranging from \$200,000 on April 1, 2003 to \$205,000 on April 1, 2016. Average coupon interest rate is 4.18%.

**(C) GENERAL OBLIGATION REFUNDING BONDS – SERIES 2014:**

In 2014, the City of Alcoa issued \$9,000,000 General Obligation Refunding bonds (taxable). The refunding bonds were issued to refund Series 2006 General Obligation Public Works. The 2014 Refunding Bonds mature in annual installments of \$660,000 to \$830,000 through June 2026, variable interest rate.

**(D) GENERAL OBLIGATION BONDS – SERIES 2015:**

In 2015, the City of Alcoa issued \$9,995,000 General Obligation Bonds for the construction of a new high school. The bonds are due in annual installments of \$245,000 to \$545,000 through June 2045, variable interest rate.

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 14 – FUND BALANCES:**

(A) FUND BALANCES:

At June 30, 2015, fund balances are as follows:

Fund Balance Summary									
Major Governmental Funds									
	General Fund	General Purpose School Fund	Debt Service Fund	General Obligation Public Works Construction	School Construction And Improvement Fund	Alcoa High School Construction Fund	Nonmajor Governmental Funds	Sub-totals	Description
NONSPENDABLE									
Prepays	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	Nonspendable
RESTRICTED TO:									
General Fund	63,674	-	-	-	-	-	-	66,674	Restricted
Streets and Roads	-	-	-	-	-	-	531,839	531,839	Restricted
Vehicle enforcement	-	-	-	-	-	-	1,520	1,520	Restricted
Drug enforcement	-	-	-	-	-	-	15,250	15,250	Restricted
Public Works									
Construction	-	-	-	4,773,441	-	-	-	4,773,441	Restricted
Capital projects	-	-	-	-	-	-	6,366	6,366	Restricted
ASSIGNED TO:									
Education	-	1,093,096	-	-	-	-	-	1,093,096	Restricted
Education Construction	-	-	-	-	108,171	1,151,203	-	1,259,374	Assigned
General fund	941,852			-	-	-		941,852	Assigned
Education – Cafeteria	-	-	-	-	-	-	33,372	33,372	Assigned
Education -									
Extended Day	-	-	-	-	-	-	126,336	126,336	Assigned
Debt Service	-	-	2,945,179	-	-	-	-	2,945,179	Assigned
Home Grant Program	-	-	-	-	-	-	743	743	Assigned
2001 Special projects	-	-	-	-	-	-	343,985	343,985	Assigned
Equipment replacement	-	-	-	-	-	-	21,896	21,896	
Landscaping	-	-	-	-	-	-	80,058	80,058	Assigned
UNASSIGNED	4,142,773		-	-	-		-	4,142,773	Unassigned
Totals	\$ 5,148,299	\$ 1,093,096	\$ 2,945,179	\$ 4,773,441	\$ 108,171	\$ 1,151,203	\$ 1,161,365	\$ 16,380,754	

(B) CHANGES IN PROPRIETARY FUNDS' NET POSITION:

	<b>Governmental</b>	<b>Enterprise Funds</b>				
	<b>Activities Internal Service Funds</b>	<b>Stormwater Utility</b>	<b>Water and Sewer Utility</b>	<b>Electric Utility</b>	<b>Landfill</b>	<b>Total</b>
Net Position – Beginning (restated)	\$ 829,810	\$ 1,056,111	\$ 19,108,984	\$ 35,976,113	\$ 2,290,343	\$ 58,431,551
Change in Net Position	331,430	(73,409)	389,915	298,351	(41,713)	573,144
<b>Net Position – Ending</b>	<b>\$ 1,161,240</b>	<b>\$ 982,702</b>	<b>\$ 19,498,899</b>	<b>\$ 36,274,464</b>	<b>\$ 2,248,630</b>	<b>\$ 59,004,695</b>

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 15 – COMMITMENTS:**

(A) CAPITAL LEASES:

The City has acquired equipment for which it is obligated under certain leases accounted for as capital leases. The leased assets and related obligations at June 30, 2015 are as follows:

<u>Assets Recorded Under Capital Leases</u>	<u>Terms</u>	<u>Total Lease Amount</u>	<u>Total Interest/ Interest Rate</u>	<u>Balance of lease Obligation at June 30, 2015</u>
GOVERNMENTAL ACTIVITIES:				
General Fund:				
Civic Center Capital Lease .....		\$ 9,142,400 (1)		\$ 9,142,400
Communication Equipment .....		751,750 (2)	\$ 173,706/2.3%	485,610
SunTrust Equipment – Mack Truck.....	60 mos.	200,761	11,957/2.3%	28,119
SunTrust Equipment – Police cruisers & SUVs ....	36 mos.	402,528	12,448/1.88%	-
Subtotal .....		1,355,039		513,729
Total Capital Leases – Governmental Funds .....		<u>\$ 10,497,439</u>		<u>\$ 9,656,129</u>

The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease payments as of June 30, 2015:

<u>Fiscal Year Ending June 30,</u>	<u>Governmental Activities</u>
2016	\$ 101,387
2017	76,176
2018	79,200
2019	82,344
2020	85,614
2021	89,008
Minimum lease payments for all capital leases except Civic Arts Center (1).....	513,729
Less: Amount representing interest at City's incremental borrowing rate of interest .....	(15,412)
Present Value of Minimum Lease Payments.....	<u>\$ 498,317</u>

(1) See Note 15 – (E) (1) Civic Arts Center

(2) See Note 15 – (E) (2) Communication Equipment

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 15 – COMMITMENTS (Continued):**

**(B) COMMITTED CONSTRUCTION:**

As of June 30, 2015, the City of Alcoa, Tennessee, had the following commitments with respect to unfinished construction in progress:

<u>Project Name</u>	<u>Total Contract or Estimated Amount</u>	<u>Costs Incurred through June 30, 2015</u>	<u>Estimated Cost to Complete</u>
West Plant Development .....	\$ 5,020,000	\$ 345,641	\$ 4,674,359
Water and Sewer:			
Water lines and extensions .....	43,461	-	43,461
Electric Utility:			
Voltage and substation improvements, and line extensions .....	7,826,158	5,376,158	2,450,000
MLK Center Renovation .....	26,280	26,280	-
Fire Department Construction Project .....	269,125	240,875	28,250
New Alcoa High School .....	34,928,404	33,232,372	1,696,032
Springbrook Roundabout.....	250,000	12,876	237,124
Phase IV Greenway .....	50,000	48,720	1,280
Greenway Extension Grant.....	<u>901,515</u>	<u>17,636</u>	<u>883,879</u>
<b>Totals.....</b>	<b><u>\$49,314,943</u></b>	<b><u>\$ 39,300,558</u></b>	<b><u>\$ 10,014,385</u></b>

**(C) SPRINGBROOK CORPORATE CENTER:**

In August 1993, the City foreclosed on the Springbrook Corporate Center property, under terms of a prior 1992 settlement agreement approved by the U.S. Bankruptcy Court (re: City of Alcoa vs. United Tri-Tech, Inc.). All property in the Center has been sold except for a lake and commons area, and property for joining of the Greenbelt Park with the City of Maryville.

**(D) RESEARCH AND DEVELOPMENT INDUSTRIAL PARK:**

Pursuant to an Intergovernmental Cooperation Agreement dated May 2006, by and among the City of Maryville, Tennessee, the City of Alcoa, Tennessee, Blount County, Tennessee, Knox County, Tennessee, and the Industrial Development Board of Blount County, Tennessee, the two (2) cities and two (2) counties agreed to provide financial assistance to the Industrial Development Board in connection with the purchase of certain property and the development and operation of such property as a research and development industrial park. Such financial assistance is to be provided as follows: Blount County – twenty-five percent (25%); Knox County – twenty-five percent (25%), City of Maryville – twenty-five percent (25%); City of Alcoa – twenty-five percent (25%).

Under the terms of the agreement, a joint operating committee, composed of one (1) representative from each of the parties to the agreement, shall have overall control of the industrial park. Such overall control shall include the right to approve all sales of property in the Industrial Park; approve all budgets related to the operation of the Industrial Park; and approve all guidelines, restrictive covenants, and management policies regarding the Industrial Park.

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 15 – COMMITMENTS (Continued):**

(D) RESEARCH AND DEVELOPMENT INDUSTRIAL PARK (Continued):

In addition to the financial assistance provided to the Industrial Development Board by the City of Maryville, the City of Alcoa, Blount County, and Knox County, the Industrial Development Board is to receive the proceeds from the sale of land in the Park. Also, amounts equivalent to the property taxes received with respect to any property within the Industrial Park is to be contributed to the Industrial Board if needed for operation. Otherwise, the property taxes are remitted to the two (2) cities and two (2) counties based upon an equal share of 25% each.

The City's funding pursuant to this agreement was \$5,000,000.

(E) CAPITAL LEASE – OBLIGATION:

(1) Civic Arts Center (Note 15-(A))

In May 2006 the City Commission adopted a resolution authorizing the execution of a lease agreement with respect to a Civic Arts Center to be constructed on the campus of Maryville College; approving the issuance of bonds by the Industrial Development Board of Blount County to finance such Civic Arts Center; consenting to the assignment of the City's obligation under the lease agreement; and such other matters with respect to the Civic Arts Center.

The City approved the Industrial Board's issuance of bonds, not to exceed \$33,685,000, for the construction of the Civic Arts Center. The resolution also authorized the City to levy and collect a direct annual tax sufficient with any other funds available and pledged to pay the rental payments due under the lease. The lease obligates the City to pay annually an amount not to exceed 28.57% of the rental payment due, which rental payments shall be an amount equal to a percentage of the principal and interest on the Bonds, approved under the resolution.

The Industrial Board entered into a fifty (50) year lease with Maryville College to lease the land on which the Civic Arts Center is to be constructed. At the end of the fifty year lease, the Civic Arts Center becomes the property of Maryville College.

Bonds in the amount of \$32,000,000 were issued by the Industrial Board on December 14, 2006.

Maryville College has committed a total of \$18,000,000 toward the debt service of the bonds. Any amounts paid will reduce the City of Alcoa's obligation under the lease. If Maryville College fulfills its commitment, the City's Lease Obligation would be reduced by \$5,142,600.

Interest Rate Risk – As the bonds bear interest at a variable rate, and the lease payments are an amount equal to the total debt service, including interest, the City has risk associated with changes in interest rates. A rate of 4.5% has been used to determine the above obligations under the lease. The City has purchased insurance to protect the bond holders in the event the City defaults on its lease obligations, including defaults as a result in changes in the interest rate.

The following presents a summary of the City's Civic Arts Center Capital Lease commitment as of June 30, 2015:

<b><u>Present Value of Minimum Lease Payments</u></b>	<b><u>Interest</u></b>	<b><u>Total Minimum Lease Payments</u></b>
<b><u>\$ 9,142,400</u></b>	<b><u>\$ 6,213,260</u></b>	<b><u>\$ 15,355,660</u></b>

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 15 – COMMITMENTS (Continued):**

(E) CAPITAL LEASE – OBLIGATIONS (Continued):

(1) Civic Arts Center (Continued)

The City has a 28.57% ownership interest in the Civic Center building for 50 years – the asset will then transfer to Maryville College. The City appropriately recognizes the long-term community benefit of its ownership interest as an asset in the government wide financial statements, and the corresponding long-term obligation of the lease payments. Without that long-term community benefit, the City would not have been authorized to issue long-term debt under State law. The asset rights expire after 50 years, but the financial obligation will be satisfied long before that.

Interest Rate Risk – As the bonds bear interest at a variable rate, and the lease payments are an amount equal to the total debt service, including interest, the City has risk associated with changes in interest rates. A rate of 4.5% has been used to determine the above obligations on the lease. The City has purchased insurance to protect the bond holders in the event the City defaults on its lease obligations, including defaults as a result in changes in the interest rate.

(2) Communications Center Equipment

On August 3, 2010, and subsequently modified on October 21, 2010, the City entered into an inter-governmental agreement with Blount County, Tennessee, and the City of Maryville, Tennessee to acquire certain emergency communications equipment. Under the terms of the agreement, Blount County, Tennessee is the Lessee of the equipment. In turn, the County subleased to the cities of Alcoa and Maryville their prorated share of the equipment. The terms of the agreement require the City to make lease payments totaling \$751,750, plus interest at 3.97%. Title to the equipment will transfer to each governmental entity based upon its share of the actual equipment acquired.

<b><u>Present Value of Minimum Lease Payments</u></b>	<b><u>Interest</u></b>	<b><u>Communication Equipment: Total Minimum Lease Payments</u></b>
<b><u>\$ 485,610</u></b>	<b><u>\$ 69,667</u></b>	<b><u>\$ 555,277</u></b>

These total minimum lease payments are payable as follows:

<b><u>Year Ending June 30,</u></b>	<b><u>Civic Center</u></b>	<b><u>Communication Equipment</u></b>
2016	\$ 605,100	\$ 92,546
2017	610,650	92,546
2018	605,525	92,546
2019	605,175	92,546
2020	604,375	92,546
Subtotal	<u>3,030,825</u>	<u>462,730</u>
2021 – 2054	3,027,100	92,547
2026– 2030	3,029,075	-
2031 – 2035	3,032,625	-
2036 – 2038	3,236,035	-
Subtotal	<u>12,324,835</u>	<u>92,547</u>
<b>Total</b>	<b><u>\$ 15,355,660</u></b>	<b><u>\$ 555,277</u></b>

(Continued)

**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 16 – LITIGATION:**

There are several pending lawsuits in which the City is involved. Information provided by attorneys for the City indicates that potential claims against the City resulting from such litigation which are not covered by insurance would not materially affect the financial statements of the City.

**NOTE 17 – RISK FINANCING ACTIVITIES:**

It is the policy of the City to purchase commercial insurance for the risks of losses to which it is exposed. These risks include general liability, property and casualty, and workers compensation. Settled claims have not exceeded this commercial coverage in the last three (3) years.

The City maintains its funds with financial institutions which participate in the bank collateral pool administered by the Treasurer of the State of Tennessee. Participating banks determine the aggregate balance of their public funds accounts for the State of Tennessee and its political subdivisions. The amount of collateral required to secure these public deposits must be equal to at least one hundred five percent (105%) of the average daily balance of public deposits held. Collateral securities required to be pledged by the participating banks to protect their public funds accounts are pledged to the State Treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in aggregate rather than against each individual account. Under this assessment agreement, public funds accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

**NOTE 18 – CALCULATION OF NET INVESTMENT IN CAPITAL ASSETS (GOVERNMENTAL FUNDS):**

The following items are used in the calculation of net investment in capital assets as follows in the Statement of Net Position:

	<b>Governmental Activities Net Investment In Capital Assets</b>
Total Capital Assets .....	\$ 98,170,024
Long-Term Debt and Current Debt.....	(88,780,878)
Items in Long-Term Debt:	
Add – compensated absences .....	974,749
Debt – noncapital related pension funding.....	1,780,000
Civic Center debt.....	<u>6,500,000</u>
<b>June 30, 2015 .....</b>	<b><u>\$ 18,643,895</u></b>

(Continued)



**CITY OF ALCOA, TENNESSEE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 19 – PRIOR PERIOD ADJUSTMENT:**

- (a) In prior years, the City was not required to recognize a liability for its defined benefit pension plans. However, with the implementation of GASB Statement No. 68, the City is required to recognize a net pension liability in their Statement of Net Position. Therefore, a restatement to decrease the City's net position totaling \$13,054,664 has been recognized in the Statement of Activities and in the business type activities \$1,129,042.
- (b) Proprietary funds recognize issuance costs recovered through rate charges through amortization over the life of the debt in accordance with GASB 62 and State of Tennessee regulatory requirements.

**NOTE 20 – INVESTIGATIVE AUDIT BY THE TENNESSEE COMPTROLLER OF THE TREASURY**

The Comptroller of the Treasury, Division of Investigations, in conjunction with the Tennessee Bureau of Investigations, performed an investigative audit of selected records of the City of Alcoa. The audit focused primarily on the period from July 1, 2007 through May 16, 2013. The investigation revealed that a former school employee misappropriated school cash of at least \$344, 204. A plea agreement was filed in the Eastern District Knoxville U.S. District Court on May 20, 2014. The plea agreement included an agreement of restitution, although as of December 9, 2015 no funds were received from the former employee of the schools.

Additionally, the City of Alcoa will seek restitution through the court system and through the City's insurer, who has paid the City \$149,000 reflected as deferred revenue in the Education Fund, pending grantor approval for expending the monies.

**NOTE 21 – SUBSEQUENT EVENTS:**

The date to which events occurring after June 30, 2015, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosures is December 9, 2015, which is the date on which the financial statements were issued.

Copies of the complete financial statements of the City for the current Fiscal Year are available at [http://www.comptroller.tn.gov/RA\\_MA\\_Financial/Default.aspx](http://www.comptroller.tn.gov/RA_MA_Financial/Default.aspx)