

PRELIMINARY OFFICIAL STATEMENT

\$9,995,000*

CITY OF ALCOA, TENNESSEE
General Obligation Bonds, Series 2017

OFFERED FOR SALE NOT SOONER THAN

Wednesday, February 8, 2017 at 10:45 A.M. E.S.T.
Through the Facilities of **PARITY**[®]
and at the offices of
Cumberland Securities Company, Inc.
Knoxville, Tennessee

Cumberland Securities Company, Inc.
Financial Advisor

February 3, 2017

*Preliminary, subject to change.

PRELIMINARY OFFICIAL STATEMENT DATED FEBRUARY 3, 2017

NEW ISSUE

BOOK-ENTRY-ONLY

Rating: S&P: "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 Tennessee franchise and excise taxes. (See "LEGAL MATTERS - Tax Matters" herein).

\$9,995,000*

CITY OF ALCOA, TENNESSEE General Obligation Bonds, Series 2017

Dated: Date of Delivery (assume March 1, 2017)

Due: June 1 (as indicated below)

The \$9,995,000* General Obligation Bonds, Series 2017 (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, 2017 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.

Bonds maturing June 1, 2023 and thereafter are subject to optional redemption prior to maturity on or after June 1, 2022.

<u>Maturity</u> <u>(June 1)</u>	<u>Amount*</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIPS **</u>	<u>Maturity</u> <u>(June 1)</u>	<u>Amount*</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIPS **</u>
2020	\$ 430,000				2029	\$ 555,000			
2021	450,000				2030	575,000			
2022	455,000				2031	590,000			
2023	475,000				2032	605,000			
2024	485,000				2033	620,000			
2025	500,000				2034	640,000			
2026	515,000				2035	655,000			
2027	530,000				2036	675,000			
2028	540,000				2037	700,000			

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 March __, 2017.

Cumberland Securities Company, Inc.
Financial Advisor

February __, 2017

*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

BOARD OF COMMISSIONERS

Donald R. Mull, *Mayor*

Clint Abbott, *Vice Mayor*

Vaughn D. Belcher

Jim Buchanan

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.
Knoxville, Tennessee

TABLE OF CONTENTS

SUMMARY STATEMENT	i
SUMMARY NOTICE OF SALE	iii
DETAILED NOTICE OF SALE.....	iv
BID FORM	ix
SECURITIES OFFERED	
Authority and Purpose.....	1
Description of the Bonds.....	1
Security.....	2
Qualified Tax-Exempt Obligations.....	2
Optional Redemption.....	2
Mandatory Redemption.....	3
Notice of Redemption.....	3
BASIC DOCUMENTATION	
Registration Agent.....	5
Book-Entry-Only System.....	5
Discontinuance of Book-Entry-Only System.....	7
Disposition of Bond Proceeds.....	8
Discharge and Satisfaction of Bonds	9
Remedies of Bondholders	10
LEGAL MATTERS	
Litigation.....	11
Tax Matters	
<i>Federal</i>	11
<i>State Taxes</i>	13
Changes in Federal and State Tax law.....	13
Closing Certificates	13
Approval of Legal Proceedings.....	14
MISCELLANEOUS	
Rating	15
Competitive Public Sale	15
Financial Advisor; Related Parties; Other	15
Debt Record	16
Continuing Disclosure	16
<i>Five-Year History Filing</i>	17
<i>Content of Annual Report</i>	17
<i>Reporting of Significant Events</i>	18
<i>Termination of Reporting Obligation</i>	20
<i>Amendment; Waiver</i>	20
<i>Default</i>	20
Additional Information	20
CERTIFICATION OF ISSUER.....	22
APPENDIX A: FORM OF LEGAL OPINION	

APPENDIX B: SUPPLEMENTAL INFORMATION STATEMENT

General Information

Location	B-1
General.....	B-1
Transportation.....	B-2
Education	B-4
Hospitals	B-5
Manufacturing and Commerce	B-6
<i>Major Employers in Blount County, Tennessee</i>	B-8
Employment Information.....	B-9
Economic Data.....	B-10
Recreation	B-10
Recent Developments	B-11

Debt Structure

Summary of Bonded Indebtedness	B-14
Indebtedness and Debt Ratios	B-15
Debt Service Requirements - General Obligation	B-17
Debt Service Requirements – Solid Waste.....	B-18
Debt Service Requirements – Water and Sewer.....	B-19
Debt Service Requirements – Electric System	B-20

Financial Information

Introduction	B-21
Basis of Accounting and Presentation	B-21
Budgetary Process	B-21
Fund Balances and Retained Earnings.....	B-22
Five-Year Summary of Revenues, Expenditures and Changes in Fund Balance – General Fund.....	B-23
Five-Year Summary of Revenues, Expenditures and Changes in Fund Balance – Water and Sewer Fund	B-24
Five-Year Summary of Revenues, Expenditures and Changes in Fund Balance – Electric Fund.....	B-25
Investment and Cash Management Practices	B-26
Real Property Assessment, Tax Levy and Collection Procedures	
<i>State Taxation of Property</i>	B-26
<i>County Taxation of Property</i>	B-27
<i>Assessment of Property</i>	B-28
<i>Periodic Reappraisal and Equalization</i>	B-29
<i>Valuation for Property Tax Purposes</i>	B-29
<i>Certified Tax Rate</i>	B-29
<i>Tax Freeze for the Elderly Homeowners</i>	B-30
<i>Tax Collection and Tax Lien</i>	B-30
<i>Assessed Valuations</i>	B-31
<i>Property Tax Rates and Collections</i>	B-31
<i>Ten Largest Taxpayers</i>	B-32
Local Option Sales Tax.....	B-32
Pension Plans.....	B-33
Unfunded Accrued Liability of Post-Employment Benefits Other than Pensions.....	B-34

APPENDIX C: GENERAL PURPOSE FINANCIAL STATEMENTS

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.....	\$9,995,000* General Obligation Bonds, Series 2017 (the “Bonds”).
Security	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.
Purpose	The Bonds are being issued for the purposes of providing funds for (i) the acquisition of land for streets and roads, bridges, sidewalks, highways, public buildings, drainage systems, parks, parking facilities, recreation facilities, and rights-of-way; (ii) the construction, improvement, renovation and equipping of streets and roads, bridges, sidewalks, highways, public buildings, drainage systems, parks, parking facilities, recreation facilities, and rights-of-way; (iii) the acquisition of land for construction, improvement, renovation and equipping of public utilities; (iv) the construction, improvement, renovation, replacement and equipping of public utilities; (v) payment of architectural, engineering, legal, fiscal and administrative costs incident to the foregoing; (vi) reimbursement to the Municipality for funds previously expended for any of the foregoing; and (vii) payment of the costs related to the issuance and sale of the bonds authorized herein.
Optional Redemption	The Bonds are subject to optional redemption prior to maturity on or after June 1, 2022, at the redemption price of par plus accrued interest. 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.....	S&P: “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.....	_____.

*Preliminary, subject to change.

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”.

GeneralThe Bonds are being issued in full compliance with applicable provisions of Title 9, Chapter 21, *Tennessee Code Annotated*, 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.

DisclosureIn 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”) established in Tennessee, if any, annual financial statements and other pertinent credit information, including the Comprehensive Annual Financial Reports. For additional information, see the section entitled “MISCELLANEOUS - Continuing Disclosure.”

Other Information.....The information in this *Preliminary Official Statement* is deemed “final” within the meaning of 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., Telephone: (865) 988-2663. Additional information regarding **BIDCOMP™/PARITY®** may be obtained from **PARITY®**, 1359 Broadway - 2nd 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>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Beginning Fund Balance	\$5,130,428	\$2,517,547	\$2,592,563	\$3,773,269	\$5,148,299
Revenues	15,836,264	18,660,264	20,171,232	21,881,523	21,087,529
Expenditures	(15,633,790)	(15,892,806)	(16,777,409)	(17,552,434)	(17,811,901)
Other Financing Sources:					
Transfers In	250,000	250,000	-	-	55,000
Transfers Out	(4,686,856)	(4,512,099)	(4,050,000)	(4,682,383)	(3,900,000)
Other Sources and Uses	1,621,501	1,629,657	1,686,883	1,728,324	1,889,495
Excess of Revenue/Other Sources Over (Under)	(2,612,881)	75,016	1,180,706	1,375,030	1,320,123
Ending Fund Balance	\$2,517,547	\$2,592,563	\$3,773,269	\$5,148,299	\$6,468,422

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

SUMMARY NOTICE OF SALE

\$9,995,000*

CITY OF ALCOA, TENNESSEE
General Obligation Bonds, Series 2017

NOTICE IS HEREBY GIVEN that the Mayor of the City of Alcoa, Tennessee (the “City”) will receive electronic or written bids until **10:45 a.m. E.S.T. on Wednesday, February 8, 2017** for the purchase of all, but not less than all, of the City's \$9,995,000* General Obligation Bonds, Series 2017 (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 Standard 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 March 1, 2017). The Bonds will mature on June 1 in the years 2020 through 2037, inclusive, with term bonds optional, with interest payable on June 1 and December 1 of each year, commencing December 1, 2017 and will be subject to optional redemption prior to maturity on or after June 1, 2022. 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 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, 2nd 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

\$9,995,000*

CITY OF ALCOA, TENNESSEE

General Obligation Bonds, Series 2017

NOTICE IS HEREBY GIVEN that the Mayor of the City of Alcoa, Tennessee (the “City”) will receive electronic or written bids until **10:45 a.m. E.S.T. on Wednesday, February 8, 2017** for the purchase of all, but not less than all, of the City's \$9,995,000* General Obligation Bonds, Series 2017 (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 Standard 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, 2017, 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>
2020	\$ 430,000	2029	\$ 555,000
2021	450,000	2030	575,000
2022	455,000	2031	590,000
2023	475,000	2032	605,000
2024	485,000	2033	620,000
2025	500,000	2034	640,000
2026	515,000	2035	655,000
2027	530,000	2036	675,000
2028	540,000	2037	700,000

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 corporate limits of the City. For the prompt payment of principal of and interest on the Bonds, the full faith and credit of the Issuer are irrevocably pledged.

Purpose. The Bonds are being issued for the purposes of providing funds for (i) the acquisition of land for streets and roads, bridges, sidewalks, highways, public buildings, drainage systems, parks, parking facilities, recreation facilities, and rights-of-way; (ii) the construction, improvement, renovation and equipping of streets and roads, bridges, sidewalks, highways, public buildings, drainage systems, parks, parking facilities, recreation facilities, and rights-of-way; (iii) the acquisition of land for construction, improvement, renovation and equipping of public utilities; (iv) the construction, improvement, renovation, replacement and equipping of public utilities; (v) payment of architectural, engineering, legal, fiscal and administrative costs incident to the foregoing; (vi) reimbursement to the Municipality for funds previously expended for any of the foregoing; and (vii) payment of the costs related to the issuance and sale of the bonds authorized herein. authorized herein.

Optional Redemption. The Bonds maturing on June 1, 2023, and thereafter, will be subject to optional redemption prior to maturity at the option of the City on and after June 1, 2022 at the redemption price of par plus accrued interest as provided herein.

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**® 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**®. The use of **PARITY**® facilities are at the sole risk of the prospective bidders.

For further information regarding **PARITY**®, potential bidders may contact i-Deal LLC at 1359 Broadway, 2nd 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 City'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 \$2,500,000. The primary factor to be considered in connection with any adjustment is the amount of premium bid by the winning bidder. 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 Standard 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 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 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., Telephone: 865-988-2663. Further information regarding **PARITY**® may be obtained from i-Deal LLC, 1359 Broadway, 2nd 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

February 8, 2017

Dear Mayor Mull:

For your legally issued, properly executed \$9,995,000* General Obligation Bonds, Series 2017 (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 March 1, 2017) 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
2020	\$ 430,000	___	2029	\$ 555,000	___
2021	450,000	___	2030	575,000	___
2022	455,000	___	2031	590,000	___
2023	475,000	___	2032	605,000	___
2024	485,000	___	2033	620,000	___
2025	500,000	___	2034	640,000	___
2026	515,000	___	2035	655,000	___
2027	530,000	___	2036	675,000	___
2028	540,000	___	2037	700,000	___

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
8th day of February, 2017.

Donald R. Mull, Mayor

Respectfully submitted,

Total interest cost from

March 1, 2017 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.

\$9,995,000*
CITY OF ALCOA, TENNESSEE
General Obligation Bonds, Series 2017

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 \$9,995,000* General Obligation Bonds, Series 2017 (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 Mayor and Aldermen of the City on November 8, 2016.

The Bonds are being issued for the purposes of providing funds for (i) the acquisition of land for streets and roads, bridges, sidewalks, highways, public buildings, drainage systems, parks, parking facilities, recreation facilities, and rights-of-way; (ii) the construction, improvement, renovation and equipping of streets and roads, bridges, sidewalks, highways, public buildings, drainage systems, parks, parking facilities, recreation facilities, and rights-of-way; (iii) the acquisition of land for construction, improvement, renovation and equipping of public utilities; (iv) the construction, improvement, renovation, replacement and equipping of public utilities; (v) payment of architectural, engineering, legal, fiscal and administrative costs incident to the foregoing; (vi) reimbursement to the Municipality for funds previously expended for any of the foregoing; and (vii) payment of the costs related to the issuance and sale of the bonds authorized herein.

DESCRIPTION OF THE BONDS

The Bonds will be initially dated and bear interest from the date of issuance (assume March 1, 2017). Interest on the Bonds will be payable semi-annually on June 1 and December 1, commencing December 1, 2017. 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 corporate limits of the Municipality. For the prompt payment of principal of and interest on the Bonds, the full faith and credit of the Municipality are irrevocably pledged.

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 June 1, 2023, and thereafter, shall be subject to redemption prior to maturity at the option of the City on June 1, 2022 and thereafter, as a whole or in part, at any time, at the redemption price of par plus accrued interest to the redemption date.

If less than all the Bonds shall be called for redemption, the maturities to be redeemed shall be designated by the Board of Mayor Alderman of the Municipality, in its discretion. If less than all the principal amount of the Bonds of a maturity shall be called for redemption, the interests within the maturity to be redeemed shall be selected as follows:

(i) if the Bonds are being held under a Book-Entry System by DTC, or a successor Depository, the amount of the interest of each DTC Participant in the Bonds to be redeemed shall be determined by DTC, or such successor Depository, by lot or such other manner as DTC, or such successor Depository, shall determine; or

(ii) if the Bonds are not being held under a Book-Entry System by DTC, or a successor Depository, the Bonds within the maturity to be redeemed shall be selected by the Registration Agent by lot or such other random manner as the Registration Agent in its discretion shall determine.

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 S&P 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.

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) Any accrued interest shall be deposited to the appropriate fund of the City to be used to pay interest on the Bonds on the first interest payment date following delivery of the Bonds; and
- (b) the remainder of the proceeds of the sale of the Bonds shall be deposited with a financial institution regulated by the Federal Deposit Insurance Corporation or similar federal agency in a special fund to be known as the 2017 Construction Fund (the "Construction Fund") to be kept separate and apart from all other funds of the City. The City shall disburse funds in the Construction Fund 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 and other necessary miscellaneous expenses incurred in connection with the issuance and sale of the Bonds. The remaining funds in the Construction Fund shall be disbursed solely to pay the costs of the Project. Money in the Construction Fund shall be secured in the manner prescribed by applicable statutes relative to the securing of public or trust funds, if any, or, in the absence of such a statute, by a pledge of readily marketable securities having at all times a market value of not less than the amount in said Construction Fund. Money in the Construction Fund shall be expended only for the purposes authorized by this resolution. Any funds remaining in the Construction Fund after completion of the Project and payment of authorized expenses shall be paid to the City Recorder and shall be used to pay principal of and interest on the Bonds. Moneys in the Construction Fund shall be invested at the direction of the City Recorder in such investments as shall be permitted by applicable

law. Earnings from such investments in the Construction Fund shall be deposited in the City's debt service fund.

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) 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 (b) 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 Recorder 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

S&P Global Ratings (“S&P”) 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 S&P, 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 S&P and any explanation of the significance of such rating should be obtained from S&P.

COMPETITIVE PUBLIC SALE

The Bonds will be offered for sale at competitive public bidding on February 8, 2017. Details concerning the public sale were provided to potential bidders and others in the *Preliminary Official Statement* that was dated February 3, 2017.

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.

Bond Counsel. Robertson Overbey has not represented the Bank on legal matters unrelated to the City; however, it may do so in the future.

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.

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.

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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, 2017 (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 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 U.S. Securities and Exchange Commission Rule 15c2-12(b), as it may be amended from time to time (the "Rule").

Five-Year History of Filing. In the past five years, the City has filed its Annual Reports at 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-14;
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-15 and B-16;

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-17;
4. Information about Bonded Debt Service Requirements – Solid Waste System as of the end of such fiscal year as shown on page B-18;
5. Information about Bonded Debt Service Requirements – Water and Sewer System as of the end of such fiscal year as shown on page B-19;
6. Information about Bonded Debt Service Requirements – Electric System as of the end of such fiscal year as shown on page B-20;
7. The fund balances and retained earnings for the fiscal year as shown on page B-22;
8. Summary of Revenues, Expenditures and Changes in Fund Balances - General Fund for the fiscal year as shown on page B-23;
9. Summary of Revenues, Expenditures and Changes in Fund Balance – Water and Sewer Fun for the fiscal year as shown on page B-24;
10. Summary of Revenues, Expenditures and Changes in Fund Balance – Electric Fund for the fiscal year as shown on page B-25;
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-31;
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-31; and
13. The ten largest taxpayers as shown on page B-32.

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 Rule 15c2-12 of the U.S. Securities and Exchange Commission except for the omission of certain pricing information allowed to be omitted pursuant to 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

_____, 2017

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 \$9,995,000 General Obligation Bonds, Series 2017, dated _____, 2017, (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

APPENDIX B

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

Regional Carriers:

United Express

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

<u>Total Year</u>	<u>Commercial Passengers</u>	<u>Total Air Cargo in Pounds</u>
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 hours a day service available.

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 116 teachers. The fall 2015 enrollment was about 1,969 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 2015 enrollment for Blount County schools is about 11,040 with around 716 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 350 teachers. The fall 2015 enrollment was 5,132 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 spring 2016 was listed as 9,162. 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 and had 11,992 admissions in 2012. 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.

Pellissippi Place is the collaboration of two cities, Alcoa and Maryville, and two counties, Blount and Knox, and the Economic Development Board of Blount County working together. The anchor tenant is Molecular Pathology Laboratory Network, Inc. Over the course of the project, the park is expected to create over \$1 billion dollars in economic impact. Total build out of the park is estimated between 20 to 30 years.

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 ¹	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 ²	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

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

² 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 November 2016, the unemployment rate for Maryville stood at 4.2% with 13,120 persons employed out of a labor force of 13,690. As of November 2016, the unemployment rate for Blount County stood at 4.3% with 59,090 persons employed out of a labor force of 61,710.

The Knoxville MSA's unemployment for November 2016 was at 4.4% with 402,290 persons employed out of a labor force of 420,630. As of November 2016, the unemployment rate in the Knoxville-Morristown-Sevierville CSA stood at 4.4%, representing 514,250 persons employed out of a workforce of 538,060.

	Unemployment				
	Annual Average	Annual Average	Annual Average	Annual Average	Annual Average
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
National	8.9%	8.1%	7.4%	6.2%	5.3%
Tennessee	9.2%	8.0%	8.2%	6.7%	5.8%
Maryville	7.7%	7.0%	7.2%	6.0%	5.3%
Index vs. National	87	86	97	97	100
Index vs. State	84	87	88	90	91
Blount County	7.7%	6.8%	6.9%	6.0%	5.3%
Index vs. National	87	84	93	97	100
Index vs. State	84	85	84	90	91
Knoxville MSA	7.3%	6.6%	6.9%	6.2%	5.4%
Index vs. National	82	81	93	100	102
Index vs. State	79	82	84	93	93
Knoxville-Morristown – Sevierville CSA	8.3%	7.5%	7.7%	6.5%	6.5%
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
Blount County	\$32,760	\$34,319	\$35,882	\$36,023	\$37,085
Index vs. National	81	81	81	81	81
Index vs. State	92	92	92	92	92
Knoxville MSA	\$34,799	\$36,850	\$38,557	\$38,359	\$39,530
Index vs. National	86	87	87	86	86
Index vs. State	98	99	99	98	98
Knoxville-Sevierville-Harriman CSA	\$33,312	\$35,215	\$36,675	\$36,614	\$37,718
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	\$178,600	\$142,100	\$166,500	\$118,200	\$189,700
% High School Graduates or Higher Persons 25 Years Old and Older	86.70%	85.50%	87.6%	87.2%	89.7%
% Persons with Income Below Poverty Level	13.50%	16.70%	13.1%	24.8%	13.0%
Median Household Income	\$53,889	\$45,219	\$48,286	\$36,215	\$54,219

Source: U.S. Census Bureau State & County QuickFacts - 2015.

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 2015 reached over 9.3 million.

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

Ceramaspeed. A leading provider of electric radiant heating solutions for glass ceramic appliances, Ceramaspeed has relocated in 2012 into a 55,000-square foot, \$3.5 million industrial building in Maryville.

Cirrus Aircraft. The private aircraft manufacturer Cirrus Aircraft began construction in 2016 on the first phase to build \$15 million in 4 buildings and 181 parking spaces on 13 acres 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 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 2016 Denso began construction on 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-2017 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.

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 construction 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, finished a \$10.1 million expansion in 2015 that resulted 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.

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.

Surface Igniter. LLC. In 2013 surface Igniter relocated its headquarters and manufacturing facility from Puerto Rico to its existing facility in Maryville, investing \$3.8 million. The company is a leading manufacturer of hot surface igniters for heating, cooking, clothes dryer and BBQ grill industries. In 2016 construction was completed on the 55,000-square foot Blount County Industrial Park in Maryville, doubling the number of jobs to 108.

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 employees 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 employee 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)
\$ 9,225,000	Loan Agreement (Maryville Civic Arts Center), Series 2009	June 2036	Variable	OUTSTANDING
\$ 7,600,000	(5) General Obligation Bonds, Series 2008	June 2018	Fixed	\$ 7,875,000
3,000,000	Loan Agreement, Series B-17-A	June 2018	Fixed	300,000
77,370,000	(4) Loan Agreement, Series E-5-B	June 2042	Variable/Synthetic	275,000
3,960,793	(2) State Of Tennessee Revolving Fund (2012)	Aug. 2032	Fixed	70,880,000
10,000,000	General Obligation Bonds, Series 2012	June 2042	Fixed	3,398,701
10,000,000	General Obligation Bonds, Series 2013A	June 2043	Fixed	9,325,000
2,000,000	(6) General Obligation Bonds, Series 2013B (Federally Taxable)	June 2019	Fixed	9,950,000
10,000,000	General Obligation Bonds, Series 2014	June 2043	Fixed	1,200,000
9,000,000	(7) General Obligation Refunding Bonds, Series 2014B (Federally Taxable)	June 2026	Fixed	9,850,000
9,995,000	General Obligation Bonds, Series 2015	June 2044	Fixed	8,115,000
9,625,000	(8) General Obligation Refunding Bonds, Series 2016A	June 2042	Fixed	9,995,000
4,395,000	(9) General Obligation Refunding Bonds, Series 2016B	June 2022	Fixed	9,560,000
				4,395,000
\$ 166,170,793	TOTAL BONDED DEBT			\$ 145,118,701
\$ 9,995,000	General Obligation Bonds, Series 2017	June 2037	Fixed	\$ 9,995,000
(71,938,701)	Less: Revenue-Supported Debt			(71,938,701)
\$ 104,227,092	NET BONDED DEBT			\$ 83,175,000

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) Water and Sewer revenue-supported bonds.

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

(4) A portion (\$37,310,000) of the Series E-5-B Bonds will be supported by water and sewer revenue and a portion (\$16,765,000) of the Series E-5-B Bonds will be supported by electric revenues.

(5) A portion (\$300,000) of the Series 2008 Bonds will be supported by water and sewer revenue.

(6) A portion (\$325,000) of the Series 2013B Bonds will be supported by water and sewer revenue and a portion (\$365,000) of the Series 2013B Bonds will be supported by landfill revenues.

(7) A portion (\$1,290,000) of the Series 2014B Bonds will be supported by water and sewer revenue and a portion (\$215,000) of the Series 2014B Bonds will be supported by landfill revenues and a portion (\$2,295,000) of the Series 2014B Bonds will be supported by electric system revenues.

(8) A portion (\$5,280,000) of the Series 2014B Bonds will be supported by water and sewer revenue and a portion (\$215,000) of the Series 2014B Bonds will be supported by landfill revenues and a portion (\$2,295,000) of the Series 2014B Bonds will be supported by electric system revenues.

(9) The Series 2016B Bonds are supported landfill 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>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
INDEBTEDNESS						
TAX SUPPORTED						
General Obligation Bonds & Notes	\$ 41,119,250	\$ 49,244,500	\$ 67,908,000	\$ 75,630,000	\$ 75,985,000	\$ 83,175,000
TOTAL TAX SUPPORTED	\$ 41,119,250	\$ 49,244,500	\$ 67,908,000	\$ 75,630,000	\$ 75,985,000	\$ 83,175,000
REVENUE SUPPORTED						
Water & Sewer & Solid Waste Revenue Bonds	\$ 57,678,169	\$ 56,408,649	\$ 56,212,801	\$ 54,423,837	\$ 52,878,701	\$ 52,878,501
Electric Revenue Bonds	22,473,000	21,657,000	20,808,000	20,043,000	19,060,000	19,060,000
TOTAL REVENUE SUPPORTED	\$ 80,151,169	\$ 78,065,649	\$ 77,020,801	\$ 74,468,837	\$ 71,938,701	\$ 71,938,501
TOTAL DEBT	\$ 121,270,419	\$ 127,310,149	\$ 144,928,801	\$ 150,098,837	\$ 147,923,701	\$ 155,113,501
Less: Revenue Supported Debt	\$ (80,151,169)	\$ (78,065,649)	\$ (77,020,801)	\$ (74,468,837)	\$ (71,938,701)	\$ (71,938,501)
Less: Debt Service Fund	(94,697)	(804,120)	(1,787,413)	(2,945,179)	(2,945,179)	(2,945,179)
NET DIRECT DEBT	\$ 41,024,553	\$ 48,440,380	\$ 66,120,587	\$ 72,684,821	\$ 73,039,821	\$ 80,229,821
OVERLAPPING DEBT (1)	\$ 31,532,992	\$ 31,962,739	\$ 28,926,480	\$ 26,199,104	\$ 29,589,873	\$ 29,589,873
NET DIRECT & OVERLAPPING DEBT	\$ 72,557,545	\$ 80,403,119	\$ 95,047,067	\$ 98,883,925	\$ 102,629,694	\$ 109,819,694
PROPERTY TAX BASE						
Estimated Actual Value	\$ 1,411,195,670	\$ 1,454,779,907	\$ 1,439,407,011	\$ 1,428,883,610	\$ 1,542,014,041	\$ 1,542,014,041
Appraised Value	1,411,195,670	1,454,779,907	1,439,407,011	1,428,883,610	1,542,014,041	1,542,014,041
Assessed Value	454,226,484	468,248,448	463,051,825	460,411,256	506,609,393	506,609,393

(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.

DEBT RATIOS	For Fiscal Year Ended June 30					After Issuance
	2012	2013	2014	2015	2016	2017
TOTAL DEBT to Estimated Actual Value	8.59%	8.75%	10.07%	10.50%	9.59%	10.06%
TOTAL DEBT to Appraised Value	8.59%	8.75%	10.07%	10.50%	9.59%	10.06%
TOTAL DEBT to Assessed Value	26.70%	27.19%	31.30%	32.60%	29.20%	30.62%
NET DIRECT DEBT to Estimated Actual Value	9.03%	10.35%	14.28%	15.79%	14.42%	15.84%
NET DIRECT DEBT to Appraised Value	2.91%	3.33%	4.59%	5.09%	4.74%	5.20%
NET DIRECT DEBT to Assessed Value	9.03%	10.35%	14.28%	15.79%	14.42%	15.84%
OVERLAPPING DEBT to Estimated Actual Value	2.23%	2.20%	2.01%	1.83%	1.92%	1.92%
OVERLAPPING DEBT to Appraised value	2.23%	2.20%	2.01%	1.83%	1.92%	1.92%
OVERLAPPING DEBT to Assessed Value	6.94%	6.83%	6.25%	5.69%	5.84%	5.84%
NET DIRECT & OVERLAPPING DEBT to Estimated Actual Value	5.14%	5.53%	6.60%	6.92%	6.66%	7.12%
NET DIRECT & OVERLAPPING DEBT to Appraised Value	5.14%	5.53%	6.60%	6.92%	6.66%	7.12%
NET DIRECT & OVERLAPPING DEBT to Assessed Value	15.97%	17.17%	20.53%	21.48%	20.26%	21.68%
PER CAPITA RATIOS						
POPULATION (1)	8,551	8,640	8,753	9,316	9,316	9,316
PER CAPITA PERSONAL INCOME (2)	\$ 35,882	\$ 36,023	\$ 37,085	\$ 37,085	\$ 37,085	\$ 37,085
Estimated Actual Value to POPULATION	\$ 165,033	\$ 168,377	\$ 164,447	\$ 153,380	\$ 165,523	\$ 165,523
Assessed Value to POPULATION	\$ 53,120	\$ 54,195	\$ 52,902	\$ 49,422	\$ 54,381	\$ 54,381
Total Debt to POPULATION	\$ 14,182	\$ 14,735	\$ 16,558	\$ 16,112	\$ 15,878	\$ 16,650
Net Direct Debt to POPULATION	\$ 4,798	\$ 5,607	\$ 7,554	\$ 7,802	\$ 7,840	\$ 8,612
Overlapping Debt to POPULATION	\$ 3,688	\$ 3,699	\$ 3,305	\$ 2,812	\$ 3,176	\$ 3,176
Net Direct & Overlapping Debt to POPULATION	\$ 8,485	\$ 9,306	\$ 10,859	\$ 10,614	\$ 11,016	\$ 11,788
Total Debt Per Capita as a percent of PER CAPITA PERSONAL INCOME	39.52%	40.90%	44.65%	43.45%	42.82%	44.90%
Net Direct Debt Per Capita as a percent of PER CAPITA PERSONAL INCOME	13.37%	15.56%	20.37%	21.04%	21.14%	23.22%
Overlapping Debt Per Capita as a % of PER CAPITA PERSONAL INCOME	10.28%	10.27%	8.91%	7.58%	8.56%	8.56%
Net Direct & Overlapping Debt Per Capita as a % of PER CAPITA PERSONAL INCOME	23.65%	25.83%	29.28%	28.62%	29.71%	31.79%

(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 6/30	As of June 30, 2016			General Obligation Bonds, Series 2017			% Series 2017 Principal Repaid	Total Bonded Debt			% All Principal Repaid
	Existing Debt - General Obligation (1)		Interest (2)	Principal	Interest (3)	TOTAL		Service Requirements (1) & (2)		TOTAL	
	Principal	TOTAL						Principal	Interest		
2017	\$ 2,680,000	\$ 2,804,964	\$ 5,484,964	\$ -	\$ -	\$ -	0.00%	\$ 2,680,000	\$ 2,804,964	\$ 5,484,964	3.22%
2018	3,045,000	2,703,029	5,748,029	-	366,483	366,483		3,045,000	3,069,512	6,114,512	
2019	3,150,000	2,586,216	5,736,216	-	274,863	274,863		3,150,000	2,861,079	6,011,079	
2020	3,100,000	2,464,456	5,564,456	430,000	274,863	704,863		3,530,000	2,739,319	6,269,319	
2021	3,215,000	2,340,829	5,555,829	450,000	263,038	713,038	8.80%	3,665,000	2,603,866	6,268,866	19.32%
2022	3,165,000	2,210,761	5,375,761	455,000	250,663	705,663		3,620,000	2,461,424	6,081,424	
2023	2,415,000	2,079,774	4,494,774	475,000	238,150	713,150		2,890,000	2,317,924	5,207,924	
2024	2,495,000	2,002,099	4,497,099	485,000	225,088	710,088		2,980,000	2,227,186	5,207,186	
2025	2,535,000	1,921,589	4,456,589	500,000	211,750	711,750		3,035,000	2,133,339	5,168,339	
2026	2,625,000	1,835,989	4,460,989	515,000	198,000	713,000	33.12%	3,140,000	2,033,989	5,173,989	38.15%
2027	2,500,000	1,747,026	4,247,026	530,000	183,838	713,838		3,030,000	1,930,864	4,960,864	
2028	2,555,000	1,660,346	4,215,346	540,000	169,263	709,263		3,095,000	1,829,609	4,924,609	
2029	2,445,000	1,569,831	4,014,831	555,000	154,413	709,413		3,000,000	1,724,244	4,724,244	
2030	2,525,000	1,476,556	4,001,556	575,000	139,150	714,150		3,100,000	1,615,706	4,715,706	
2031	2,635,000	1,379,406	4,014,406	590,000	123,338	713,338	61.03%	3,225,000	1,502,744	4,727,744	56.73%
2032	2,705,000	1,280,919	3,985,919	605,000	107,113	712,113		3,310,000	1,388,031	4,698,031	
2033	2,835,000	1,178,406	4,013,406	620,000	90,475	710,475		3,455,000	1,268,881	4,723,881	
2034	2,990,000	1,068,300	4,058,300	640,000	73,425	713,425		3,630,000	1,141,725	4,771,725	
2035	3,070,000	950,681	4,020,681	655,000	55,825	710,825		3,725,000	1,006,506	4,731,506	
2036	3,240,000	829,944	4,069,944	675,000	37,813	712,813	93.00%	3,915,000	867,756	4,782,756	78.41%
2037	2,050,000	699,031	2,749,031	700,000	19,250	719,250		2,750,000	718,281	3,468,281	
2038	2,095,000	619,531	2,714,531	-	-	-		2,095,000	619,531	2,714,531	
2039	2,185,000	538,500	2,723,500	-	-	-		2,185,000	538,500	2,723,500	
2040	2,325,000	450,031	2,775,031	-	-	-		2,325,000	450,031	2,775,031	
2041	2,390,000	354,625	2,744,625	-	-	-		2,390,000	354,625	2,744,625	92.53%
2042	2,535,000	255,775	2,790,775	-	-	-		2,535,000	255,775	2,790,775	
2043	2,605,000	150,750	2,755,750	-	-	-		2,605,000	150,750	2,755,750	
2044	525,000	42,800	567,800	-	-	-		525,000	42,800	567,800	
2045	545,000	21,800	566,800	-	-	-		545,000	21,800	566,800	100.00%
	\$ 73,180,000	\$ 39,223,966	\$ 112,403,966	\$ 9,995,000	\$ 3,456,796	\$ 13,451,796		\$ 83,175,000	\$ 42,680,761	\$ 125,855,761	

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) Estimated Interest Rates. Estimated Average Coupon of 2.75%.

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

F.Y. Ended 6/30	Total Bonded Debt Service Requirements (1)			% All Principal Repaid
	Principal	Interest	TOTAL	
2017	\$ 815,000	\$ 107,938	\$ 922,938	16.38%
2018	840,000	87,423	927,423	33.27%
2019	875,000	69,498	944,498	50.85%
2020	765,000	50,738	815,738	66.23%
2021	790,000	35,358	825,358	82.11%
2022	795,000	19,428	814,428	98.09%
2023	20,000	3,328	23,328	98.49%
2024	25,000	2,688	27,688	98.99%
2025	25,000	1,838	26,838	99.50%
2026	25,000	938	25,938	100.00%
	<u>\$ 4,975,000</u>	<u>\$ 379,170</u>	<u>\$ 5,354,170</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.

CITY OF ALCOA, TENNESSEE

BONDED DEBT SERVICE REQUIREMENTS - REVENUE AND TAX SUPPORTED

Water And Sewer System

F.Y. Ended <u>6/30</u>	Total Bonded Debt Service Requirements (1) & (2)			% All Principal Repaid
	Principal	Interest	TOTAL	
2017	\$ 1,200,500	\$ 2,145,049	\$ 3,345,549	2.51%
2018	1,251,032	2,097,560	3,348,592	
2019	1,291,768	2,045,922	3,337,690	
2020	1,237,708	1,993,242	3,230,950	
2021	1,293,840	1,937,830	3,231,670	13.10%
2022	1,360,188	1,879,519	3,239,707	
2023	1,446,752	1,818,045	3,264,797	
2024	1,508,556	1,753,420	3,261,976	
2025	1,575,576	1,684,114	3,259,690	
2026	1,647,848	1,611,350	3,259,198	28.84%
2027	1,630,372	1,534,924	3,165,296	
2028	1,703,160	1,457,607	3,160,767	
2029	2,096,212	1,376,765	3,472,977	
2030	2,259,540	1,280,800	3,540,340	
2031	1,928,156	1,177,291	3,105,447	48.91%
2032	2,012,072	1,093,040	3,105,112	
2033	1,870,421	1,008,174	2,878,595	
2034	1,905,000	926,538	2,831,538	
2035	1,995,000	839,188	2,834,188	
2036	2,090,000	747,488	2,837,488	69.52%
2037	2,165,000	652,037	2,817,037	
2038	2,265,000	552,087	2,817,087	
2039	2,370,000	448,800	2,818,800	
2040	2,485,000	341,050	2,826,050	
2041	2,600,000	228,450	2,828,450	94.33%
2042	2,715,000	116,250	2,831,250	100.00%
	<u>\$ 47,903,701</u>	<u>\$ 32,746,539</u>	<u>\$ 80,650,240</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. 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, 2016

F.Y. Ended <u>6/30</u>	Total Bonded Debt Service Requirements (1) & (2)			% Principal Repaid
	Principal	Interest	TOTAL	
2017	\$ 1,020,000	\$ 901,406	\$ 1,921,406	5.35%
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	
2021	1,205,000	712,458	1,917,458	28.93%
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	
2026	1,500,000	402,938	1,902,938	65.24%
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	
2031	1,010,000	50,500	1,060,500	100.00%
	<u>\$ 19,060,000</u>	<u>\$ 7,688,090</u>	<u>\$ 26,748,090</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:

<u>For the year ended June 30</u>					
<u>Fund Type</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
<i>Governmental Funds:</i>					
General	\$2,517,547	\$ 2,592,563	\$ 3,773,269	\$ 5,148,299	\$ 6,468,422
Education	1,138,977	879,036	399,133	1,093,096	1,184,448
Debt Service	94,697	804,120	1,787,413	2,020,743	1,019,041
Public Works	-	-	2,121,243	4,773,441	3,611,429
School Fund	934,986	12,559	480,000	108,171	105,253
Alcoa High School	-	8,158,425	12,034,975	1,151,203	270,414
Other Governmental	<u>3,230,613</u>	<u>3,949,021</u>	<u>1,503,897</u>	<u>1,161,365</u>	<u>1,797,546</u>
Total	<u>\$7,916,820</u>	<u>\$16,395,724</u>	<u>\$22,099,930</u>	<u>\$16,380,754</u>	<u>\$14,456,553</u>
<i>Proprietary Net Assets:</i>					
Stormwater	\$ 1,047,370	\$ 1,183,448	\$ 1,056,111	\$ 982,702	\$ 897,821
Water/Sewer	19,107,463	19,154,135	19,108,984	20,312,350	19,017,902
Electric	34,201,990	35,635,144	35,976,113	36,274,464	37,506,308
Landfill	<u>3,035,724</u>	<u>2,975,842</u>	<u>2,290,343</u>	<u>2,575,050</u>	<u>2,530,677</u>
Total	<u>\$57,392,547</u>	<u>\$58,948,569</u>	<u>\$58,431,551</u>	<u>\$60,144,566</u>	<u>\$59,952,708</u>

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

	2012	2013	2014	2015	2016
Revenues:					
Local taxes	\$ 11,654,503	\$ 15,260,887	\$ 16,653,983	\$ 18,492,401	\$ 17,353,083
Licenses and Permits	85,630	107,319	163,953	139,093	141,755
Intergovernmental Revenue	2,732,447	2,250,043	2,173,709	1,989,248	2,078,704
American Recovery Reinvestment Act (ARRA)	-	-	-	-	-
Charges for Service	537,789	372,895	474,484	304,002	326,211
Fines and Forfeits	474,586	435,732	464,448	488,599	639,374
Rent for use of Facilities	136,533	143,389	143,547	143,388	153,336
Interest and Investment Earnings	11,878	-	-	-	6,109
Miscellaneous	202,898	76,703	32,850	231,917	365,369
Sale of Property / Equipment	-	13,296	64,258	92,875	23,588
Total Revenues	\$ 15,836,264	\$ 18,660,264	\$ 20,171,232	\$ 21,881,523	\$ 21,087,529
Expenditures and Other Uses:					
General Government	\$ 1,725,782	\$ 1,703,606	\$ 1,726,638	\$ 1,740,661	\$ 1,665,434
Public Safety	7,765,636	8,001,649	8,663,677	9,091,569	9,246,339
Public Works	4,879,116	4,739,978	4,934,270	4,894,927	4,910,640
Recreation and Parks	670,432	699,498	739,419	783,056	586,168
Other Appropriations	592,824	748,075	713,405	1,042,221	1,403,320
Adjustment	-	-	-	-	-
Capital Projects	-	-	-	-	-
Total Expenditures	\$ 15,633,790	\$ 15,892,806	\$ 16,777,409	\$ 17,552,434	\$ 17,811,901
Excess of Revenues & Over (under) Expenditures	\$ 202,474	\$ 2,767,458	\$ 3,393,823	\$ 4,329,089	\$ 3,275,628
Other Financing Sources (Uses):					
Interfund Transfers - In	\$ 250,000	\$ 250,000	\$ -	\$ -	\$ 55,000
Interfund Transfers - Out	(4,686,856)	(4,572,099)	(4,050,000)	(4,682,383)	(3,900,000)
In Lieu of Taxes	1,621,501	1,629,657	1,686,883	1,728,324	1,889,495
Proceeds of Bonds	-	-	150,000	-	-
Payment of Refunding Bonds and Maryville College	-	-	-	-	-
Payment to Blount County	-	-	-	-	-
Other	-	-	-	-	-
Total Other Financing Sources (Uses)	\$ (2,815,355)	\$ (2,692,442)	\$ (2,213,117)	\$ (2,954,059)	\$ (1,955,505)
Excess of Revenue and Other Sources over (Under) Expenditures and Other Sources	\$ (2,612,881)	\$ 75,016	\$ 1,180,706	\$ 1,375,030	\$ 1,320,123
Extraordinary Item	-	-	-	-	-
Fund Balance July 1	\$ 5,130,428	\$ 2,517,547	\$ 2,592,563	\$ 3,773,269	\$ 5,148,299
Prior Period Adjustment	-	-	-	-	-
Fund Balance June 30	\$ 2,517,547	\$ 2,592,563	\$ 3,773,269	\$ 5,148,299	\$ 6,468,422

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>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Revenues:						
Charges for Services	\$ 9,700,941	\$ 11,079,081	\$ 10,572,753	\$ 10,937,689	\$ 10,829,770	\$ 11,184,316
Forfeited Discounts	-	-	-	-	-	-
Miscellaneous Revenues	377,257	902,691	113,898	21,122	22,528	21,490
Total Revenues	<u>\$ 10,078,198</u>	<u>\$ 11,981,772</u>	<u>\$ 10,686,651</u>	<u>\$ 10,958,811</u>	<u>\$ 10,852,298</u>	<u>\$ 11,205,806</u>
Expenses:						
Administrative	\$ 592,863	\$ 624,986	\$ 700,237	\$ 729,133	\$ 761,744	\$ 768,786
Accounting & Collection	675,580	681,933	740,753	805,409	775,014	852,186
Supervision	202,392	225,879	232,104	254,265	276,192	307,044
Water Plant Operation	1,512,087	1,563,571	1,542,722	1,568,618	1,502,677	1,522,777
Distribution	801,657	826,922	831,263	296,367	744,488	865,959
Meter Reading and Repair	300,637	333,595	358,834	305,468	596,592	638,021
Water Maintenance	250,084	186,402	177,093	229,214	229,829	253,161
Sewer Collection and Disposal	2,812,943	2,342,623	2,218,637	2,007,777	2,357,711	2,770,530
Inspection/Environmental Compliance	91,824	98,673	105,844	115,683	119,010	111,684
Depreciation and Amortization	2,120,348	2,150,240	2,293,111	2,258,876	2,425,742	2,527,880
Taxes and Tax Equivalents	-	-	-	-	-	-
Total Expenses	<u>\$ 9,360,415</u>	<u>\$ 9,034,824</u>	<u>\$ 9,200,598</u>	<u>\$ 8,570,810</u>	<u>\$ 9,788,999</u>	<u>\$ 10,618,028</u>
Operating Income	\$ 717,783	\$ 2,946,948	\$ 1,486,053	\$ 2,388,001	\$ 1,063,299	\$ 587,778
Other Income/Expense:						
Amortization of Discount/Expense	\$ (38,989)	\$ (44,494)	\$ (51,777)	\$ (39,643)	\$ (26,617)	\$ (321,114)
Other Income (Expenses)	49,573	27,499	11,781	3,832	-	46,052
Interest Income (Expense)	(1,461,566)	(1,409,806)	(1,395,130)	(1,637,424)	(1,857,372)	(1,241,013)
Total Other Income (Expense)	<u>\$ (1,450,982)</u>	<u>\$ (1,426,801)</u>	<u>\$ (1,435,126)</u>	<u>\$ (1,673,235)</u>	<u>\$ (1,883,989)</u>	<u>\$ (1,516,075)</u>
Net Income before Capital Contribution and Transfers	\$ (733,199)	\$ 1,520,147	\$ 50,927	\$ 714,766	\$ (820,690)	\$ (928,297)
Capital Contributions	2,667,043	54,219	370,745	-	1,610,605	33,849
Payments in lieu of taxes	(400,000)	(400,000)	(375,000)	(400,000)	(400,000)	(400,000)
Changes in Net Assets	<u>\$ 1,533,844</u>	<u>\$ 1,174,366</u>	<u>\$ 46,672</u>	<u>\$ 314,766</u>	<u>\$ 389,915</u>	<u>\$ (1,294,448)</u>
Net Assets - Beginning of the year	\$ 16,399,253	\$ 17,933,097	\$ 19,107,463	\$ 19,154,135	\$ 19,468,901	\$ 19,498,899
Prior Period Adjustment	-	-	-	-	(359,917)	813,451
Net Assets - End of the year	<u><u>\$ 17,933,097</u></u>	<u><u>\$ 19,107,463</u></u>	<u><u>\$ 19,154,135</u></u>	<u><u>\$ 19,468,901</u></u>	<u><u>\$ 19,498,899</u></u>	<u><u>\$ 19,017,902</u></u>

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>	<u>2016</u>
Operating Revenues:						
Residential	\$ 38,352,043	\$ 35,888,794	\$ 37,089,208	\$ 38,160,702	\$ 38,470,039	\$ 37,370,698
Small lighting and power sales	5,559,605	5,766,500	5,850,584	6,110,830	6,144,805	5,603,705
Large lighting and power sales	16,586,668	17,243,546	16,525,841	16,555,636	17,091,487	17,199,018
Street and outdoor	975,038	1,035,164	1,085,354	1,083,511	1,153,353	1,118,855
Consumer forfeitures and discounts	439,295	420,582	425,046	451,428	436,879	406,977
Rent from electric property	515,378	538,810	558,546	544,454	525,900	969,062
Miscellaneous service revenue	248,659	232,357	234,782	245,108	250,377	318,103
Other electric revenue	528	51,851	54,797	63,807	59,468	73,718
Total Revenues	<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>	<u>\$ 63,060,136</u>
Purchased Power	\$ 49,832,583	\$ 47,257,423	\$ 48,108,297	\$ 49,618,161	\$ 51,078,680	\$ 48,603,739
Operating Expenses:						
Distribution expenses	\$ 1,199,588	\$ 1,299,299	\$ 1,440,403	\$ 1,462,995	\$ 1,389,892	\$ 1,451,869
Customer account expenses	1,348,792	1,307,531	1,312,066	1,371,308	1,732,911	1,498,989
Sales expense	66,893	117,430	104,554	80,908	64,242	80,930
Administrative and general expense	2,472,151	2,709,987	2,717,802	3,051,305	3,072,117	3,189,199
Total Operating Expenses	<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>	<u>\$ 6,220,987</u>
Maintenance Expenses:						
Distribution expenses	\$ 1,853,469	\$ 2,076,232	\$ 2,543,545	\$ 2,571,464	\$ 2,318,078	\$ 2,520,507
Administrative and general expense	25,292	18,680	44,770	27,593	28,090	82,310
Total Maintenance Expenses	<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>	<u>\$ 2,602,817</u>
Other Operating Expenses:						
Depreciation expenses	\$ 2,304,265	\$ 2,370,321	\$ 2,411,498	\$ 2,422,746	\$ 2,463,035	\$ 2,723,872
Taxes and tax equivalents	-	-	-	-	-	-
Total Maintenance Expenses	<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>	<u>\$ 2,723,872</u>
Operating Income	\$ 3,574,181	\$ 4,020,701	\$ 3,141,223	\$ 2,608,996	\$ 1,985,263	\$ 2,908,721
Interest Income	\$ 18,046	\$ 20,185	\$ 20,320	\$ 22,752	\$ 5,240	\$ 5,745
Interest Expense:						
Interest on long term debt	\$ (405,000)	\$ (240,000)	\$ (462,500)	\$ (378,333)	\$ (340,000)	\$ (169,167)
Amortization of debt expense	(26,387)	(26,387)	(26,387)	(26,387)	(26,387)	(26,387)
Total Interest Expense	<u>\$ (431,387)</u>	<u>\$ (266,387)</u>	<u>\$ (488,887)</u>	<u>\$ (404,720)</u>	<u>\$ (366,387)</u>	<u>\$ (195,554)</u>
Other Income (Expense):						
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	2,427
Total Other Income	<u>\$ 2,052</u>	<u>\$ 2,529</u>	<u>\$ 15,155</u>	<u>\$ (52,997)</u>	<u>\$ 2,559</u>	<u>\$ 2,427</u>
Net Income before transfers	\$ 3,162,892	\$ 3,777,028	\$ 2,687,811	\$ 2,174,031	\$ 1,626,675	\$ 2,721,339
Transfers - In Lieu of Taxes	\$ (1,176,436)	\$ (1,221,501)	\$ (1,254,657)	\$ (1,286,883)	\$ (1,328,324)	\$ (1,489,495)
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>	<u>\$ 1,231,844</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>	<u>\$ 36,274,464</u>
Prior Year Adjustments	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (546,179)</u>	<u>\$ -</u>
Net Assets - June 30	<u><u>\$ 31,646,463</u></u>	<u><u>\$ 34,201,990</u></u>	<u><u>\$ 35,635,144</u></u>	<u><u>\$ 36,522,292</u></u>	<u><u>\$ 36,274,464</u></u>	<u><u>\$ 37,506,308</u></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 value 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	\$ 12,660,755	55%	\$ 29,005,166
Commercial and Industrial	255,847,960	40%	639,619,900
Personal Tangible	118,520,453	30%	395,068,075
Residential and Farm	<u>119,580,225</u>	25%	<u>478,320,900</u>
Total	<u>\$506,609,393</u>		<u>\$1,542,014,041</u>

The estimated assessed value of property in the City for the fiscal year ending June 30, 2016 (tax year 2015) is \$506,609,393 compared to \$460,441,256 for the fiscal year ending June 30, 2015 (tax year 2014). The estimated actual value of all taxable property for tax year 2015 is \$1,542,014,041 compared to \$1,428,883,610 for tax year 2014.

Source: 2015 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 2012 through 2016 as well as the aggregate uncollected balances for each fiscal year ending June 30.

PROPERTY TAX RATES AND COLLECTIONS				Fiscal Yr Collections		Aggregate Uncollected Balance	
Tax Year (a)	Assessed Valuation	Tax Rates	Taxes Levied	Amount	Pct	as of June 30, 2016	
						Amount	Pct
2012	\$468,248,448	\$1.96	\$ 9,172,794	\$8,759,559	95.5%	\$ 25,347	0.3%
2013	463,051,825	1.96	8,951,791	8,540,278	95.4%	24,094	0.3%
2014	460,441,256	1.96	9,681,393	8,241,080	85.1%	61,130	1.0%
2015	506,609,393	1.96	10,014,628	8,828,591	88.2%	318,554	3.2%
2016	519,396,375*	1.96	10,180,167*	IN PROGRESS			

(a) The tax year coincides with the calendar year, so tax year 2016, for example is actually fiscal year 2016-2017.

* Estimated

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Largest Taxpayers. For the fiscal year ending June 30, 2016 (tax year 2015), 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	\$121,131,743	23.9%
2. CMH Management LP	MFG & Mortgage Banker	18,867,315	3.7%
3. MIDEB Nominees	Real Estate	10,619,080	2.1%
4. Inland Diversified Alcoa	Real Estate	9,465,400	1.9%
5. Faulkner Properties	Real Estate	9,272,120	1.8%
6. Stock Creek, LLC	Real Estate	7,910,680	1.6%
7. Ridge at Hamilton Crossing	Apartments	7,206,360	1.4%
8. Coleman-Prospero Industrial	Manufacturer	4,359,480	0.9%
9. Rehold Alcoa LLC	Manufacturer	2,748,760	0.5%
10. ALCOA TN LLC	Aluminum Ingot	<u>2,722,000</u>	<u>0.5%</u>
Total		<u>\$194,302,938</u>	<u>38.4%</u>

Source: The City.

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	24.7%
2. CMH Management LP	MFG & Mortgage Banker	13,078,713	2.8%
3. Inland Diversified Alcoa	Real Estate	9,440,300	2.1%
4. MIDEB Nominees #672	Real Estate	8,349,680	1.8%
5. Faulkner Properties	Real Estate	6,405,160	1.4%
6. Stock Creek, LLC	Real Estate	5,902,520	1.3%
7. Coleman-Prospero Industrial	Manufacturer	3,437,600	0.7%
8. ALCOA TN, LLC	Manufacturer	2,712,600	0.6%
9. Rehold Alcoa LLC	Manufacturer	2,608,120	0.6%
10. West 2 East Land LP	Real Estate	<u>2,559,440</u>	<u>0.6%</u>
Total		<u>\$168,233,485</u>	<u>36.5%</u>

Source: The City.

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 at 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>	<u>2016</u>
General	\$6,249,648	\$5,764,787	\$6,964,984	\$7,269,999	\$7,726,630	\$10,101,060
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>	<u>2,460,000</u>
TOTAL	<u>\$7,713,772</u>	<u>\$7,409,135</u>	<u>\$8,698,121</u>	<u>\$9,076,845</u>	<u>\$9,730,220</u>	<u>\$12,561,060</u>

*Includes the ½ percent increase that went into effect FY2013 and now is County wide.

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.

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APPENDIX C

GENERAL PURPOSE FINANCIAL STATEMENTS

CITY OF ALCOA

CITY OF ALCOA, TENNESSEE

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

For the Fiscal Year Ended June 30, 2016



"Excellence in Service - Quality of Life"

CITY OF ALCOA, TENNESSEE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2016

TABLE OF CONTENTS

	<u>Page</u>
<u>SECTION ONE – INTRODUCTORY SECTION:</u>	
List of Officials	i
Transmittal Letter.....	ii – v
City Organizational Chart	vi
<u>SECTION TWO – FINANCIAL SECTION:</u>	
Independent Auditors’ Report	vii - viii
Management’s Discussion and Analysis (required supplementary information)	ix - xviii
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	1
Statement of Activities.....	2
Fund Financial Statements:	
Balance Sheet – Governmental Funds	3 – 4
Reconciliations of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position – Governmental Activities	5
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	6 – 7
Reconciliation of the Statement of Revenues, Expenditures and Changes In Fund Balance to the Statement of Activities	8
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund.....	9 – 10
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Education Fund – Special Revenue Fund	11
Statement of Net Position – Proprietary Funds.....	12 – 13
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds.....	14 – 15
Statement of Cash Flows – Proprietary Funds.....	16 – 18
Statement of Fiduciary Net Position – Employees’ Retirement System – Fiduciary Fund.....	19
Statement of Changes in Fiduciary Plan Net Position – Employees’ Retirement System – Fiduciary Fund	20
Notes to Financial Statements	21 – 106

CITY OF ALCOA, TENNESSEE

SECTION ONE

INTRODUCTORY SECTION

For the Fiscal Year Ended June 30, 2016

CITY OF ALCOA

City Officials

CITY OF ALCOA, TENNESSEE

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

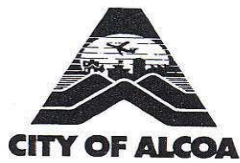
For the Fiscal Year Ended June 30, 2016

BOARD OF COMMISSIONERS

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

Mark L. Johnson, CPA, City Manager
G. William Hammon, Jr., CM, Assistant City Manager
Susan Gennoe, CPA, Director of Finance & Administration

"Excellence in Service - Quality of Life"



January 24, 2017

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, 2016 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 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 4.3%. 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. The rebound of the housing sector that began in the City some six years ago has continued. The City is averaging around 35 new single-family homes each year, consistent with its pre-recession figures. This growth is expected to taper off in the coming years, as once available lots for single-family development are now being depleted. A greater mix of housing types is expected to emerge, in the form of single-family attached and multi-family dwellings, as the demand for land area increases and to accommodate changing demographics. For instance, a 269 unit apartment development completed in 2015 is to be expanded for an additional 84 units starting in FY17.

The commercial and industrial sections in the City continue to be in various stages of development, with promising activity due to joint recruiting achievements. ProNova Solutions is the first tenant to occupy the 500 acre research and development part within the City, which is to have a mixture of high tech industry, commercial and residential uses. The City also continues to work in partnership with the State and a developer to establish a 250 acre urban development that is located across from the airport – the site of the former Alcoa West Plant – with phase one utility and roadway construction to take place spring of 2017. This construction activity is expected to heighten the prospective interests in this property. The property has the potential of being transformed into a new downtown area for the City. The West Aviation Area of the McGee Tyson Airport is a 45 acre site in the City for development types related to aviation. Recent activity includes Cirrus

Aircraft. Cirrus Aircraft is developing a multi-phase vision center on this property, with two buildings completed by the end of 2016. A third is expected to be approved in the first quarter of 2017 and advance at a quick pace. Advanced Munitions International has announced its plans to develop 235 acres for its global headquarters, including manufacturing and product development and are proceeding as planned.

Long-term Financial Planning

The City is in the design phases of several greenway expansions, which will link existing trail segments, the school campuses and a commercial center, with most construction expected to take place spring of 2017. Additionally, a park restroom facility will be constructed during the spring of 2017 as well. The facility will be located in Springbrook Corporate Center, behind the Municipal Building, adjacent to the greenway trail and near the land/park island. These projects will be completed with both local and state funds. A new fire station continues to be considered, which will replace an older station. The new site being considered is more centrally located based on how the City has grown in different areas. Recent renovations to the existing station have deferred the need for construction of a new station for approximately 10 years.

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 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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, 2016 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 Uniform Guidance.

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.

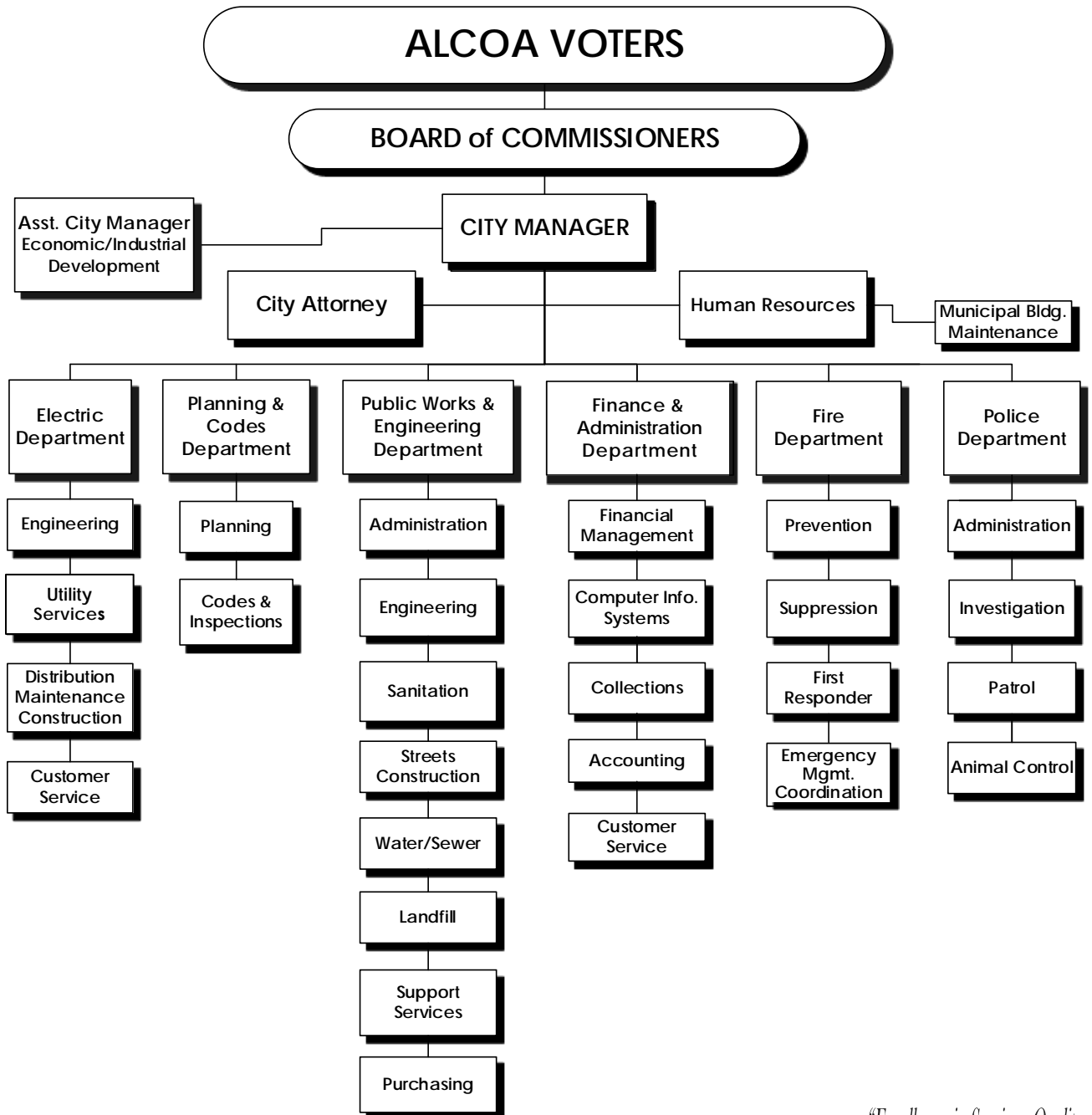
Respectively submitted,



Susan Gennoe
Director of Finance & Administration



City of Alcoa



"Excellence in Service - Quality of Life"

CITY OF ALCOA, TENNESSEE

SECTION TWO

FINANCIAL SECTION

For the Fiscal Year Ended June 30, 2016



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

428 Marilyn Lane
Alcoa, Tennessee 37701

Telephone
865-984-1040
Facsimile
865-982-1665

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, 2016, 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, 2016, 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 described in Note 1(T) to the financial statements, in 2016 the City adopted a new accounting guidance, GASB No. 72 “Fair Value Measurement and Application.” 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 107 through 117 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 schedules of expenditures of federal and state awards are presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations*” (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Grant Requirements for Federal Awards* and are also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, other supplementary information, 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, miscellaneous schedules (Section Three), and statistical information (Section Four), have 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 them.

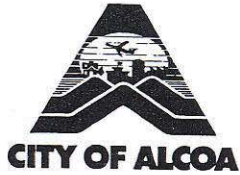
Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated January 24, 2017, 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

January 24, 2017



223 Associates Boulevard, Alcoa, Tennessee 37701-1943

(865) 380-4700 FAX (865) 380-4797

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, 2016. 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 \$72.4 million (net position). The total net position increased by \$449 thousand compared to the prior year. Included in the results is a \$924 thousand liability due to a change in debt service requirements. Without the change in debt service, the change in net position increased by \$1.4 million.

FINANCIAL HIGHLIGHTS (Continued)

- ◆ At June 30, 2016, the City's governmental activities reported combined ending fund balances of \$14.5 million, a decrease of \$1.92 million in comparison to the prior year. Included in these totals is a \$924 thousand change due to the change in debt service accounting requirements.
- ◆ At June 30, 2016, total fund balance for the general fund was \$6.5 million. The unassigned portion of the fund balance is \$5.4 million, which is 30.3% of total general fund expenditures of \$17.8 million.
- ◆ At June 30, 2016, the City's proprietary funds reported combined total net position of \$60 million, and total unrestricted net position of \$9.5 million.
- ◆ The City issued \$14,020 million in refunding bonds to effect a cumulative savings/economic gain due to more favorable interest rates.

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>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Current and other Assets	\$ 31,649,685	\$ 33,584,564	\$ 35,795,979	\$ 36,008,673	\$ 67,445,664	\$ 69,593,237
Capital assets (net)	87,070,734	88,162,110	117,076,257	120,485,631	204,146,991	208,647,741
Capital lease property	<u>9,894,150</u>	<u>10,007,914</u>	<u>-</u>	<u>-</u>	<u>9,894,150</u>	<u>10,007,914</u>
Total Assets	<u>128,614,569</u>	<u>131,754,588</u>	<u>152,872,236</u>	<u>156,494,304</u>	<u>281,486,805</u>	<u>288,248,892</u>
Deferred Outflows of Resources:						
Deferred state regulatory charges	-	-	1,239,456	1,130,197	1,239,456	1,130,197
Pension contributions after measurement date	1,496,320	1,728,667	1,322,023	867,902	2,818,343	2,596,569
Pension changes in experience	179,937	87,495	217,996	-	397,933	87,495
Changes in proportion of net pension asset	150,815	41,326	-	-	150,815	41,326
Accumulated Change in fair value of interest rate swaps	<u>1,152,297</u>	<u>1,117,753</u>	<u>6,831,101</u>	<u>4,814,288</u>	<u>7,983,398</u>	<u>5,932,041</u>
Total Deferred Outflows	<u>2,979,369</u>	<u>2,975,241</u>	<u>9,610,576</u>	<u>6,812,387</u>	<u>12,589,945</u>	<u>9,787,628</u>
<u>Liabilities</u>						
Long-term liabilities	82,881,230	100,817,456	83,985,671	84,434,967	166,866,901	185,252,423
Other liabilities	<u>24,427,840</u>	<u>8,402,788</u>	<u>17,809,459</u>	<u>17,890,138</u>	<u>42,237,299</u>	<u>26,292,926</u>
Total Liabilities	<u>107,309,070</u>	<u>109,220,244</u>	<u>101,795,130</u>	<u>102,325,105</u>	<u>209,104,200</u>	<u>211,545,349</u>
Deferred Inflows of Resources:						
Pension changes in experience	1,464,755	11,230	37,150	9,381	1,501,905	20,611
Pension changes in investment earnings	307,664	3,960,124	597,824	827,639	905,488	4,787,763
Deferred revenue - property tax	10,014,628	9,681,393	-	-	10,014,628	9,681,393
Bond deferral	<u>-</u>	<u>-</u>	<u>100,000</u>	<u>-</u>	<u>100,000</u>	<u>-</u>
Total Deferred Inflows	<u>11,787,047</u>	<u>13,652,747</u>	<u>734,974</u>	<u>837,020</u>	<u>12,522,021</u>	<u>14,489,767</u>
<u>Net Position</u>						
Net investment in capital assets	18,305,142	18,643,895	49,237,556	50,190,104	67,542,698	68,833,999
Restricted for:						
General Fund	1,112,451	1,005,526	-	-	1,112,451	1,005,526
Special revenue	2,052,441	1,801,413	-	-	2,052,441	1,801,413
Capital projects	4,916,649	6,485,863	-	-	4,916,649	6,485,863
Debt service	1,019,041	2,945,179	-	-	1,019,041	2,945,179
Property acquisitions	-	-	1,264,653	1,477,123	1,264,653	1,477,123
Unrestricted (deficit)	<u>(14,907,903)</u>	<u>(19,025,038)</u>	<u>9,450,499</u>	<u>8,477,339</u>	<u>(5,457,404)</u>	<u>(10,547,699)</u>
Total Net Position	<u>\$ 12,497,821</u>	<u>\$ 11,856,838</u>	<u>\$ 59,952,708</u>	<u>\$ 60,144,566</u>	<u>\$ 72,450,529</u>	<u>\$ 72,001,404</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 \$72.4 million and \$76.7 million at June 30, 2016 and June 30, 2015, respectively.

The largest portion of the City's net position reflects its net investment of \$67.5 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.

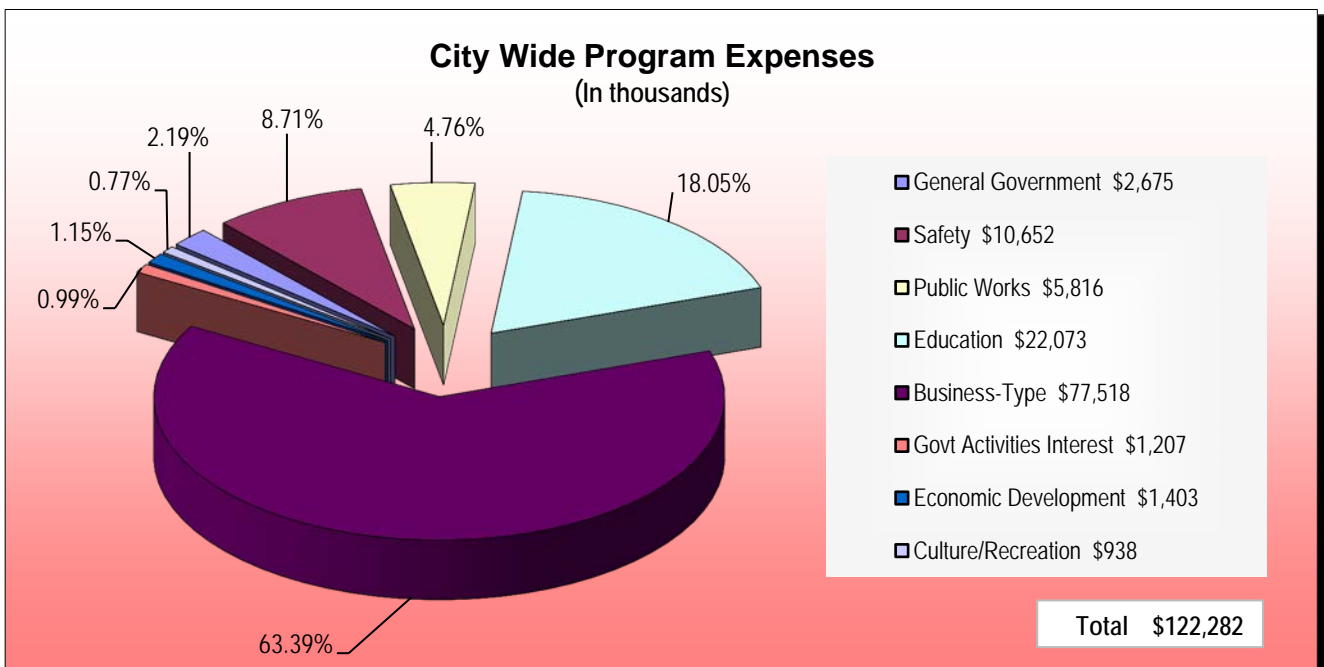
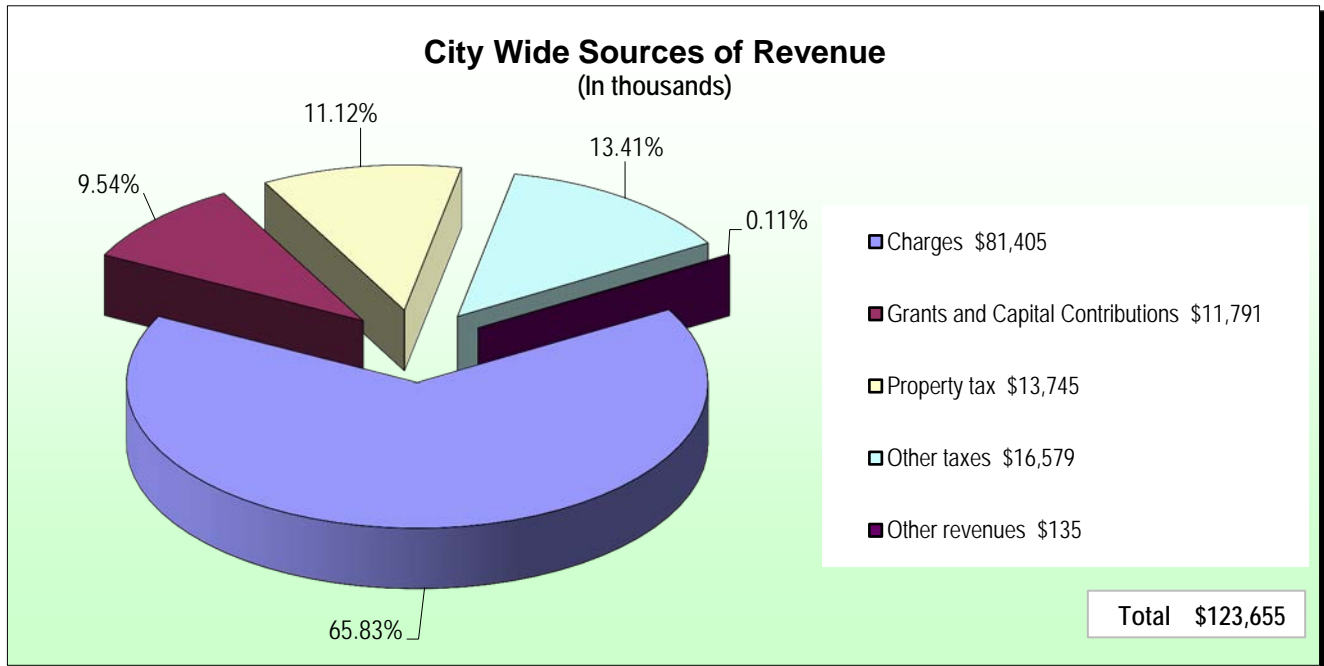
An additional portion of the City's net position, \$10.4 million (14%) represents resources that are subject to external restrictions on how they may be used.

Analysis of Change in Net Position

The City's net position increased by \$3,398,385 for the fiscal year 2016. These changes are explained in the government and business-type activities presented below.

Revenues	Changes in Net Position					
	Governmental Activities		Business-Type Activities		Total	Total
	2016	2015	2016	2015	2016	2015
Program Revenues:						
Charges for services	\$ 2,394,735	\$ 1,558,723	\$ 79,044,793	\$ 81,233,771	\$ 81,439,528	\$ 82,792,494
Operating grants and contributions	10,218,711	10,536,788	153,261	75,718	10,371,972	10,612,506
Capital grants and contributions	1,385,336	5,202,207	-	-	1,385,336	5,202,207
General Revenues:						
Sales taxes	14,142,755	14,520,112	-	-	14,142,755	14,520,112
State income taxes	135,244	95,095	-	-	135,244	95,095
Property taxes	13,744,696	13,734,216	-	-	13,744,696	13,734,216
Business taxes/licenses	942,515	897,280	-	-	942,515	897,280
Miscellaneous taxes	1,061,384	790,571	-	-	1,061,384	790,571
Investment earnings	117,349	56,826	17,168	7,322	134,517	64,148
In-lieu of taxes	297,331	371,954	-	-	297,331	371,954
Total Revenues	<u>44,440,056</u>	<u>47,763,772</u>	<u>79,215,222</u>	<u>81,316,811</u>	<u>123,655,278</u>	<u>129,080,583</u>
Expenses						
General government	2,675,015	2,226,413	-	-	2,675,015	2,226,413
Police and Fire	10,652,182	9,544,500	-	-	10,652,182	9,544,500
Public works and streets	5,815,449	5,698,308	-	-	5,815,449	5,698,308
Recreation and Culture	938,333	1,110,699	-	-	938,333	1,110,699
Economic development	1,403,320	1,042,221	-	-	1,403,320	1,042,221
Education	22,072,833	19,998,346	-	-	22,072,833	19,998,346
Interest on long-term debt	1,207,000	1,324,010	-	-	1,207,000	1,324,010
Water and Sewer	-	-	12,183,484	10,986,018	12,183,484	10,986,018
Electric Utility	-	-	60,346,969	62,513,432	60,346,969	62,513,432
Landfill	-	-	3,840,763	3,619,982	3,840,763	3,619,982
Stormwater Utility	-	-	1,146,369	1,108,997	1,146,369	1,108,997
Total expenses	<u>44,764,132</u>	<u>40,944,497</u>	<u>77,517,585</u>	<u>78,228,429</u>	<u>122,281,717</u>	<u>119,172,926</u>
Increase (decrease) in net position before transfers and other sources	(324,076)	6,819,275	1,697,637	3,088,382	1,373,561	9,907,657
Transfers-in-lieu of tax	<u>1,889,495</u>	<u>1,728,324</u>	<u>(1,889,495)</u>	<u>(1,728,324)</u>	-	-
Change in net position	1,565,419	8,547,599	(191,858)	1,360,058	1,373,561	9,907,657
Net position at beginning of year	11,856,838	16,029,663	60,144,566	59,560,593	72,001,404	75,590,256
Prior period adjustments:						
Pensions	-	(13,054,664)	-	(1,129,042)	-	(14,183,706)
Interest due from debt service	(924,436)	-	-	137,521	(924,436)	137,521
Investment income from ineffective hedging derivative instrument	-	334,240	-	215,436	-	549,676
Net position at end of year	<u>\$ 12,497,821</u>	<u>\$ 11,856,838</u>	<u>\$ 59,952,708</u>	<u>\$ 60,144,566</u>	<u>\$ 72,450,529</u>	<u>\$ 72,001,404</u>

City of Alcoa, Tennessee for the Fiscal Year Ended June 30, 2016



Governmental activities:

- Governmental activities increased the City governmental net position by \$640,983.
- Governmental activities revenue decreased by \$3.3 million over the prior year primarily due to a reduction in capital grants and contributions.
- Investment earnings increased by \$60,523.
- The General Fund departments demonstrated fiscal responsibility by under-spending the appropriated budget by \$563,099.

Business-type activities:

- Business-type activities decreased the City's net position by \$191,858, whereas the prior year had produced an increase in net position of \$583,973.
- The Electric Utility is the largest business-type activity of the City, with a total expense of \$60,346,969. 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 \$12,183,484. 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 Landfill Utility ended the fiscal year with total expenses of \$3,840,763 and ended with a net loss of \$44,373. This loss over the prior year ended June 30, 2015, was mainly due to less revenue generated from private haulers.
- The Stormwater Utility ended the fiscal year with total expenses of \$1,146,369 and ended with a net loss of \$84,881.
- 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, 2016, the City's governmental funds reported combined ending fund balances of \$14.5 million, a decrease of \$1.9 million from 2015. Approximately \$5.4 million or (37%) of this total amount constitutes 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 \$5.4 million while total fund balance was \$6.5 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 30% of total general fund expenditures of \$17.81 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, 2016, the fund balance is \$1,184,448. The fund balance represents 6.4% of the schools total budget of \$18,633,000. 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, 2016 is \$1,019,041 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, 2016, the Stormwater Utility net position totaled \$897,821. 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 \$84,881.

Net position for Water and Sewer Utility as of June 30, 2016 were \$19,017,902, a decrease of \$1,294,448 from 2015. The decrease was primarily due to a decrease of capital contributions to the Water and Sewer Utility.

Net position of the Electric Utility as of June 30, 2016 was \$37,506,308, an increase of \$1,231,844. 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 \$2.16 million less than the prior year.

Net position of the Landfill Utility as of June 30, 2016 was \$2,530,677, a decrease of \$44,373 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 \$170,000.

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

The bulk of this increase related to the actual Electric Department in-lieu of tax actual coming in higher than expected. Tax revenues were increased \$170,000 in total and the corresponding spending side was increased \$135,000 in contributions to other agencies for the in-lieu of tax correction.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's capital assets for its governmental and business type activities as of June 30, 2016 and 2015 amount to \$214,041,141 and \$218,655,655 (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:

	Capital Assets, Net of Depreciation					
	Governmental Activities		Business-Type Activities		Total	Total
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Land	\$ 1,999,449	\$ 1,999,450	\$ 2,460,577	\$ 2,204,363	\$ 4,460,026	\$ 4,203,813
Buildings	63,810,989	29,672,905	89,870,676	87,731,404	153,681,665	117,404,309
Infrastructure	42,556,849	41,926,576	-	-	42,556,849	41,926,576
Improvements	15,641,029	15,631,085	61,449,901	58,752,375	77,090,930	74,383,460
Machinery and equipment	9,471,116	8,588,489	33,480,184	32,964,909	42,951,300	41,553,398
Capital lease property	9,894,150	10,094,911	-	-	9,894,150	10,094,911
Construction in progress	<u>1,185,161</u>	<u>33,924,400</u>	<u>1,775,606</u>	<u>5,419,619</u>	<u>2,960,767</u>	<u>39,344,019</u>
Total Capital Assets	144,558,743	141,837,816	189,036,944	187,072,670	333,595,687	328,910,486
Less: Accumulated Depreciation	<u>(47,593,859)</u>	<u>(43,667,792)</u>	<u>(71,960,687)</u>	<u>(66,587,039)</u>	<u>(119,554,546)</u>	<u>(110,254,831)</u>
Capital Assets, net of Depreciation	<u>\$ 96,964,884</u>	<u>\$ 98,170,024</u>	<u>\$117,076,257</u>	<u>\$120,485,631</u>	<u>\$ 214,041,141</u>	<u>\$ 218,655,655</u>

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 installation of a new electric meter reading system (TWAC)
- City-wide traffic signalization improvement 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 \$164.4 million. Of this amount, \$143.7 million are revenue bonds, general obligation bonds, and capital outlay notes backed by the full faith and credit of the City and \$9.2 million is estimated liability for Landfill closure and post closure costs and capital outlay notes. The remainder includes capital leases of \$9.5 million and compensated absences of \$1.8 million (See Note 6 – Long-Term Liabilities).

	Outstanding Long-Term Obligations					
	Governmental Activities		Business-Type Activities		Total	Total
	2016	2015	2016	2015	<u>2016</u>	<u>2015</u>
General Obligation/ Revenue Bonds	\$ 75,605,000	\$ 78,150,000	\$68,138,701	\$ 70,333,837	\$143,743,701	\$148,483,837
Capital leases	9,554,742	9,656,129	-	-	9,554,742	9,656,129
Compensated absences	911,933	974,749	957,760	1,241,066	1,869,693	2,215,815
Estimated liability for closure/post-closure care costs	-	-	9,218,798	8,777,906	9,218,798	8,777,906
Total long-term obligations	<u>\$ 86,071,675</u>	<u>\$ 88,780,878</u>	<u>\$78,315,259</u>	<u>\$ 80,352,809</u>	<u>\$164,386,934</u>	<u>\$169,133,687</u>

The City of Alcoa's total long-term debt decreased by a net of \$4,746,753 during the current fiscal year. The key factor to this decrease was due to the City refunded \$14,020 million during the year.

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

- According to the U.S. Bureau of Labor Statistics the unemployment rate for Blount County and thus the City of Alcoa is currently 4.3%. This is lower than the State's average unemployment rate of 4.8%.
- 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 \$1,213,198 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, 2016

CITY OF ALCOA, TENNESSEE
STATEMENT OF NET POSITION
For the Fiscal Year Ended June 30, 2016
With Comparative Totals for the Fiscal Year Ended June 30, 2015

	Primary Government		Total	Total
	Governmental	Business-type	2016	2015
	Activities	Activities		
ASSETS:				
Cash and certificates of deposit.....	\$ 16,047,398	\$ 11,210,861	\$ 27,258,259	\$ 27,383,573
Investments	1,169,925	-	1,169,925	3,123,677
Property taxes receivable (net of allowance)	10,766,894	-	10,766,894	10,449,998
Other receivables (net of allowance)	1,234,954	10,442,650	11,677,604	11,822,012
Due from other governments	2,430,514	-	2,430,514	3,022,413
Accrued Interest	-	492	492	-
Inventories.....	-	1,421,113	1,421,113	1,178,379
Prepaid items.....	-	3,466,268	3,466,268	3,857,990
Restricted Assets:.....				
Cash and certificates of deposit.....	-	9,254,595	9,254,595	8,755,195
Capital Assets (Note 5):				
Non-depreciable assets	3,184,611	2,460,578	5,645,189	38,128,214
Depreciable assets, net of depreciation	83,886,123	114,615,679	198,501,802	170,519,527
Capital lease property	9,894,150	-	9,894,150	10,007,914
Total Capital Assets, net of Depreciation	96,964,884	117,076,257	214,041,141	218,655,655
Total Assets.....	128,614,569	152,872,236	281,486,805	288,248,892
DEFERRED OUTFLOWS OF RESOURCES:				
Deferred State Regulatory Charges.....	-	1,239,456	1,239,456	1,130,197
Pension contributions after measurement date.....	1,496,320	1,322,023	2,818,343	2,596,569
Pension changes in experience	179,937	217,996	397,933	87,495
Changes in proportion of net pension asset	150,815	-	150,815	41,326
Accumulated change in fair value of interest rate swaps (Note 7)	1,152,297	6,831,101	7,983,398	5,932,041
Total Deferred Outflows of Resources	2,979,369	9,610,576	12,589,945	9,787,628
LIABILITIES:				
Accounts payable	3,218,034	10,888,800	14,106,834	15,981,805
Accrued liabilities	965,475	607,288	1,572,763	1,654,284
Customer deposits	-	1,880,863	1,880,863	1,654,990
Deferred revenue.....	949,287	-	949,287	907,992
Other liabilities	-	734,956	734,956	2,348,450
Long-term Liabilities:				
Due within one year (Note 6)	3,190,445	2,695,500	5,885,945	6,436,042
Due in more than one year (Note 6).....	82,881,230	67,935,772	150,817,002	153,919,739
Interest rate swap liability	1,152,297	6,831,101	7,983,398	5,932,041
Estimated liability – Landfill closure/ Postclosure (Note 6).....	-	9,218,798	9,218,798	8,777,906
Net unfunded pension liability (Note 8)	13,747,747	1,002,052	14,749,799	12,991,605
Post-employment benefit obligation (Note 8).....	1,204,555	-	1,204,555	940,495
Total Liabilities	107,309,070	101,795,130	209,104,200	211,545,349
DEFERRED INFLOWS OF RESOURCES:				
Deferred Revenue – property tax	10,014,628	-	10,014,628	9,681,393
Pension changes in experience	1,464,755	37,150	1,501,905	20,611
Pension changes in investment earnings	307,664	597,824	905,488	4,787,763
Bond Deferral	-	100,000	100,000	-
Total Deferred Inflows of Resources	11,787,047	734,974	12,522,021	14,489,767
NET POSITION:				
Net investment in capital assets, (Note 19)	18,305,142	-	67,542,698	68,833,999
Restricted for:				
General Fund	1,112,451	49,237,556	1,112,451	1,005,526
Special Revenue Funds:				
Education	1,373,349	-	1,373,349	1,252,804
Streets	659,038	-	659,038	531,839
Drug Enforcement.....	18,415	-	18,415	15,250
Vehicle enforcement	1,639	-	1,639	1,520
Capital Projects:				
Capital Projects	929,553	-	929,553	453,048
Education	375,667	-	375,667	1,259,374
Public Works/Safety	3,611,429	-	3,611,429	4,773,441
Debt Service	1,019,041	-	1,019,041	2,945,179
Property Acquisitions	-	1,264,653	1,264,653	1,477,123
Unrestricted (deficit).....	(14,907,903)	9,450,499	(5,457,404)	(10,547,699)
Total Net Position.....	\$ 12,497,821	\$ 59,952,708	\$ 72,450,529	\$ 72,001,404

See accompanying independent auditors' report and notes.

CITY OF ALCOA, TENNESSEE
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2016
With Comparative Totals for the Fiscal Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total 2016	Total 2015
					Governmental Activities	Business-type Activities		
PRIMARY GOVERNMENT								
Governmental Activities:								
General Government.....	\$ 2,675,015	\$ 675,592	\$ 31,441	\$ -	\$ (1,967,982)	\$ -	\$ (1,967,982)	\$ (1,782,137)
Public Safety	10,652,182	663,174	40,800	-	(9,948,208)	-	(9,948,208)	(9,024,754)
Public Works	5,815,449	433,611	231,557	1,385,336	(3,764,945)	-	(3,764,945)	29,462
Economic Development	1,403,320	18,986	-	-	(1,384,334)	-	(1,384,334)	(1,030,672)
Education	22,072,833	603,372	9,914,913	-	(11,554,548)	-	(11,554,548)	(9,423,669)
Culture and Recreation	938,333	-	-	-	(938,333)	-	(938,333)	(1,090,999)
Interest on long-term debt	1,207,000	-	-	-	(1,207,000)	-	(1,207,000)	(1,324,010)
Total Governmental Activities	44,764,132	2,394,735	10,218,711	1,385,336	(30,765,350)	-	(30,765,350)	(23,646,779)
Business-Type Activities:								
Landfill.....	3,840,763	3,635,050	153,261	-	-	(52,452)	(52,452)	(10,132)
Electric	60,346,969	63,062,563	-	-	-	2,715,594	2,715,594	1,687,716
Water/Sewer Utility	12,183,484	11,251,858	-	33,849	-	(897,777)	(897,777)	1,476,885
Stormwater Utility	1,146,369	1,061,473	-	-	-	(84,896)	(84,896)	(73,409)
Total Business-type Activities	77,517,585	79,010,944	153,261	33,849	-	1,680,469	1,680,469	3,081,060
Total Primary Government.....	\$ 122,281,717	\$ 81,405,679	\$ 10,371,972	\$ 1,419,185	(30,765,350)	1,680,469	(29,084,881)	(20,565,719)
General Revenues:								
Taxes, net of related credits:								
Property tax					13,744,696	-	13,744,696	13,734,216
Sales tax					14,142,755	-	14,142,755	14,520,112
State income and excise tax					135,244	-	135,244	95,095
Business taxes/licenses					942,515	-	942,515	897,280
In-lieu-of taxes					297,331	-	297,331	371,954
Miscellaneous taxes					1,061,384	-	1,061,384	790,571
Investment earnings					117,349	17,168	134,517	64,148
Transfers – In-lieu-of-tax payments					1,889,495	(1,889,495)	-	-
Total General Revenues and Transfers					32,330,769	(1,872,327)	30,458,442	30,473,376
Change in Net Position					1,565,419	(191,858)	1,373,561	9,907,657
Net Position – Beginning					11,856,838	60,144,566	72,001,404	75,590,256
Prior Period Adjustment to Net Position:								
Pensions (Note 8)					-	-	-	(14,183,706)
Interest due from Debt Service (Note 7)					(924,436)	-	(924,436)	137,521
Investment income from ineffective hedging derivative instrument (Note 7)					-	-	-	549,676
Adjusted Net Position - Beginning					10,932,402	60,144,566	71,076,968	62,093,747
Net Position – Ending					\$ 12,497,821	\$59,952,708	\$72,450,529	\$72,001,404

See accompanying independent auditors' report and notes.

CITY OF ALCOA, TENNESSEE
FUND FINANCIAL STATEMENTS
June 30, 2016

CITY OF ALCOA, TENNESSEE
BALANCE SHEET
Governmental Funds
For the Fiscal Year Ended June 30, 2016
With Comparative Totals for the Fiscal Year Ended June 30, 2015

<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>	<u>General</u>	<u>Education</u>	<u>Debt Service</u>	<u>General Obligation Public Works Construction</u>	<u>School Construction & Improvement Fund</u>	<u>Alcoa High School Construction Fund</u>	<u>Non-Major Other Governmental Funds</u>	<u>Total Governmental Funds</u>	
								<u>2016</u>	<u>2015</u>
Assets:									
Cash and cash equivalents	\$ 4,283,741	\$ 1,409,422	\$ 2,492,028	\$ 3,468,029	\$ 104,339	\$ 68,905	\$ 2,076,020	\$ 13,902,484	\$ 12,846,757
Investments and certificates of deposit	1,002,746	-	-	-	-	167,179	-	1,169,925	2,820,701
Tennessee Local Government									
Investment Pool	-	-	-	-	-	-	-	-	302,976
Receivables:									
Sales Taxes	1,775,374	441,002	-	-	-	-	-	2,216,376	1,738,656
Property Taxes (net of allowance for uncollectible taxes)	10,766,894	-	-	-	-	-	-	10,766,894	10,449,998
Accounts	535,153	140,499	-	-	2,500	35,000	153,308	866,460	2,164,959
Note	-	-	-	-	-	-	-	-	1,982
Prepaid expenditures	-	2,222	-	-	-	-	44,937	2,222	-
Due from other governments	-	8,332	-	130,305	-	-	-	183,574	137,876
Due from grantors	-	-	-	30,564	-	-	-	30,564	1,145,881
Due from other funds	-	-	-	-	-	-	-	-	69,550
Total Assets	18,363,908	2,001,477	2,492,028	3,628,898	106,839	271,084	2,274,265	29,138,499	31,679,336
Deferred Outflows of Resources.....	-	-	-	-	-	-	-	-	-
Total Assets and Deferred Outflows of Resources.....	<u>\$18,363,908</u>	<u>\$ 2,001,477</u>	<u>\$ 2,492,028</u>	<u>\$ 3,628,898</u>	<u>\$ 106,839</u>	<u>\$ 271,084</u>	<u>\$ 2,274,265</u>	<u>\$ 29,138,499</u>	<u>\$ 31,679,336</u>
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</u>									
Liabilities:									
Accounts payable.....	\$ 758,596	\$ 161,560	\$ 1,472,987	\$ 17,469	\$ 1,586	\$ 670	\$ 339,688	\$ 2,752,556	\$ 3,731,650
Due to other funds	-	-	-	-	-	-	-	-	69,550
Accrued payroll	411,681	-	-	-	-	-	-	411,681	317,850
Due to State of Tennessee.....	-	451,837	-	-	-	-	-	451,837	499,051
Deferred revenue	710,581	192,771	-	-	-	-	140	903,492	794,768
Deferred grant revenue	-	-	-	-	-	-	45,795	45,795	113,224
Due to Blount County	-	10,861	-	-	-	-	91,096	101,957	91,096
Total Liabilities.....	<u>1,880,858</u>	<u>817,029</u>	<u>1,472,987</u>	<u>17,469</u>	<u>1,586</u>	<u>670</u>	<u>476,719</u>	<u>4,667,318</u>	<u>5,617,189</u>
Deferred Inflows of Resources:									
Deferred Revenue – Property tax.....	10,014,628	-	-	-	-	-	-	10,014,628	9,681,393
See accompanying independent auditors' report and notes.									

(Continued)

CITY OF ALCOA, TENNESSEE
BALANCE SHEET (Continued)
Governmental Funds
For the Fiscal Year Ended June 30, 2016
With Comparative Totals for the Fiscal Year Ended June 30, 2015

	<u>General Fund</u>	<u>Education Fund</u>	<u>Debt Service Fund</u>	<u>General Obligation Public Works Construction</u>	<u>School Construction & Improvement Fund</u>	<u>Alcoa High School Construction Fund</u>	<u>Non-Major Other Governmental Funds</u>	<u>Total Governmental Funds</u>	
								<u>2016</u>	<u>2015</u>
Fund Balances:									
Restricted	165,441	-	-	3,611,429	-	-	788,594	4,565,464	5,472,148
Assigned.....	947,010	1,184,448	1,019,041	-	105,253	270,414	1,008,952	4,535,118	6,765,833
Unassigned.....	<u>5,355,971</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,355,971</u>	<u>4,142,773</u>
 Total Fund Balances	<u>6,468,422</u>	<u>1,184,448</u>	<u>1,019,041</u>	<u>3,611,429</u>	<u>105,253</u>	<u>270,414</u>	<u>1,797,546</u>	<u>14,456,553</u>	<u>16,380,754</u>
 Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$18,363,908</u>	<u>\$ 2,001,477</u>	<u>\$2,492,028</u>	<u>\$ 3,628,898</u>	<u>\$ 106,839</u>	<u>\$ 271,084</u>	<u>\$ 2,274,265</u>	<u>\$ 29,138,799</u>	<u>\$ 31,679,336</u>

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, 2016
With Comparative Totals for the Fiscal Year Ended June 30, 2015

		<u>2016</u>	<u>2015</u>
Fund Balances – Total Governmental Funds		\$ 14,456,553	\$ 16,380,754
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>2016</u> <u>\$ 96,964,884</u>	<u>2015</u> <u>\$ 98,170,024</u>	96,964,884 98,170,024
(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.		1,679,436	1,161,240
(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	\$ 75,605,000	78,150,000	
Compensated absences	911,933	974,749	
Capital Leases	<u>9,554,742</u> <u>\$ 86,071,675</u>	<u>9,650,129</u> <u>\$ 88,780,878</u>	(86,071,675) (88,780,878)
(4) The General pension plan liabilities are not due and payable in the current period and are not reported in the government funds.		(13,747,747)	(12,354,181)
(5) Net OPEB Obligation – current year funding for the City’s postemployment benefits was required as follows:			
Amount funded	\$ 220,944	\$ 95,593	
Required	(328,050)	(374,493)	
OPEB Excess (Liability)	(107,106)	(289,900)	
OBEP Obligation – beginning of year	(437,253)	(158,353)	
OPEB Obligation – end of year	<u>\$ (544,359)</u>	<u>\$ (437,253)</u>	(544,359) (437,253)
(6) OPEB Obligation – Education (not reported in the governmental fund)		(660,196)	(503,242)
(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	\$ 1,827,072		
Less: Deferred inflows related to pensions	<u>(1,772,419)</u> <u>\$ 54,653</u>	54,653 (2,113,866)	(2,113,866)
(8) Investment income from ineffective hedging derivative instrument		32,032	-
(9) Prior period adjustment:			
Investment income from ineffective hedging derivative instrument		<u>334,240</u>	<u>334,240</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES		<u>\$ 12,497,821</u>	<u>\$ 11,856,838</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, 2016
With Comparative Totals for the Fiscal Year Ended June 30, 2015

	<u>General Fund</u>	<u>Education Fund</u>	<u>Debt Service Fund</u>	<u>General Obligation Public Works Construction</u>	<u>School Construction & Improvement Fund</u>	<u>Alcoa High School Construction Fund</u>	<u>Non-Major Other Governmental Funds</u>	<u>Total Governmental Funds</u>	
								<u>2016</u>	<u>2015</u>
Revenues:									
Taxes.....	\$ 17,353,083	\$ 7,805,675	\$ -	\$ -	\$ -	\$ -	\$ 231,557	\$25,390,315	\$ 26,555,861
Licenses, permits and fees	141,755	-	-	-	-	-	-	141,755	222,483
Intergovernmental.....	2,078,704	10,585,949	-	1,385,336	-	-	1,724,893	15,774,882	18,300,151
Charges for services	326,211	-	-	-	-	-	593,889	920,100	834,269
Fines, forfeitures and costs	639,374	-	-	-	-	-	23,800	663,174	517,539
Property rental	153,336	-	-	-	-	-	-	153,336	143,388
Investment income.....	6,109	-	12,543	52,074	-	9,689	4,902	85,317	56,826
Miscellaneous revenue	364,119	300,492	-	-	-	-	-	664,611	469,567
Donations	1,250	-	-	-	170,000	35,000	-	206,250	192,664
Sale of property/equipment	23,588	-	-	-	-	-	-	23,588	96,440
Total Revenues	<u>21,087,529</u>	<u>18,692,116</u>	<u>12,543</u>	<u>1,437,410</u>	<u>170,000</u>	<u>44,689</u>	<u>2,579,041</u>	<u>44,023,328</u>	<u>47,389,188</u>
Expenditures:									
Current:									
General government	1,665,434	-	-	-	-	-	-	1,665,434	1,740,661
Public Safety	9,246,339	-	-	-	-	-	20,516	9,266,855	9,126,797
Public Works	4,910,640	-	-	-	-	-	129,176	5,039,816	4,974,584
Education.....	-	18,545,764	-	-	-	-	1,963,702	20,509,466	18,833,640
Recreation and Culture	586,168	-	-	-	-	-	199,597	785,765	851,898
Community Development.....	1,403,320	-	-	-	-	-	-	1,403,320	1,042,221
Capital Outlay/Capital Assets/ Capital Leases.....	-	-	-	1,399,422	172,918	925,478	829,869	3,327,687	24,902,807
Debt Service:									
Principal Retirement	-	-	5,560,136	-	-	-	-	5,560,136	5,269,964
Interest and Fiscal Charges	-	-	3,949,082	-	-	-	-	3,949,082	4,003,952
Total Expenditures.....	<u>17,811,901</u>	<u>18,545,764</u>	<u>9,509,218</u>	<u>1,399,422</u>	<u>172,918</u>	<u>925,478</u>	<u>3,142,860</u>	<u>51,507,561</u>	<u>70,746,524</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>3,275,628</u>	<u>146,352</u>	<u>(9,496,675)</u>	<u>37,988</u>	<u>(2,918)</u>	<u>(880,789)</u>	<u>(563,819)</u>	<u>(7,484,233)</u>	<u>(23,357,336)</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, 2016
With Comparative Totals for the Fiscal Year Ended June 30, 2015

	<u>General</u>	<u>Education</u>	<u>Debt Service</u>	<u>General Obligation Public Works Construction</u>	<u>School Construction and Improvement Fund</u>	<u>Alcoa High School Construction Fund</u>	<u>Non-Major Other Governmental Funds</u>	<u>Total Governmental Funds</u>	
								<u>2016</u>	<u>2015</u>
Other Financing Sources (Uses):									
Transfers to other funds	(3,900,000)	(55,000)	-	(1,200,000)	-	-	-	(5,155,000)	(5,230,883)
Transfer from other funds	55,000	-	8,494,973	-	-	-	1,200,000	9,749,973	10,969,065
Payments in lieu of taxes	1,889,495	-	-	-	-	-	-	1,889,495	1,728,324
Issuance of debt	-	-	-	-	-	-	-	-	9,995,000
Bond premium	-	-	-	-	-	-	-	-	176,654
Total Other Financing Sources (Uses)	<u>(1,955,505)</u>	<u>(55,000)</u>	<u>8,494,973</u>	<u>(1,200,000)</u>	<u>-</u>	<u>-</u>	<u>1,200,000</u>	<u>6,484,468</u>	<u>17,638,160</u>
Net Change in Fund Balance	1,320,123	91,352	(1,001,702)	(1,162,012)	(2,918)	(880,789)	636,181	(999,765)	(5,719,176)
Fund Balance, July 1 st , previously stated	<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>
Prior period adjustment (Note 7)	-	-	(924,436)	-	-	-	-	(924,436)	-
Fund Balance at Beginning of Year, restated	<u>5,148,299</u>	<u>1,093,096</u>	<u>2,020,743</u>	<u>4,773,441</u>	<u>108,171</u>	<u>1,151,203</u>	<u>1,161,365</u>	<u>15,456,318</u>	<u>22,099,930</u>
Fund Balance, June 30th	<u>\$ 6,468,422</u>	<u>\$ 1,184,448</u>	<u>\$ 1,019,041</u>	<u>\$ 3,611,429</u>	<u>\$ 105,253</u>	<u>\$ 270,414</u>	<u>\$ 1,797,546</u>	<u>\$ 14,456,553</u>	<u>\$ 16,380,754</u>

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, 2016
With Comparative Totals for the Fiscal Year Ended June 30, 2015

	<u>2016</u>	<u>2015</u>
Net Change in Fund Balances – Total Governmental Funds:	\$ (999,765)	\$ (5,719,176)
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>2016</u>	<u>2015</u>
Capital Outlay	\$ 5,378,892	\$ 24,838,455
Depreciation	<u>(3,988,421)</u>	<u>(2,982,186)</u>
	<u>\$ 1,390,471</u>	<u>\$ 21,856,269</u>
	1,390,471	21,856,269
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>2016</u>	<u>2015</u>
New Leases	\$ -	\$ -
Payments	<u>(101,387)</u>	<u>(146,266)</u>
	<u>\$ (101,387)</u>	<u>\$ (146,266)</u>
	101,387	146,266
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>2016</u>	<u>2015</u>
Bonds issued	\$ 4,310,000	\$ 18,995,000
Retired	<u>(6,855,000)</u>	<u>(13,594,964)</u>
	<u>\$ (2,545,000)</u>	<u>\$ 5,400,036</u>
	2,545,000	(5,400,036)
4) The net revenues (expenditures) of internal service funds activities are reported with governmental activities.		
	384,696	197,930
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	(660,196)	(503,242)
b. OPEB Obligation – City	(544,359)	(437,253)
c. Unfunded Pension obligation	(13,747,747)	(12,354,181)
d. Change in compensated absences	(62,816)	229,059
e. Change in construction in-progress	<u>13,158,748</u>	<u>10,531,963</u>
Changes in Net Position of Governmental Activities	<u>\$ 1,565,419</u>	<u>\$ 8,547,599</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, 2016
With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2015

	<u>June 30, 2016</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>2015</u>
			<u>(Budgetary</u>	<u>Positive</u>	<u>Actual</u>
			<u>Basis)</u>	<u>(Negative)</u>	
REVENUES:					
Taxes	\$ 16,287,316	\$ 16,457,316	\$ 17,353,083	\$ 895,767	\$ 18,487,401
Licenses and permits	165,900	165,900	141,755	(24,145)	139,093
Fines and forfeits	540,512	540,512	639,374	98,862	488,599
Intergovernmental.....	1,981,500	1,981,500	2,078,704	97,204	1,989,248
Interest earned	1,500	1,500	6,109	4,609	-
Public works, labor and material	334,900	334,900	326,211	(8,689)	304,002
Miscellaneous	18,000	18,000	35,538	17,538	27,886
CATV franchise fee.....	83,750	83,750	94,817	11,067	90,233
Property rental	144,500	144,500	153,336	8,836	143,388
Department services	130,100	130,100	137,569	7,469	78,711
Fees development	20,000	20,000	18,986	(1,014)	11,549
Insurance refunds.....	9,000	9,000	6,537	(2,463)	8,838
Sale of property	30,307	30,307	23,588	(6,719)	92,875
Special events	-	-	-	-	19,700
Private grants	25,000	25,000	18,200	(6,800)	-
Disaster recovery	-	-	52,472	52,472	-
Contributions and donations – business ..	-	-	1,250	1,250	-
Total Revenues	<u>19,772,285</u>	<u>19,942,285</u>	<u>21,087,529</u>	<u>1,145,244</u>	<u>21,881,523</u>
EXPENDITURES:					
General government	1,691,129	1,691,129	1,665,434	25,695	1,740,661
Public works	5,097,403	5,137,403	4,910,640	226,763	4,894,927
Public safety – Police	5,734,037	5,734,037	5,604,856	129,181	5,374,846
Public safety – Fire	3,746,361	3,746,361	3,641,483	104,878	3,716,723
Contributions and grants to other agencies	<u>1,936,070</u>	<u>2,066,070</u>	<u>1,989,488</u>	<u>76,582</u>	<u>1,825,277</u>
Total Expenditures.....	<u>18,205,000</u>	<u>18,375,000</u>	<u>17,811,901</u>	<u>563,099</u>	<u>17,552,434</u>
Excess of Revenues Over					
Expenditures	<u>1,567,285</u>	<u>1,567,285</u>	<u>3,275,628</u>	<u>1,708,343</u>	<u>4,329,089</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, 2016
With Comparative Totals for the Fiscal Year Ended June 30, 2015

	<u>June 30, 2016</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>2015</u>
			<u>(Budgetary</u>	<u>Positive</u>	<u>Actual</u>
			<u>Basis)</u>	<u>(Negative)</u>	
OTHER FINANCING SOURCES (USES):					
Operating transfers in (out):					
Payments in lieu of taxes	1,688,000	1,688,000	1,889,495	201,495	1,728,324
Debt Service	(3,900,000)	(3,900,000)	(3,900,000)	-	(4,625,000)
Capital Projects	-	-	-	-	(57,383)
Resource Officer	<u>55,000</u>	<u>55,000</u>	<u>55,000</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(2,157,000)</u>	<u>(2,157,000)</u>	<u>(1,955,505)</u>	<u>201,495</u>	<u>(2,954,059)</u>
Excess (Deficit) of Revenues and Other Sources Over Expenditures and Other Uses.....	<u>(589,715)</u>	<u>(589,715)</u>	<u>1,320,123</u>	<u>1,909,838</u>	<u>1,375,030</u>
FUND BALANCE AT BEGINNING OF YEAR	<u>5,148,299</u>	<u>5,148,299</u>	<u>5,148,299</u>	<u>-</u>	<u>3,773,269</u>
FUND BALANCE AT END OF YEAR	<u>\$ 4,558,584</u>	<u>\$ 4,558,584</u>	<u>\$ 6,468,422</u>	<u>\$ 1,909,838</u>	<u>\$ 5,148,299</u>

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, 2016
With Comparative Totals for the Fiscal Year Ended June 30, 2015

	<u>June 30, 2016</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>2015</u>
			<u>(Budgetary</u>	<u>Positive</u>	<u>Actual</u>
			<u>Basis)</u>	<u>(Negative)</u>	
Revenues:					
Taxes	\$ 7,720,000	\$ 7,881,000	\$ 7,805,675	\$ (75,325)	\$ 7,841,899
Miscellaneous	2,766,900	2,871,900	2,972,724	100,824	2,419,904
Revenue from other agencies	<u>7,696,100</u>	<u>7,880,100</u>	<u>7,913,717</u>	<u>33,617</u>	<u>7,502,310</u>
Total Revenues	<u>18,183,000</u>	<u>18,633,000</u>	<u>18,692,116</u>	<u>59,116</u>	<u>17,764,113</u>
Expenditures:					
Board of Education	241,374	303,374	303,285	89	264,826
Office of the Superintendent	156,412	156,075	155,068	1,007	154,425
Office of Principals	933,179	1,365,886	1,365,583	303	1,015,054
Fiscal services	153,932	170,140	169,750	390	171,247
Transportation	254,581	238,574	238,058	516	274,699
Instruction/Elementary/Secondary	10,106,171	9,958,220	9,957,339	881	9,751,776
Instruction – Regular	456,894	461,353	461,091	262	425,882
Other student support	390,498	446,190	445,540	650	437,171
Health services	186,213	191,597	191,001	596	220,461
Operation of plant	1,120,531	1,505,003	1,504,923	80	1,104,114
Maintenance of plant	585,521	842,467	842,375	92	755,767
Food services	56,712	56,919	56,269	650	55,055
Capital outlay	225,000	21,200	21,108	92	19,586
Special education	1,148,427	1,369,196	1,347,028	22,168	1,114,120
Vocational education	305,317	321,994	320,020	1,974	310,208
Lottery Pre-K	224,189	268,590	267,682	908	226,217
Central and other	437,244	641,711	641,070	641	472,294
Human services	162,785	183,132	182,819	313	134,971
Family Resource Center	<u>105,020</u>	<u>76,379</u>	<u>75,755</u>	<u>624</u>	<u>93,777</u>
Total Expenditures	<u>17,250,000</u>	<u>18,578,000</u>	<u>18,545,764</u>	<u>32,236</u>	<u>17,001,650</u>
Excess (Deficiency) of Revenues Over Expenditures	933,000	55,000	146,352	91,352	762,463
Other Financing Sources (Uses):					
Transfer to General Fund	-	(55,000)	(55,000)	-	-
Transfer to School OPEB Insurance Fund ..	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(68,500)</u>
Net Change in Fund Balance	933,000	-	91,352	91,352	693,963
Fund Balance at Beginning of Year	<u>1,093,096</u>	<u>1,093,096</u>	<u>1,093,096</u>	<u>-</u>	<u>399,133</u>
Fund Balance at End of Year	<u>\$ 2,026,096</u>	<u>\$ 1,093,096</u>	<u>\$ 1,184,448</u>	<u>\$ 91,352</u>	<u>\$ 1,093,096</u>

See accompanying independent auditors' report and notes.

**CITY OF ALCOA, TENNESSEE
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
June 30, 2016
With Comparative Totals for June 30, 2015**

	Business-Type Activities – Enterprise Funds						Governmental Activities	
	2016						Internal Service Funds	
	Stormwater Utility	Water/ Sewer Utility	Electric Utility	Landfill	Total	2015 Total	2016	2015
ASSETS								
Current Assets:								
Cash in bank/Certificate of deposit	\$ 592,672	\$ 4,262,113	\$ 4,930,340	\$ 1,425,736	\$ 11,210,861	\$ 12,901,178	\$ 2,144,914	\$ 1,635,638
Accounts receivable – Net.....	99,056	1,870,204	5,783,663	711,031	8,463,954	7,214,128	-	4,900
Accrued interest	-	-	492	-	492	-	-	-
Inventory	-	829,018	592,095	-	1,421,113	1,178,379	-	-
Prepaid TVA Power Invoice Program.....	-	-	3,466,268	-	3,466,268	3,857,990	-	-
Total Current Assets.....	<u>691,728</u>	<u>6,961,335</u>	<u>14,772,858</u>	<u>2,136,767</u>	<u>24,562,688</u>	<u>25,151,675</u>	<u>2,144,914</u>	<u>1,640,538</u>
NonCurrent Assets:								
Capital Assets:								
Nondepreciable:								
Land and easements	-	1,194,236	336,481	929,861	2,460,578	2,204,364	-	-
Construction in progress.....	-	-	1,775,606	-	1,775,606	5,419,619	-	-
Plant and equipment – depreciable.....	654,516	85,452,251	84,982,078	13,711,915	184,800,760	179,448,687	-	-
Accumulated depreciation.....	<u>(378,840)</u>	<u>(27,709,800)</u>	<u>(34,736,752)</u>	<u>(9,135,295)</u>	<u>(71,960,687)</u>	<u>(66,587,039)</u>	-	-
Net Capital Assets.....	<u>275,676</u>	<u>58,936,687</u>	<u>52,357,413</u>	<u>5,506,481</u>	<u>117,076,257</u>	<u>120,485,631</u>	-	-
Other NonCurrent Assets:								
Receivables from customers for conservation loans/back utilities.....	-	-	1,978,696	-	1,978,696	2,101,803	-	-
Cash in bank – Restricted.....	-	-	-	4,254,595	4,254,595	5,548,994	-	-
Investments – Certificates of deposits - restricted for construction.....	-	-	-	5,000,000	5,000,000	3,206,201	-	-
Total Other NonCurrent Assets.....	-	-	1,978,696	9,254,595	11,233,291	10,856,998	-	-
TOTAL ASSETS.....	<u>967,404</u>	<u>65,898,022</u>	<u>69,108,967</u>	<u>16,897,843</u>	<u>152,872,236</u>	<u>156,494,304</u>	<u>2,144,914</u>	<u>1,640,538</u>
DEFERRED OUTFLOWS OF RESOURCES:								
Deferred state regulatory charges	-	313,657	395,799	-	709,456	1,130,197	-	-
Pension deferrals	104,809	485,087	742,381	207,742	1,540,019	867,902	-	-
Deferred amount on refunding	-	530,000	-	-	530,000	-	-	-
Accumulated change in fair value of hedging derivatives	-	2,894,952	-	3,936,149	6,831,101	4,814,288	-	-
Total Deferred Outflows of Resources....	<u>104,809</u>	<u>4,223,696</u>	<u>1,138,180</u>	<u>4,143,891</u>	<u>9,610,576</u>	<u>6,812,387</u>	-	-

See accompanying independent auditors' report and notes.

(Continued)

**CITY OF ALCOA, TENNESSEE
PROPRIETARY FUNDS
STATEMENT OF NET POSITION (Continued)
June 30, 2016
With Comparative Totals for June 30, 2015**

	Business-Type Activities – Enterprise Funds					Governmental Activities		
	2016					Internal Service Funds		
	Stormwater Utility	Water/ Sewer Utility	Electric Utility	Landfill	Total	2015 Total	2016	2015
LIABILITIES								
Current Liabilities:								
Accounts payable.....	13,204	745,921	10,004,663	125,012	10,888,800	12,159,059	278	12,562
Medical claims payable.....	-	-	-	-	-	-	465,000	466,736
Other accrued payables.....	15,166	81,827	473,345	36,950	607,288	358,085	-	-
Bonds payable – current.....	-	925,000	815,000	795,000	2,535,000	1,670,000	-	-
Customer deposits.....	-	-	1,880,863	-	1,880,863	1,654,990	-	-
Compensated absences.....	42,975	196,967	404,245	90,769	734,956	784,995	-	-
Revolving loan payable – current	-	160,500	-	-	160,500	940,136	-	-
Total Current Liabilities.....	<u>71,345</u>	<u>2,110,215</u>	<u>13,578,116</u>	<u>1,047,731</u>	<u>16,807,407</u>	<u>17,567,265</u>	<u>465,478</u>	<u>479,298</u>
Long-Term Liabilities:								
Compensated absences.....	-	49,242	150,870	22,692	222,804	456,071	-	-
Bonds payable.....	-	42,290,000	15,950,000	3,965,000	62,205,000	64,325,000	-	-
Estimated liability for Landfill closure and postclosure care costs.....	-	-	-	9,218,798	9,218,798	8,777,906	-	-
Revolving loan payable.....	-	-	-	-	-	3,398,701	-	-
Capital lease payable	-	3,238,201	-	-	3,238,201	314,551	-	-
Advances – TVA Conservation Loans.....	-	-	2,097,225	-	2,097,225	2,207,353	-	-
Deferred Credits.....	-	-	172,542	-	172,542	141,097	-	-
Derivatives – Interest Rate Swap	-	2,894,952	-	3,936,149	6,831,101	4,814,288	-	-
Net pension liability	51,393	321,843	491,459	137,357	1,002,052	322,873	-	-
Total Long-Term Liabilities.....	<u>51,393</u>	<u>48,794,238</u>	<u>18,862,096</u>	<u>17,279,996</u>	<u>84,987,723</u>	<u>84,757,840</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES.....	<u>122,738</u>	<u>50,904,453</u>	<u>32,440,212</u>	<u>18,327,727</u>	<u>101,795,130</u>	<u>102,325,105</u>	<u>465,478</u>	<u>479,298</u>
DEFERRED INFLOWS OF RESOURCES								
Pension deferrals.....	51,654	199,363	300,627	83,330	634,974	837,020	-	-
Bond deferral	-	-	-	100,000	100,000	-	-	-
Total Deferred Inflows of Resources ...	<u>51,654</u>	<u>199,363</u>	<u>300,627</u>	<u>183,330</u>	<u>734,974</u>	<u>837,020</u>	<u>-</u>	<u>-</u>
NET POSITION:								
Unrestricted.....	622,145	6,394,916	1,913,895	519,543	9,450,499	8,477,339	1,679,436	1,161,240
Restricted for property acquisitions	-	-	-	1,264,653	1,264,653	1,477,123	-	-
Net investment in capital assets	<u>275,676</u>	<u>12,622,986</u>	<u>35,592,413</u>	<u>746,481</u>	<u>49,237,556</u>	<u>50,190,104</u>	<u>-</u>	<u>-</u>
TOTAL NET POSITION.....	<u>\$ 897,821</u>	<u>\$ 19,017,902</u>	<u>\$ 37,506,308</u>	<u>\$ 2,530,677</u>	<u>\$ 59,952,708</u>	<u>\$ 60,144,566</u>	<u>\$ 1,679,436</u>	<u>\$ 1,161,240</u>

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, 2016
With Comparative Totals for the Fiscal Year Ended June 30, 2015

	Business-Type Activities – Enterprise Funds					2015 Total	Governmental Activities	
	2016						Internal Service Funds	
	Stormwater Utility	Water/ Sewer Utility	Electric Utility	Landfill	Total		2016	2015
Operating Revenues:								
Charges for services.....	\$ 1,061,473	\$ 11,184,316	\$ 61,292,276	\$ 3,623,435	\$ 77,161,500	\$ 78,256,513	\$ 5,476,857	\$ 5,462,115
Forfeited discounts	-	-	406,977	-	406,977	436,879	-	-
Miscellaneous revenues	-	21,490	1,360,883	41	1,382,414	860,359	-	568
Total Operating Revenues.....	<u>1,061,473</u>	<u>11,205,806</u>	<u>63,060,136</u>	<u>3,623,476</u>	<u>78,950,891</u>	<u>79,553,751</u>	<u>5,476,857</u>	<u>5,462,683</u>
Operating Expenses:								
Medical claims paid.....	-	-	-	-	-	-	3,348,735	3,519,804
Insurance premiums/administration	-	-	-	-	-	-	1,743,426	1,430,848
Administrative	307,168	768,786	3,270,129	400,472	4,746,555	4,545,523	-	-
Accounting and collections.....	-	852,186	-	-	852,186	775,014	-	-
Supervision	-	307,044	-	-	307,044	276,192	-	-
Water plant operation	-	1,522,777	-	-	1,522,777	1,502,677	-	-
Distribution and transmission	-	865,959	1,451,869	-	2,317,828	2,134,380	-	-
Meter reading and repair.....	-	638,021	-	-	638,021	596,592	-	-
Water maintenance	-	253,161	-	-	253,161	229,829	-	-
Sewage collection/disposal/pumping	-	518,089	-	-	518,089	339,145	-	-
Customer accounts.....	-	2,197,113	1,498,989	-	3,696,102	3,751,244	-	-
Purchased power	-	-	48,603,739	-	48,603,739	51,078,680	-	-
Landfill operation	-	-	-	2,278,784	2,278,784	2,293,443	-	-
Environmental compliance	-	111,684	-	135,121	246,805	244,254	-	-
Depreciation	71,321	2,527,880	2,723,872	759,653	6,082,726	5,667,027	-	-
Operations and maintenance	679,000	-	2,602,817	-	3,281,817	3,014,052	-	-
Street cleaning	88,880	-	-	-	88,880	89,326	-	-
Special projects.....	-	55,328	-	-	55,328	233	-	-
Service center operations	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>314,101</u>
Total Operating Expenses	<u>1,146,369</u>	<u>10,618,028</u>	<u>60,151,415</u>	<u>3,574,030</u>	<u>75,489,842</u>	<u>76,537,611</u>	<u>5,092,161</u>	<u>5,264,753</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, 2016
With Comparative Totals for the Fiscal Year Ended June 30, 2015

	Business-Type Activities – Enterprise Funds						Governmental Activities	
	2016						Internal Service Funds	
	Stormwater Utility	Water/ Sewer Utility	Electric Utility	Landfill	Total	2015 Total	2016	2015
Operating Income (loss)	(84,896)	587,778	2,908,721	49,446	3,461,049	3,016,140	384,696	197,930
Other Income (Expense):								
Grant.....	-	-	-	153,261	153,261	75,718	-	-
Other income (expense).....	-	46,052	2,427	11,574	60,053	66,281	-	-
Amortization expense.....	-	(321,114)	(26,387)	(73,895)	(421,396)	(67,793)	-	-
Interest expense	-	(1,244,342)	(169,167)	(192,838)	(1,606,347)	(1,619,891)	-	-
Interest income	15	3,329	5,745	8,079	17,168	7,322	-	-
Total Other Income (Expense).....	15	(1,516,075)	(187,382)	(93,819)	(1,797,261)	(1,538,363)	-	-
Net Income (loss) Before Contributions and Transfers.....	(84,881)	(928,297)	2,721,339	(44,373)	1,663,788	1,477,777	384,696	197,930
Transfers In (Out).....	-	-	-	-	-	-	133,500	133,500
Capital Contributions.....	-	33,849	-	-	33,849	1,610,605	-	-
Payments in Lieu of Taxes	-	(400,000)	(1,489,495)	-	(1,889,495)	(1,728,324)	-	-
Change in Net Position	(84,881)	(1,294,448)	1,231,844	(44,373)	(191,858)	1,360,058	518,196	331,430
Net Position – Beginning, as previously reported	982,702	20,312,350	36,274,464	2,575,050	60,144,566	59,560,593	1,161,240	829,810
Prior period adjustment:								
Pensions (Note 8).....	-	-	-	-	-	(1,129,042)	-	-
Derivative income (Note 7)	-	-	-	-	-	215,436	-	-
Interest due from debt service (Note 7)	-	-	-	-	-	137,521	-	-
Net Position – Beginning, as restated	982,702	20,312,350	36,274,464	2,575,050	60,144,566	58,784,508	1,162,240	-
Net Position – Ending	\$ 897,821	\$ 19,017,902	\$ 37,506,308	\$ 2,530,677	\$ 59,952,708	\$ 60,144,566	\$ 1,679,436	\$ 1,161,240

See accompanying independent auditors' report and notes.

CITY OF ALCOA, TENNESSEE
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2016
With Comparative Totals for the Fiscal Year Ended June 30, 2015

	<u>Business-Type Activities – Enterprise Funds</u>					<u>Governmental Activities</u>		
	<u>2016</u>					<u>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 Total</u>	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:								
Cash received from customers/employees' insurance	\$ 962,432	\$10,100,471	\$63,132,532	\$ 3,674,483	\$ 77,869,918	\$ 80,363,622	\$ 5,481,757	\$ 5,462,683
Cash payments to suppliers for goods and services/ medical claims	(452,615)	(5,612,514)	(54,806,151)	(1,762,637)	(62,633,917)	(63,601,195)	(5,105,981)	(5,085,086)
Cash payments to employees for services.....	(681,889)	(2,336,167)	(3,934,728)	(913,982)	(7,866,766)	(6,879,322)	-	-
Net Cash Flows From Operating Activities	<u>(172,072)</u>	<u>2,151,790</u>	<u>4,391,653</u>	<u>997,864</u>	<u>7,369,235</u>	<u>9,883,105</u>	<u>375,776</u>	<u>377,597</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:								
Transfers out – in lieu of taxes.....	-	(400,000)	(1,489,495)	-	(1,889,495)	(1,728,324)	-	-
Closure/postclosure payments	-	-	-	440,892	440,892	529,544	-	-
Receipts from other funds.....	-	-	-	-	-	-	133,500	133,500
Net Cash Flows From Non-Capital Financing Activities	<u>-</u>	<u>(400,000)</u>	<u>(1,489,495)</u>	<u>440,892</u>	<u>(1,448,603)</u>	<u>(1,198,780)</u>	<u>133,500</u>	<u>133,500</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:								
Advances from TVA	-	-	543,877	-	543,877	583,114	-	-
Utility plant removal costs	-	-	38,898	-	38,898	(51,278)	-	-
Principal paid on bonds/notes/capital leases/revolving loan	-	(5,790,136)	(785,000)	(5,265,000)	(11,840,136)	(2,527,911)	-	-
Interest paid on bonds/notes/capital leases/revolving loan ...	-	(1,244,342)	(169,167)	(192,838)	(1,606,347)	(1,619,891)	-	-
Customer deposits received	-	-	585,035	-	585,035	371,615	-	-
Customer deposits refunded	-	-	(359,163)	-	(359,163)	(278,231)	-	-
Repayments of advances.....	-	-	(654,005)	-	(654,005)	(457,380)	-	-
Deferred credits	-	-	5,058	-	5,058	(136,441)	-	-
Merchandizing, jobbing, and contract work revenue	-	-	(248,407)	-	(248,407)	51,933	-	-
Collection on conservation loans.....	-	-	868,071	-	868,071	329,354	-	-
Payments for acquisition and construction of capital assets	(1,774)	(1,030,108)	(1,468,257)	(256,214)	(2,756,353)	(12,339,845)	-	-
Additional long-term bond/capital outlay notes/ revolving loans	-	5,250,000	-	4,395,000	9,645,000	-	-	-
Acquisition of conservation loans.....	-	-	(744,963)	-	(744,963)	(591,363)	-	-
Grant proceeds.....	-	-	-	153,261	153,261	75,718	-	-
Pension deferral	(60,321)	55,643	-	-	(4,678)	(435,669)	-	-
Service fees.....	-	-	-	(1,024)	(1,024)	(3,000)	-	-
Other revenue (expense).....	-	46,052	2,427	(27,229)	21,250	19,997	-	-
Contributions in aid of construction	-	33,849	-	-	33,849	1,610,605	-	-
Deferred amount on refunding.....	-	(500,000)	-	-	(500,000)	-	-	-
Amortization.....	-	(321,114)	-	-	(321,114)	-	-	-
Net Cash Flows From Capital and Related Financing Activities.....	<u>(62,095)</u>	<u>(3,500,156)</u>	<u>(2,385,596)</u>	<u>(1,194,044)</u>	<u>(7,141,891)</u>	<u>(15,398,673)</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, 2016
With Comparative Totals for the Fiscal Year Ended June 30, 2015

	Business-Type Activities – Enterprise Funds						Governmental Activities	
	2016						Internal Service Funds	
	Stormwater Utility	Water/ Sewer Utility	Electric Utility	Landfill	Total	2015 Total	2016	2015
CASH FLOWS FROM INVESTING ACTIVITIES:								
Purchase of investment securities.....	-	(1,000,000)	(1,002,746)	(2,375,342)	(4,378,088)	(522,038)	-	-
Proceeds from sale and maturities of investment Securities	-	-	-	1,885,928	1,885,928	3,352,310	-	-
Interest and dividends on investments	-	3,329	5,745	8,079	17,153	7,322	-	-
Net Cash Flows From Investing Activities ..	-	(996,671)	(997,001)	(481,335)	(2,475,007)	2,837,594	-	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS								
	(234,167)	(2,745,037)	(480,439)	(236,623)	(3,696,266)	(3,876,754)	509,276	511,097
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR								
	826,839	6,003,947	4,408,033	1,661,859	12,900,678	16,777,432	1,635,638	1,124,541
CASH AND CASH EQUIVALENTS AT END OF YEAR.....								
	<u>\$ 592,672</u>	<u>\$ 3,258,910</u>	<u>\$ 3,927,594</u>	<u>\$ 1,425,236</u>	<u>\$ 9,204,412</u>	<u>\$12,900,678</u>	<u>\$ 2,144,914</u>	<u>\$ 1,635,638</u>
Reconciliation of Operating Income (Loss) to Net Cash Flows Provided by (Used) in Operating Activities:								
Operating Income (loss)	<u>\$ (84,881)</u>	<u>\$ 587,778</u>	<u>\$ 2,908,721</u>	<u>\$ 49,446</u>	<u>\$ 3,461,064</u>	<u>\$ 3,016,140</u>	<u>\$ 384,696</u>	<u>\$ 197,930</u>
Adjustments to reconcile operating income to net cash provided by operating activities:								
Depreciation	71,321	2,527,880	2,723,872	759,653	6,082,726	5,667,027	-	-
Amortization	-	-	26,387	-	26,387	26,387	-	-
Changes in assets and liabilities:								
Accounts receivable.....	(99,056)	(1,044,963)	(136,418)	51,007	(1,229,430)	1,387,139	4,900	84,154
Prepaid expenses	-	-	391,722	--	391,722	(77,779)	-	-
Inventory	-	(60,318)	(182,416)	-	(242,734)	268,742	-	-
Other receivables	-	-	(492)	-	(492)	18,683	-	-
Accounts payable.....	(91,430)	69,092	(1,308,884)	60,963	(1,270,259)	(28,621)	(13,820)	160,513
Other liabilities	23,336	120,515	132,441	56,482	332,774	416,779	-	(65,000)
Accrued payroll	4,856	17,508	74,668	7,063	104,095	22,775	-	-
Due from other funds.....	-	-	-	-	-	(820,960)	-	-
Due to employee insurance fund	-	-	-	-	-	(3,382)	-	-
Compensated absences	3,782	(65,702)	(237,948)	13,250	(286,618)	(9,825)	-	-
Total Adjustments	(87,191)	1,564,012	1,482,932	948,418	3,908,171	6,866,965	(8,920)	179,667
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES								
	<u>\$ (172,072)</u>	<u>\$ 2,151,790</u>	<u>\$ 4,391,653</u>	<u>\$ 997,864</u>	<u>\$ 7,369,235</u>	<u>\$ 9,883,105</u>	<u>\$ 375,776</u>	<u>\$ 377,597</u>

(Continued)

CITY OF ALCOA, TENNESSEE
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS (Continued)
For the Fiscal Year Ended June 30, 2016
With Comparative Totals for the Fiscal Year Ended June 30, 2015

(1) Cash and cash equivalents are as follows:

	<u>Cash in Bank</u>	<u>Certificates of Deposit/ Cash Equivalents</u>	<u>Total</u>
StormWater Utility	\$ 592,672	\$ -	\$ 592,672
Water/Sewer Utility	3,258,910	-	3,258,910
Electric Utility	3,907,489	20,105	3,927,594
Landfill	<u>1,425,736</u>	<u>-</u>	<u>1,425,736</u>
Totals.....	<u>\$ 9,184,807</u>	<u>\$ 20,105</u>	<u>\$ 9,204,912</u>

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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS:		
Investments in Tennessee Retirement Group Trust (Note 8A).....	\$ 23,584,039	\$ -
Cash and cash equivalents	-	1,014,343
U.S. Treasury obligations	-	4,935,281
Corporate and foreign bonds	-	5,416,343
Common equity securities	-	10,589,964
Municipal obligations	-	1,454,306
Accrued interest	<u>-</u>	<u>126,639</u>
Total Assets	<u>23,584,039</u>	<u>23,536,876</u>
LIABILITIES	<u>-</u>	<u>-</u>
NET POSITION:		
Held in trust for pension benefits	<u>23,584,039</u>	<u>23,536,876</u>
Total Net Position	<u>\$ 23,584,039</u>	<u>\$ 23,536,876</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, 2016
With Comparative Totals for the Fiscal Year Ended June 30, 2015

	<u>2016</u>	<u>2015</u>
Additions:		
Employer contributions	\$ 2,406,072	\$ 2,173,944
Interest and dividend income	540,286	654,065
Net appreciation in fair value of investments	327,818	-
Miscellaneous income	77,270	-
Realized gain on sale of investments	<u>-</u>	<u>139,004</u>
Total Additions.....	<u>3,451,446</u>	<u>2,967,013</u>
Deductions:		
Benefit payments	3,077,676	2,587,026
Administrative expenses	78,196	73,003
Net depreciation in fair value of investments	<u>148,411</u>	<u>99,514</u>
Total Deductions	<u>3,304,283</u>	<u>2,759,543</u>
Change in Net Position	47,163	207,470
Net Position – Beginning of Year.....	<u>23,536,876</u>	<u>23,329,406</u>
Net Position – End of Year.....	<u>\$ 23,584,039</u>	<u>\$ 23,536,876</u>

See accompanying independent auditors' report and notes.

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

TABLE OF CONTENTS

	<u>Page</u>
NOTES TO FINANCIAL STATEMENTS:	
NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:	
Financial Reporting Entity.....	23
Basic Financial Statements	24
Basis of Presentation	25
Measurement Focus and Basis of Accounting.....	27
Budgets and Budgetary Accounting	29
Encumbrances.....	30
Cash	30
Receivables and Unbilled Revenue	32
Investments	32
Due to and Due from other Funds, and Interfund Transfers.....	32
Interest Receivable	33
Inventory and Prepaid Items	33
Other Assets.....	34
Restricted Assets.....	34
Use of Estimates	34
Compensated Absences	34
Capital Assets	35
Long Term Obligations	35
Comparative Total Data.....	36
Implementation of New Accounting Standards.....	36
Pensions	37
Reclassifications/Net Position Restated	37
NOTE 2 – RECONCILIATION OF GOVERNMENT WIDE AND FUND FINANCIAL STATEMENTS.....	38
NOTE 3 – CASH AND INVESTMENTS	41
NOTE 4 – PROPERTY TAX.....	44
NOTE 5 – CAPITAL ASSETS	44
NOTE 6 – LONG-TERM LIABILITIES	48
NOTE 7 – DERIVATIVES	51
NOTE 8 – RETIREMENT COMMITMENTS:	
Employee’s Retirement System of the City of Alcoa.....	63
Tennessee Consolidated Retirement System.....	71
Alcoa City Schools’ – Teacher Legacy Pension Plan of TCRS	76
Alcoa City Schools’ – Teacher’s Retirement Plan of TCRS	80
Deferred Compensation Plan.....	84
City of Alcoa – Other Post Employment Benefits (OPEB).....	84
Alcoa City Schools’ – Post Retirement Benefits Other Than Pensions (OPEB).....	88
NOTE 9 – EMPLOYEE HEALTH INSURANCE INTERNAL SERVICE FUND	90

(Continued)

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

TABLE OF CONTENTS (Continued)

	<u>Page</u>
NOTES TO FINANCIAL STATEMENTS (Continued)	
NOTE 10 – CONTRACTS WITH THE TENNESSEE VALLEY AUTHORITY (TVA)	91
NOTE 11 – JOINT VENTURES:	
Industrial Development Board of Blount County and the Cities of Alcoa and Maryville, Tennessee	92
Blount County Public Library	92
Emergency Communications District of Blount County, Tennessee	93
Blount County Cable Television Authority	94
Recreation and Parks Commission	95
Joint Development of Industrial Parks:	
Partnership Park North – Partnership Park South	96
The Pellissippi Research Centre on the Oak Ridge Corridor	97
NOTE 12 – LANDFILL OPERATIONS	98
NOTE 13 – ECONOMIC DEPENDENCY (ALUMINUM COMPANY OF AMERICA)	98
NOTE 14 – REFUNDING OF DEBT/NEW DEBT	99
NOTE 15 – FUND BALANCES	100
NOTE 16 – COMMITMENTS:	
Capital Leases	101
Committed Construction	102
Springbrook Corporate Center	102
Research and Development Industrial Park	102
Capital Lease Obligation	103
NOTE 17 – LITIGATION	105
NOTE 18 – RISK FINANCING ACTIVITIES	105
NOTE 19 – CALCULATION OF NET INVESTMENT IN CAPITAL ASSETS (Governmental Funds)	105
NOTE 20 – INVESTIGATIVE AUDIT	106
NOTE 21 – SUBSEQUENT EVENTS	106

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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, 2016

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, 2016

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, 2016

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, 2016

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, 2016

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, 2016

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, 2016

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, 2016

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:

	Equity Pooled In Cash Account	Other Cash Accounts	Combined Cash Total
General Fund	\$ 4,282,541	\$ 1,003,946	\$ 5,286,487
Special Revenue Funds:			
State Street Aid Fund	714,885	-	714,885
Education Fund	1,409,422	-	1,409,422
Cafeteria Fund	124,315	-	124,315
Extended Day Program Fund	178,088	-	178,088
Federal Projects Fund	44,152	-	44,152
Drug Control Fund	18,415	-	18,415
Commercial Vehicle Fines Fund	1,635	-	1,635
Total Special Revenue Funds	<u>2,490,912</u>	<u>-</u>	<u>2,490,912</u>
Debt Service Fund	<u>2,492,028</u>	<u>-</u>	<u>2,492,028</u>
Capital Projects Funds:			
Capital Projects Fund	24,964	-	24,964
Special Projects	91,096	-	91,096
Alcoa High School Construction Fund	68,905	167,179	236,084
2001 Special Projects Fund	319,167	-	319,167
Equipment Replacement Fund	475,522	-	475,522
General Obligation Public Works	3,468,029	-	3,468,029
Landscaping Fund	83,038	-	83,038
Home Grant Fund	743	-	743
School Construction and Improvement Fund	104,339	-	104,339
Total Capital Projects Funds	<u>4,635,803</u>	<u>167,179</u>	<u>4,802,982</u>
Internal Service Funds:			
Employees' Insurance Fund	-	1,135,872	1,135,872
Flexible Spending Fund	85	-	85
Service Center	55,957	-	55,957
City OPEB Fund	466,000	-	466,000
School OPEB Fund	487,000	-	487,000
Total Internal Service Funds	<u>1,009,042</u>	<u>1,135,872</u>	<u>2,144,914</u>
Total Governmental Funds	<u>14,910,326</u>	<u>2,306,997</u>	<u>17,217,323</u>
Proprietary Funds:			
Water and Sewer Utility Fund	4,262,113	-	4,262,113
Electric Utility Fund	-	4,930,340	4,930,340
Landfill Fund	-	1,425,736	1,425,736
Stormwater Utility Fund	592,672	-	592,672
Total Proprietary Funds	<u>4,854,785</u>	<u>6,356,076</u>	<u>11,210,861</u>
TOTAL GOVERNMENT	<u>\$ 19,765,111</u>	<u>\$ 8,663,073</u>	<u>\$ 28,428,184</u>

(Continued)

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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, 2016 are as follows:

Electric Utility Fund	\$ 3,873,307
Water and Sewer Utility Fund	<u>829,549</u>
Total	<u>\$ 4,702,856</u>

(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, 2016

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

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

There were no interfund receivables/payables (due to/from) at June 30, 2016.

Interfund transfers during the fiscal year ended June 30, 2016 are as follows:

<u>From:</u>	<u>Debt</u> <u>Service</u>	<u>General</u> <u>Fund</u>	<u>City</u> <u>OPEB</u>	<u>To:</u> <u>School</u> <u>OPEB</u>	<u>Equipment</u> <u>Replacement</u>	<u>Totals</u>
GO Public Works	\$ -	\$ -	\$ -	\$ -	\$ 1,200,000	\$ 1,200,000
General Fund	3,959,069	-	65,000	-	-	4,024,069
Electric Utility	1,240,029	1,489,495	-	-	-	2,729,524
Water/Sewer Utility	2,429,478	400,000	-	-	-	2,829,478
Education Fund	-	-	-	68,500	-	68,500
Landfill Fund	983,862	-	-	-	-	983,862
Total	<u>\$ 8,612,438</u>	<u>\$1,889,495</u>	<u>\$ 65,000</u>	<u>\$ 68,500</u>	<u>\$ 1,200,000</u>	<u>\$11,835,433</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, 2016

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, 2016 is \$9,254,595.

(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, 2016

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, 2016

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, 2016 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, 2016

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.

During the year ended June 30, 2016, the City implemented GASB Statement No. 72, *Fair Value Measurement and Application*,” which establishes guidance for determining a fair value measurement for financial reporting purposes, for applying fair value to certain investments and for disclosures related to fair value measurements.

(U) PENSIONS:

The City implemented GASB 68 “Accounting and Financial Reporting for Pensions,” effective for the year beginning July 1, 2014.

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) 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, 2016 amounts. The reclassification causes no effect on the "excess of revenues and other sources over expenditures and other uses" or on beginning fund equities.

(Continued)

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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

	Total Governmental Funds	Long-term Assets, Liabilities (1)	Internal Service Funds (2)	Reclassifications and Eliminations	Statement of Net Position
<u>Assets</u>					
Cash on hand/equity in pooled					
Cash/certificates of deposit.....	\$ 13,902,484	\$ -	\$ 2,144,914	\$ -	\$ 16,047,398
Investments	1,169,925	-	-	-	1,169,925
Receivables:					
Property Taxes, net.....	10,766,894	-	-	-	10,766,894
Accounts, net.....	868,682	-	-	366,272	1,234,954
Internal balances.....	-	-	-	-	-
Due from other governments.....	2,430,514	-	-	-	2,430,514
Capital Assets, Net	-	87,070,734	-	-	87,070,734
Capital lease property	-	9,894,150	-	-	9,894,150
Total Assets	<u>29,138,499</u>	<u>96,964,884</u>	<u>2,144,914</u>	<u>366,272</u>	<u>128,614,569</u>
Deferred Outflows of Resources:					
Deferred Outflows – Pensions.....	-	1,827,072	-	-	1,827,072
Deferred Outflows – Change in fair value of swap derivatives.....	<u>-</u>	<u>1,152,297</u>	<u>-</u>	<u>-</u>	<u>1,152,297</u>
Total Deferred Outflows of Resources	<u>-</u>	<u>2,979,369</u>	<u>-</u>	<u>-</u>	<u>2,979,369</u>
<u>Liabilities</u>					
Accounts payable	2,752,556	-	465,478	-	3,218,034
Accrued liabilities	965,475	-	-	-	965,475
Unapplied grant funds	45,795	-	-	(45,795)	-
Unearned revenue.....	903,492	-	-	45,795	949,287
Long-term debt.....	-	86,071,675	-	-	86,071,675
Internal balances.....	-	-	-	-	-
Unfunded pension obligation	-	13,747,747	-	-	13,747,747
Unfunded OPEB obligation.....	-	1,204,555	-	-	1,204,555
Derivative – interest rate swap	-	1,152,297	-	-	1,152,297
Total Liabilities	<u>4,667,318</u>	<u>102,176,274</u>	<u>465,478</u>	<u>-</u>	<u>107,309,070</u>
Deferred Inflow of Resources:					
Property taxes.....	10,014,628	-	-	-	10,014,628
Deferred Inflows – Pension.....	<u>-</u>	<u>1,772,419</u>	<u>-</u>	<u>-</u>	<u>1,772,419</u>
Total Deferred Inflow of Resources	<u>10,014,628</u>	<u>1,772,419</u>	<u>-</u>	<u>-</u>	<u>11,787,047</u>
Net Position.....	<u>\$ 14,456,553</u>	<u>\$ (4,004,440)</u>	<u>\$ 1,679,436</u>	<u>\$ 366,272</u>	<u>\$ 12,497,821</u>

(Continued)

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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

(Continued):

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	\$ 144,558,744
Accumulated depreciation	<u>(47,593,860)</u>
	<u>\$ 96,964,884</u>

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.

	<u>Current</u>	<u>Non-Current</u>	<u>Total</u>
Compensated absences	\$ 169,269	\$ 742,664	\$ 911,933
Bonds, capital improvement notes, loans	2,945,000	72,660,000	75,605,000
Capital lease obligations	<u>76,176</u>	<u>9,478,566</u>	<u>9,554,742</u>
	<u>\$3,190,445</u>	<u>\$ 82,881,230</u>	<u>\$ 86,071,675</u>

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	\$ 2,144,914
Accounts payable	<u>(465,478)</u>
Net Position	<u>\$ 1,679,436</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:

	<u>Total Governmental Funds</u>	<u>Capital- Related Items</u> (4)	<u>Long-term Debt Transactions</u> (5)	<u>Internal Service Funds</u>	<u>Reclass- ifications</u>	<u>Statement of Activities</u>
<u>Revenues</u>						
Taxes - Property	\$ 25,390,315	\$ -	\$ -	\$ -	\$ (11,645,619)	\$ 13,744,696
Sales taxes	-	-	-	-	13,462,947	13,462,947
State income & excise tax	-	-	-	-	135,244	135,244
Licenses, permits and fees	141,755	-	-	-	439,006	580,761
Business taxes	-	-	-	-	942,515	942,515
Intergovernmental	15,774,882	-	-	-	(15,774,882)	-

(Continued)

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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):

	Total Governmental Funds	Capital- Related Items (4)	Long-term Debt Transactions (5)	Internal Service Funds	Reclass- ifications	Statement of Activities
<u>Revenues (Continued)</u>						
Intergovernmental:						
State sales taxes	-	-	-	-	679,808	679,808
Federal and state grants.....	-	-	-	-	2,056,692	2,056,692
USDA revenues	-	-	-	-	577,126	577,126
Other state revenues	-	-	-	-	7,913,717	7,913,717
Other local revenues	206,250	-	-	-	69,025	275,275
Contributions	-	-	-	-	253,201	253,201
Charges for services.....	920,100	-	-	384,696	593,889	1,898,685
Fines, forfeitures, and costs.....	663,174	-	-	-	-	663,174
Investment income	117,349	-	-	-	-	117,349
Miscellaneous taxes	664,611	-	-	-	-	664,611
Property rentals	153,336	-	-	-	-	153,336
Proceeds from sale/deletion of capital assets	23,588	-	-	-	-	23,588
In-lieu of taxes	-	-	-	-	297,331	297,331
Total Revenues	<u>44,055,360</u>	<u>-</u>	<u>-</u>	<u>384,696</u>	<u>-</u>	<u>44,440,056</u>
<u>Expenditures/Expenses</u>						
Current:						
General government	1,665,434	366,592	691,798	-	(48,809)	2,675,015
Public safety – Police/Fire	9,266,855	321,824	1,253,884	-	(190,381)	10,652,182
Public works - Streets	5,039,816	639,734	216,187	-	(80,288)	5,815,449
Recreation and Culture	785,765	152,568	-	-	-	938,333
Community development	1,403,320	-	-	-	-	1,403,320
Education	20,509,466	1,102,321	787,391	-	(326,345)	22,072,833
Debt service - principal retirement	5,560,136	-	(5,560,136)	-	-	-
Debt service - interest and fiscal fees	3,949,082	-	(2,742,082)	-	-	1,207,000
Capital Outlay	<u>3,327,687</u>	<u>(3,973,510)</u>	<u>-</u>	<u>-</u>	<u>645,823</u>	<u>-</u>
Total Expenditures	<u>51,507,561</u>	<u>(1,390,471)</u>	<u>(5,352,958)</u>	<u>-</u>	<u>-</u>	<u>44,764,132</u>
<u>Other Financing Sources (Uses)/ Changes in Net Position</u>						
Transfers (Out)	(5,155,000)	-	5,155,000	-	-	-
Transfers In	9,749,973	-	(9,749,973)	-	-	-
In lieu of tax payments	<u>1,889,495</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,889,495</u>
Total Other Financing Sources (Uses)/Changes In Net Position	<u>6,484,468</u>	<u>-</u>	<u>(4,594,973)</u>	<u>-</u>	<u>-</u>	<u>1,889,495</u>
Net Change for the Year	<u>\$ (967,733)</u>	<u>\$ 1,390,471</u>	<u>\$ 757,985</u>	<u>\$ 384,696</u>	<u>\$ -</u>	<u>\$ 1,565,419</u>

(Continued)

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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

(Continued):

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	\$ 911,933
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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	\$ 5,378,892
Depreciation	<u>(3,988,421)</u>
Net Change	<u>\$ 1,390,471</u>

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	<u>\$ 5,560,136</u>
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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.

(Continued)

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 3 – CASH AND INVESTMENTS (Continued):

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, 2016). Fair value is based on quoted market prices.

Presented below is a summary of Combined Cash, Certificates of Deposit and Investments by Fund as of June 30, 2016:

SUMMARY OF CASH AND INVESTMENTS BY FUNDS:

Fiduciary Funds – Pension Trust	<u>\$ 23,256,221</u>
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Statement of Net Position:

Capital Projects Funds – Investments and Local Government Investment Pool	\$ 1,169,925
Enterprise Funds – Restricted Assets.....	9,254,595
Enterprise Funds - Non-restricted Assets	<u>11,210,861</u>

Total Governmental and Enterprise Funds	<u>21,635,381</u>
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SUMMARY OF CHECKING ACCOUNTS BY FUNDS:

General Fund (includes cash on hand of \$1,200).....	4,283,741
Special Revenue Funds.....	2,490,912
Debt Service Fund	2,492,028
Capital Projects Funds	4,635,803
Internal Service Funds	<u>2,144,914</u>

Total Checking Accounts By Funds	<u>16,047,398</u>
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Total Checking/ Certificates of Deposit/Investments/Restricted Cash –

Statement of Net Position	<u>\$ 37,682,779</u>
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(Continued)

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 3 – CASH AND INVESTMENTS (Continued):

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	\$ 1,169,925	\$ -	\$ 1,169,925
Cash and Certificates of Deposit	16,047,398	11,210,861	27,258,259
Restricted Cash/Certificates of Deposit	-	9,254,595	9,254,595
Total Cash and Investments	<u>\$ 17,217,323</u>	<u>\$ 20,465,456</u>	<u>\$ 37,682,779</u>

On the Statement of Net Position cash and investments are shown as follows:

Cash and certificates of deposit	\$ 27,258,259
Investments	1,169,925
Restricted Assets: Cash and certificates of deposit	9,254,595
Total Cash and Investments	<u>\$ 37,682,779</u>

As of June 30, 2016 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	<u>\$ 1,169,925</u>	<u>\$ 1,169,925</u>	<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.

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).

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. Prior to the current year, the funds of the retirement system were invested in a trust fund with First Tennessee Bank and managed by Martin & Company. During the current year, the funds of the retirement system were transferred to the TCRS for investing in the Tennessee Retiree Group Trust (TRGT), and managed by State Street.

(Continued)

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 3 – CASH AND INVESTMENTS (Continued):

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.

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, 2016.

Property taxes for 2015 are recorded (estimated at \$10,014,628) 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:

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

	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfer</u> <u>In (Out)</u>	<u>Balance</u> <u>June 30, 2016</u>
Non-depreciable assets:					
Land	\$ 1,999,450	\$ -	\$ -	\$ -	\$ 1,999,450
Depreciable assets:					
Parks & Greenway	4,268,322	79,870	-	-	4,348,192
Accumulated depreciation	(1,150,029)	(128,317)	-	-	(1,278,346)
	<u>3,118,293</u>	<u>(48,447)</u>	<u>-</u>	<u>-</u>	<u>3,069,846</u>
Buildings	29,672,905	34,138,084	-	-	63,810,989
Accumulated depreciation	(11,562,093)	(1,258,120)	-	-	(12,820,213)
	<u>18,110,812</u>	<u>32,879,964</u>	<u>-</u>	<u>-</u>	<u>50,990,776</u>

(Continued)

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 5 – CAPITAL ASSETS (Continued):

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

	Balance July 1, 2015	Additions	Retirements	Transfer In (Out)	Balance June 30, 2016
Swimming Pools	1,046,946	720	-	-	1,047,666
Accumulated depreciation	(647,054)	(52,383)	-	-	(699,437)
	<u>399,892</u>	<u>(51,663)</u>	<u>-</u>	<u>-</u>	<u>348,229</u>
Improvements other than buildings	52,242,392	559,626	-	-	52,802,018
Accumulated depreciation	(24,282,103)	(1,918,093)	-	-	(26,200,196)
	<u>27,960,289</u>	<u>(1,358,467)</u>	<u>-</u>	<u>-</u>	<u>26,601,822</u>
Equipment	8,588,489	744,220	(62,352)	200,761	9,471,118
Accumulated depreciation	(5,939,515)	(631,508)	62,352	(86,997)	(6,595,668)
	<u>2,648,974</u>	<u>112,712</u>	<u>-</u>	<u>113,764</u>	<u>2,875,450</u>
Construction in progress	<u>33,924,400</u>	<u>519,413</u>	<u>(33,258,652)</u>	<u>-</u>	<u>1,185,161</u>
Capital Lease Property:					
Civic Center	9,142,400	-	-	-	9,142,400
Communications Center	751,750	-	-	-	751,750
Other Capital leases	200,761	-	-	(200,761)	-
Accumulated depreciation	(86,997)	-	-	86,997	-
	<u>10,007,914</u>	<u>-</u>	<u>-</u>	<u>(113,764)</u>	<u>9,894,150</u>
Capital Assets, net of Accumulated depreciation	<u>\$ 98,170,024</u>	<u>\$ 32,053,512</u>	<u>\$(33,258,652)</u>	<u>\$ -</u>	<u>\$ 96,964,884</u>

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

CAPITAL ASSETS:

		Non- Depreciable Land, Land Rights and Easements	Electric Distribution and Buildings	Electric Station Equipment and Improvements Other than Buildings	Equipment	Construction in Progress	Totals
ELECTRIC	Balance 7-1-15	\$ 336,481	\$ 52,804,385	\$15,438,870	\$ 12,181,465	\$ 5,376,158	\$ 86,137,359
	Additions	-	2,369,564	1,721,244	978,001	-	5,068,809
	Retirements	-	(230,292)	-	(281,159)	(3,600,552)	(4,112,003)
	Other reclassify	-	-	-	-	-	-
	Balance 6-30-16	<u>336,481</u>	<u>54,943,657</u>	<u>17,160,114</u>	<u>12,878,307</u>	<u>1,775,606</u>	<u>87,094,165</u>
WATER	Balance 7-1-15	1,020,097	19,219,761	24,764,687	16,218,663	-	61,223,208
	Additions	-	-	354,047	52,051	-	406,098
	Retirements	-	-	-	(42,167)	-	(42,167)
	Balance 6-30-16	<u>1,020,097</u>	<u>19,219,761</u>	<u>25,118,734</u>	<u>16,228,547</u>	<u>-</u>	<u>61,587,139</u>
SEWER	Balance 7-1-15	174,138	4,728,135	18,548,818	1,179,247	43,461	24,673,799
	Additions	-	-	622,235	1,775	-	624,010
	Retirements	-	-	-	(195,000)	(43,461)	(238,461)
	Balance 6-30-16	<u>174,138</u>	<u>4,728,135</u>	<u>19,171,053</u>	<u>986,022</u>	<u>-</u>	<u>25,059,348</u>

(Continued)

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 5 – CAPITAL ASSETS (Continued):

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

CAPITAL ASSETS (Continued):

		Non- Depreciable Land, Land Rights and <u>Easements</u>	Electric Distribution and <u>Buildings</u>	Electric Station Equipment and Improvements Other than <u>Buildings</u>	<u>Equipment</u>	Construction <u>in Progress</u>	<u>Totals</u>
LANDFILL	Balance 7-1-15	673,647	10,979,123	-	2,732,792	-	14,385,562
	Additions	256,214	-	-	-	-	256,214
	Retirements	-	-	-	-	-	-
	Balance 6-30-16	<u>929,861</u>	<u>10,979,123</u>	<u>-</u>	<u>2,732,792</u>	<u>-</u>	<u>14,641,776</u>
STORMWATER	Balance 7-1-15	-	-	-	652,742	-	652,742
	Additions	-	-	-	1,774	-	1,774
	Retirements	-	-	-	-	-	-
	Balance 6-30-16	<u>-</u>	<u>-</u>	<u>-</u>	<u>654,516</u>	<u>-</u>	<u>654,516</u>
TOTALS		<u>\$ 2,460,577</u>	<u>\$ 89,870,676</u>	<u>\$ 61,449,901</u>	<u>\$ 33,480,184</u>	<u>\$ 1,775,606</u>	<u>\$ 189,039,944</u>

ACCUMULATED DEPRECIATION:

		Land, Land Rights and <u>Easements</u>	Electric Distribution and <u>Buildings</u>	Electric Station Equipment and Improvements Other than <u>Buildings</u>	<u>Equipment</u>	Construction <u>in Progress</u>	<u>Totals</u>
ELECTRIC	Balance 7-1-15	\$ -	\$ 21,018,558	\$ 6,988,118	\$ 4,478,757	\$ -	\$ 32,485,433
	Additions	-	1,872,943	442,334	408,595	-	2,723,872
	Retirements	-	(230,293)	-	(281,158)	-	(511,451)
	Removal Costs	-	-	-	38,898	-	38,898
	Other reclassify	-	-	-	-	-	-
	Balance 6-30-16	<u>-</u>	<u>22,661,208</u>	<u>7,430,452</u>	<u>4,645,092</u>	<u>-</u>	<u>34,736,752</u>
WATER	Balance 7-1-15	-	3,624,843	6,312,471	7,807,789	-	17,745,103
	Additions	-	422,739	536,469	898,750	-	1,857,958
	Retirements	-	-	-	(41,524)	-	(41,524)
	Balance 6-30-16	<u>-</u>	<u>4,047,582</u>	<u>6,848,940</u>	<u>8,665,015</u>	<u>-</u>	<u>19,561,537</u>
SEWER	Balance 7-1-15	-	1,654,888	5,254,680	763,773	-	7,673,341
	Additions	-	130,638	485,211	54,073	-	669,922
	Retirements	-	-	-	(195,000)	-	(195,000)
	Balance 6-30-16	<u>-</u>	<u>1,785,526</u>	<u>5,739,891</u>	<u>622,846</u>	<u>-</u>	<u>8,148,263</u>

(Continued)

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 5 – CAPITAL ASSETS (Continued):

ACCUMULATED DEPRECIATION (Continued):

		<u>Land, Land Rights and Easements</u>	<u>Electric Distribution and Buildings</u>	<u>Electric Station Equipment and Improvements Other than Buildings</u>	<u>Equipment</u>	<u>Construction in Progress</u>	<u>Totals</u>
LANDFILL	Balance 7-1-15	-	6,564,527	-	1,811,115	-	8,375,642
	Additions	-	527,659	-	231,994	-	759,653
	Retirements	-	-	-	-	-	-
	Balance 6-30-16	-	<u>7,092,186</u>	-	<u>2,043,109</u>	-	<u>9,135,295</u>
STORMWATER	Balance 7-1-15	-	-	-	307,520	-	307,520
	Additions	-	-	-	71,320	-	71,320
	Retirements	-	-	-	-	-	-
	Balance 6-30-16	-	-	-	<u>378,840</u>	-	<u>378,840</u>
	TOTALS	-	<u>35,586,502</u>	<u>20,019,283</u>	<u>16,354,902</u>	-	<u>71,960,687</u>
NET CAPITAL ASSETS		<u>\$ 2,460,577</u>	<u>\$ 54,284,174</u>	<u>\$ 41,430,618</u>	<u>\$ 17,125,282</u>	<u>\$ 1,775,606</u>	<u>\$ 117,076,257</u>

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

Governmental activities:

General Government.....	\$ 238,436
Police	240,917
Fire	180,907
Recreation	252,568
Public works/streets	1,045,116
Solid waste	86,023
Education	1,802,321
Service center.....	142,133
Total depreciation expense – governmental activities	<u>\$ 3,988,421</u>

Business – type activities:

Water and sewer.....	\$ 2,527,880
Electric.....	2,723,872
Landfill	759,653
Stormwater.....	71,320
Total depreciation expense – business-type activities	<u>\$ 6,082,725</u>

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

(Continued)

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 6 – LONG-TERM LIABILITIES:

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

	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Retired</u> <u>Deletions</u>	<u>Total</u> <u>Balance</u> <u>June 30, 2016</u>	<u>Non-Current</u> <u>Balance</u> <u>June 30, 2016</u>	<u>Current</u> <u>Balance</u>
Governmental Activities:						
General Obligation Bonds/						
Revenue Bonds.....	\$ 78,150,000	\$ 4,310,000	\$ (6,855,000)	\$ 75,605,000	\$ 72,660,000	\$ 2,945,000
Compensated Absences.....	974,749	-	(62,816)	911,933	742,664	169,269
Capital Leases Payable.....	9,656,129	-	(101,387)	9,554,742	9,478,566	76,176
Totals-Governmental Activities	\$ 88,780,878	\$ 4,310,000	\$ (7,019,203)	\$ 86,071,675	\$ 82,881,230	\$ 3,190,445
Business-type Activities:						
General Obligation Bonds/						
Revenue Bonds.....	\$ 70,333,837	\$ 9,710,000	\$ (11,905,136)	\$ 68,138,701	\$ 65,443,201	\$ 2,695,500
Compensated absences.....	1,241,066	957,760	(1,241,066)	957,760	222,804	734,956
Estimated liability for closure/ Post-closure care cost.....	8,777,906	440,892	-	9,218,798	9,218,798	-
Totals-Business Type Activities.....	\$ 80,352,809	\$ 11,108,652	\$ (13,146,202)	\$ 78,315,259	\$ 74,884,803	\$ 3,430,456
Totals-Governmental and Business-Type Activities	\$ 169,133,687	\$ 15,418,652	\$ (20,165,405)	\$ 164,386,934	\$ 157,766,033	\$ 6,620,901

The following is a summary of bond and capital outlay note transactions of the City for the fiscal year ended June 30, 2016.

	<u>General</u> <u>Obligation</u> <u>Bonds</u>	<u>Revenue</u> <u>Bonds</u>	<u>Total</u>
Debt payable at July 1, 2015.....	\$ 144,930,000	\$ 3,553,837	\$ 148,483,837
Debt refunded.....	(5,405,000)	(155,136)	(5,560,136)
Debt released by Maryville College.....	(13,200,000)	-	(13,200,000)
Issued during fiscal year.....	14,020,000	-	14,020,000
Debt Payable – June 30, 2016.....	\$ 140,345,000	\$ 3,398,701	\$ 143,743,701

Bonds payable at June 30, 2016, are comprised of the following individual issues:

General Obligation Bonds:	<u>Total</u>	<u>Long-term</u> <u>Amount</u> <u>Outstanding</u>	<u>Current</u> <u>Amount</u> <u>Outstanding</u>
\$300,000 – 2008 General Obligation Bonds, due in installments of \$150,000 average interest at 4.68%	\$ 300,000	\$ 150,000	\$ 150,000
\$275,000 – 2008 Local Government Public Improvement Bonds Series B-17-A due in two installments of \$135,000 to \$140,000 through June 2018 variable interest.....	275,000	140,000	135,000
\$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.....	70,880,000	67,980,000	2,900,000

(Continued)

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 6 – LONG-TERM LIABILITIES (Continued):

Bonds payable at June 30, 2016, are comprised of the following individual issues:

General Obligation Bonds:	<u>Total</u>	<u>Long-term Amount Outstanding</u>	<u>Current Amount Outstanding</u>
\$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	-
\$10,000,000 – 2012 General Obligation Bonds – due in annual installments of \$225,000 to \$650,000 through June 2043, variable interest	9,325,000	9,100,000	225,000
\$10,000,000 – 2013A General Obligation Bonds due in annual installments of \$25,000 to \$700,000 through June 2043	9,950,000	9,925,000	25,000
\$2,000,000 – 2013B General Obligation Bonds due in annual installments of \$400,000 through June 2019	1,200,000	800,000	400,000
\$10,000,000 – 2014 General Obligation Bonds due in annual installments of \$75,000 to \$750,000 through June 2043	9,850,000	9,775,000	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	8,115,000	7,290,000	825,000
\$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	-
\$4,395,000 – 2016 Landfill General Obligation Bonds – due in annual installments of \$675,000 to \$775,000 through June 2022, interest at 2%.	4,395,000	3,720,000	675,000
\$9,625,000 – 2016 General Obligation Bonds – due in annual installments of \$65,000 to \$975,000 through June 2042, variable interest.	9,560,000	9,490,000	70,000
Revenue Bonds:			
\$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>3,398,701</u>	<u>3,238,201</u>	<u>160,500</u>
Total Bonds Outstanding.....	<u>\$143,723,701</u>	<u>\$138,103,201</u>	<u>\$ 5,640,500</u>

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

Proprietary Fund Types	\$ 68,138,701
Governmental Activities.....	<u>75,605,000</u>
Total Bonds Outstanding	<u>\$ 143,743,701</u>

(Continued)

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 6 – LONG-TERM LIABILITIES (Continued):

The annual requirements to amortize all Bonds and Capital Outlay Notes outstanding as of June 30, 2016, including interest payments, are \$222,104,087 as follows:

<u>Fiscal Year Ending June 30th</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 5,465,500	\$ 5,602,330	\$ 11,067,830
2018	5,921,032	5,400,777	11,321,809
2019	6,141,768	5,180,904	11,322,672
2020	5,957,708	4,951,259	10,908,967
2021	<u>6,203,840</u>	<u>4,718,379</u>	<u>10,922,219</u>
Subtotal	<u>29,689,848</u>	<u>25,853,649</u>	<u>55,543,497</u>
2022	6,275,188	4,472,642	10,747,830
2023	5,191,752	4,512,040	9,703,792
2024	5,398,556	4,307,996	9,706,552
2025	5,560,576	4,092,931	9,653,507
2026	<u>5,782,848</u>	<u>3,866,130</u>	<u>9,648,978</u>
Subtotal	<u>28,208,920</u>	<u>21,251,739</u>	<u>49,460,659</u>
2027	5,425,372	3,628,969	9,054,341
2028	5,598,160	3,400,326	9,998,486
2029	5,961,212	3,162,059	9,123,271
2030	6,274,540	2,901,944	9,176,484
2031	<u>5,548,156</u>	<u>2,626,890</u>	<u>8,175,046</u>
Subtotal	<u>28,807,440</u>	<u>15,720,188</u>	<u>44,527,628</u>
2032	4,702,072	2,394,986	7,097,058
2033	4,657,265	2,208,737	6,866,002
2034	4,893,156	2,017,787	6,910,943
2035	5,045,000	1,813,945	6,858,945
2036	<u>5,320,000</u>	<u>1,602,407</u>	<u>6,922,407</u>
Subtotal	<u>24,617,493</u>	<u>10,037,862</u>	<u>34,655,355</u>
2037	4,780,000	1,376,495	6,156,495
2038	4,360,000	1,171,620	5,531,620
2039	4,555,000	987,301	5,542,301
2040	4,810,000	791,081	5,601,081
2041	<u>4,990,000</u>	<u>583,075</u>	<u>5,573,075</u>
Subtotal	<u>23,495,000</u>	<u>4,909,572</u>	<u>28,404,572</u>
2042	5,250,000	372,026	5,622,026
2043	2,605,000	150,750	2,755,750
2044	525,000	42,800	567,800
2045	545,000	21,800	566,800
2046	<u>-</u>	<u>-</u>	<u>-</u>
Subtotal	<u>8,925,000</u>	<u>587,376</u>	<u>9,512,376</u>
Totals	<u>\$ 143,743,701</u>	<u>\$ 78,360,386</u>	<u>\$ 222,104,087</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, 2016

NOTE 7 – DERIVATIVES:

Interest Rate Derivatives

The City of Alcoa, Tennessee has four interest rate swaps as of June 30, 2016. Interest rate swaps are classified as hedging derivative instruments if the hedging instruments meet the criteria of GASB 53, paragraph 27 a and b, or investment derivative instruments if they do not meet the criteria. The following table summarizes the interest rate swaps outstanding as of the date of this report.

<u>Derivative Instrument</u>	<u>Trade Date</u>	<u>Effective Date</u>	<u>Termination Date</u>	<u>Counterparty</u>
\$13.4M 63% CMS Swap	8/7/2008	8/7/2008	6/1/2040	DEPFA Bank, PLC
\$ 4.5M 63% CMS Swap	8/7/2008	8/7/2008	6/1/2030	DEPFA Bank, PLC
\$10.0M 63.1% CMS Swap	8/7/2008	8/7/2008	6/1/2022	Morgan Keegan Financial Products, Inc.
\$11.5M 63.1% CMS Swap	7/31/2008	8/7/2008	6/1/2017	Morgan Keegan Financial Products, Inc.

Fair Values

The fair values of the interest rate swaps were estimated using the GASB 72 Fair Value and Leveling method. Derivative instruments are classified in Level 2 of the fair value hierarchy using a market approach that considers benchmark interest rates with inputs of 5-year forward CMS/3M LIBOR zero curve/AA Rated General Obligation curve/ and LIBOR swaption volatility with Market source from Reuters.

Fair Values at 6-30-2016:

<u>Hedging Derivatives</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Change In Value</u>	<u>Government Activities</u>	<u>Business-Type Activities</u>
\$13.4M 63% CMS Swap	\$ (5,501,079)	\$ (3,844,554)	\$ (1,656,525)	\$ -	\$ (1,656,525)
\$ 4.5M 63% CMS Swap	(1,330,022)	(969,734)	(360,288)	-	(360,288)
\$10.0M 63.1% CMS Swap	<u>(1,152,297)</u>	<u>(1,117,753)</u>	<u>(34,544)</u>	<u>(34,544)</u>	<u>-</u>
	<u>\$ (7,983,398)</u>	<u>\$ (5,932,041)</u>	<u>\$ (2,051,357)</u>	<u>\$ (34,544)</u>	<u>\$ (2,016,813)</u>
<u>Investment Derivatives</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Change In Value</u>	<u>61.16% Government Activities</u>	<u>38.84% Business-Type Activities</u>
\$11.5M 63.1% CMS Swap	<u>\$ (815)</u>	<u>\$ (53,189)</u>	<u>\$ 52,374</u>	<u>\$ 32,032</u>	<u>\$ 20,342</u>

(Continued)

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 7 – DERIVATIVES (Continued):

Evaluation of Hedge Effectiveness

GASB 53 describes four primary methods for evaluating hedge effectiveness as follows: consistent critical terms, synthetic instrument, dollar-offset, and regression analysis. However, GASB 53 also allows a governmental entity to use other quantitative methods that are based on “established principles of financial economic theory”. A governmental entity may use any of the evaluation methods outlined in the Statement and is not limited to using the same method from period to period. All potential hedging derivative instruments that were determined to be hedging derivative instruments in the prior reporting period should be re-evaluated as of the end of the current reporting period using the method that was applied in the prior reporting period. If that method is applied and the hedging derivative no longer meets the criteria for effectiveness of that method, a government may, but is not required to, apply another method before concluding that the hedging derivative instrument is no longer effective.

As of the date of this report, three of Alcoa’s derivatives pass at least one of the established GASB 53 hedge effectiveness testing methods and would be considered hedging derivatives for the year ending June 30, 2016. One swap, identified above as \$11.5M 63.1% CMS Swap, did not pass any of the methods applied in a prior period, and is considered to be an investment derivative. Those passing the dollar-offset method as of the date of this report:

<u>Derivative Instrument</u>	<u>Hedged Item</u>	<u>Maturity</u>	<u>Refunding?</u>	<u>Date</u>	<u>Refunded Bonds</u>
\$13.4M 63% CMS Swap	Series E-5-B: CUSIP: 095175RQ0	6/1/2042	Yes	8/7/2008	095175KK0
\$ 4.5M 63% CMS Swap	Series E-5-B: CUSIP: 095175RQ0	6/1/2042	Yes	8/7/2008	095175KE4
\$10.0M 63.1% CMS Swap	Series E-5-B: CUSIP: 095175RQ0	6/1/2042	Yes	8/7/2008	818200FX0

Consistent Critical Terms Method

Consistent critical terms (“CCT”) is the only non-quantitative method included in the Statement. If all of the critical terms of the derivative match the hedged item, the derivative is presumed to be effective.

Quantitative Methods

Three quantitative methods for testing effectiveness are included in GASB 53. Those methods are synthetic instrument, dollar-offset, and regression analysis. It is important to note that from period to period, a governmental entity can use any method that verifies effectiveness.

(Continued)

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 7 – DERIVATIVES (Continued):

Synthetic Instrument Method

The synthetic instrument (“SI”) method combines the net cash flows from the derivative with the variable cash flows of the hedged item to simulate a third synthetic instrument. The synthetic rate is calculated based on the combined cash flows and is compared against the fixed rate on the derivative. If the synthetic rate is no less than 90% or no greater than 111% of the fixed rate on the derivative, the hedge passes the test and is considered effective.

Dollar-Offset Method

Under the dollar-offset (“D-O”) method the governmental entity divides the changes in the fair value of the derivative by the changes in fair value of the hedgeable item. This evaluation may be made using changes in the current period or on a life-to-date basis. The result of the calculation must fall within 80% to 125% in order for the derivative to be considered effective. An important distinction between D-O and SI is that D-O is a measure of expected future cash flows rather than a calculation of actual cash flows used in the SI test. The \$13.4M 63% CMS and \$4.5M 63% CMS Swaps were tested and passed the D-O method in the prior period; therefore, the D-O method was the first method applied to the swaps for the current period. The results are detailed below:

Dollar Offset Method (Life-to-Date)

<u>Swap Description</u>	<u>Swap Beginning Value</u>	<u>Swap Ending Value</u>	<u>Bond Beginning Value</u>	<u>Bond Ending Value</u>	<u>Dollar Offset Ratio</u>	<u>Pass or Fail</u>
\$13.4M 63% CMS Swap	\$ (980,408)	\$(5,533,795)	\$ _____ 0	\$ 5,416,938	84%	Pass

Regression Analysis Method

Regression analysis measures the statistical relationship between the fair value or cash flows of the potential hedging derivative and the hedgeable item. For cash flow hedges, the relationship analyzed should be relevant cash flows, rates, or fair values. Linear regression is a common statistical tool used to measure correlation and produce a linear function that can be used to predict results, if the data is highly correlated. For the analysis, the potential hedging derivative is the independent variable and the hedgeable item is the dependent variable.

The regression analysis should be based on sufficient data to determine if the potential hedging derivative instrument is effective as of the end of the reporting period. The changes in cash flows or fair values of the potential hedging derivative instrument substantially offset the changes in cash flows or fair values of the hedgeable item if all of the following criteria are met:

- a. The R² of the regression analysis is at least 0.80.
- b. The regression model is significant using a 95 percent confidence level.
- c. The regression coefficient for the slope is between -1.25 and -0.80.

The use of regression analysis requires an understanding of statistics. The results need to be interpreted correctly in order for the test to have any relevance.

(Continued)

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 7 – DERIVATIVES (Continued):

Regression Analysis Method (Continued)

The \$10.0M 63.1% CMS Swap was tested and passed the regression analysis method in the prior period. Therefore, the swap was tested using the regression analysis method for the current period. Since the \$4.5M 63% CMS Swap failed the D-O method, the swap was tested using the regression analysis method for the current period. The results of the regression analysis are as follows:

Relevant Results Summary

<u>Interest Rate Swap Description</u>	<u>R Square</u>	<u>Significance F</u>	<u>Slope</u>	<u>Observations</u>	<u>Pass or Fail</u>
\$4.5M 63% CMS Swap	0.9481	0.00%	(1.1114)	37	Pass
\$10.0M 63.1% CMS Swap	0.9108	0.00%	(0.8450)	37	Pass

Based on the parameters required to apply hedge accounting, the derivatives are deemed to be highly effective.

Derivative Instruments

On May 1, 2006, the City entered into a \$13,400,000 loan agreement with the Public Building Authority of Blount County (the “Authority”). Under its loan agreement, the Authority, at the request of the City, has entered into an interest rate swap agreement for all of the outstanding Local Government Improvement Bonds, Series D-7-A effective on December 1, 2006.

Objective of the interest rate swap: In order to protect against the potential of rising interest rates and to balance its mixture of variables and fixed rate debt, the City requested the Authority, on its behalf, to enter into an interest rate swap in connection with its \$13.4 million Series D-7-A variable-rate bonds. The intention of the swap was to effectively change the City’s variable interest rate on the bonds to a synthetic fixed rate. The Series D-7-A bonds have since been refunded with a portion of the proceeds of the Series E-5-B bonds and the interest rate swap is now associated with the Series E-5-B bonds.

Terms: Under the swap, the Authority pays the counterparty a fixed payment of 3.8675 percent and receives a variable payment computed as 63 percent of the five-year London Interbank Offered Rate (LIBOR). The swap had an original notional amount of \$13.4 million along with the original associated variable-rate bonds. At no time will the notional amount on interest rate swap agreement exceed the outstanding principle of the Series E-5-B Bonds. The variable-rates on the bonds have historically approximated the Securities Industry and Financial Markets Association Index (the “SIFMA”). The swap agreement and the associated bonds mature on June 1, 2040. As of June 30, 2016, rates were as follows:

	<u>Terms</u>	<u>Rates</u>
Interest rate swap:		
Fixed payment to counterparty	Fixed	3.868%
Variable payment from counterparty	% LIBOR	<u>-0.617%</u>
Net interest rate swap payments		3.250%
Variable-rate bond coupon payments		<u>0.914%</u>
Effective Synthetic interest rate on bonds		<u>4.164%</u>

(Continued)

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 7 – DERIVATIVES (Continued):

Derivative Instruments (Continued)

Fair Value: As of June 30, 2016, the swap had a negative fair value of (\$5,368,526) excluding accrued interest of \$165,269. The negative fair value of the swap may be countered by reductions in total interest payments required under the variable-rate bond, creating lower synthetic rates. Because the rates on the government's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value model calculates future cash flows by projecting forward rates, and then discounts those cash flows at their present value.

Credit risk: As of June 30, 2016, the City was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the City would be exposed to credit risk in the amount of the derivative's fair value. In order to mitigate the potential for credit risk, the Authority, on behalf of the City, entered into the interest rate swap agreement with Depfa bank, who was rated "A+" by Standard and Poor's and "Aa3" by Moody's Investor Service at the time the interest rate swap agreement was entered into. If Depfa's credit rating is downgraded, the counterparty is required to post collateral with a third-party custodian. As of June 30, 2016, Depfa's credit rating had been downgraded and was rated "Ba1/A" by Moody's and Standard and Poor's respectively. The counterparty has posted all collateral requirements with a third-party custodian.

Basic risk: As noted above, the swap exposes the City to basic risk should the rate on the Bonds increase to above 63% of LIBOR, thus increasing the synthetic rate on the bonds. If a change occurs that results in the rate on the Bonds to be below 63% of LIBOR, then the synthetic rate on the bonds will decrease.

Termination risk: The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an "additional termination provision." The Authority or the counterparty may terminate to swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value. Likewise, if the swap has a positive fair value at termination, the counterparty would be liable to the Authority for a payment equal to the swap's fair value.

Swap payments and associated debt: As of June 30, 2016, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows:

Fiscal Year <u>Ending June 30,</u>	Business-Type Activities			
	<u>Variable Rate Bonds</u>		Net Interest Rate <u>Swap Payment</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>		
2017	\$ -	\$ 122,510	\$ 435,513	\$ 558,023
2018	-	122,510	435,513	558,023
2019	-	122,510	435,513	558,023
2020	-	122,510	435,513	558,023
2021	-	122,510	435,513	558,023
2022 – 2026	-	612,549	2,177,567	2,790,116
2027 – 2031	1,000,000	612,549	2,177,567	3,790,116
2032 – 2036	6,400,000	463,526	1,647,802	8,511,327
2037 – 2041	6,000,000	137,137	487,516	6,624,653
	<u>\$ 13,400,000</u>	<u>\$ 2,438,311</u>	<u>\$ 8,668,017</u>	<u>\$ 24,506,327</u>

(Continued)

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 7 – DERIVATIVES (Continued):

Derivative Instruments (Continued)

On December 15, 2005, the City entered into a \$4,500,000 loan agreement with the Public Building Authority of Blount County (the “Authority”). Under its loan agreement, the Authority, at the request of the City, has entered into an interest rate swap agreement for all of the outstanding Local Government Improvement Bonds, Series D-5-C effective on December 1, 2006.

Objective of the interest rate swap: In order to protect against the potential of rising interest rates and to balance its mixture of variables and fixed rate debt, the City requested the Authority, on its behalf, to enter into an interest rate swap in connection with its \$4.5 million Series D-5-C variable-rate bonds. The intention of the swap was to effectively change the City’s variable interest rate on the bonds to a synthetic fixed rate. The Series D-5-C bonds have since been refunded with a portion of the proceeds of the Series E-5-B bonds and the interest rate swap is now associated with the Series E-5-B bonds.

Terms: Under the swap, the Authority pays the counterparty a fixed payment of 3.8825 percent and receives a variable payment computed as 63 percent of the five-year London Interbank Offered Rate (LIBOR). The swap had an original notional amount of \$4.5 million along with the original associated variable-rate bonds. At no time will the notional amount on interest rate swap agreement exceed the outstanding principle of the Series E-5-B Bonds. The variable-rates on the bonds have historically approximated the Securities Industry and Financial Markets Association Index (the “SIFMA”). The swap agreement and the associated bonds mature on June 1, 2030. As of June 30, 2016, rates were as follows:

	<u>Terms</u>	<u>Rates</u>
Interest rate swap:		
Fixed payment to counterparty	Fixed	3.883%
Variable payment from counterparty	% LIBOR	<u>0.617%</u>
Net interest rate swap payments		3.265%
Variable-rate bond coupon payments		<u>0.914%</u>
Effective Synthetic interest rate on bonds		<u><u>4.179%</u></u>

Fair Value: As of June 30, 2016, the swap had a negative fair value of (\$1,309,314) excluding accrued interest of \$31,750. The negative fair value of the swap may be countered by reductions in total interest payments required under the variable-rate bond, creating lower synthetic rates. Because the rates on the government’s variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value model calculates future cash flows by projecting forward rates, and then discounts those cash flows at their present value.

Credit risk: As of June 30, 2016, the City was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the City would be exposed to credit risk in the amount of the derivative’s fair value. In order to mitigate the potential for credit risk, the Authority, on behalf of the City, entered into the interest rate swap agreement with Depfa bank, who was rated “A+” by Standard and Poor’s and “Aa3” by Moody’s Investor Service at the time the interest rate swap agreement was entered into. If Depfa’s credit rating is downgraded, the counterparty is required to post collateral with a third-party custodian. As of June 30, 2016, Depfa’s credit rating had been downgraded and was rated “Ba1/A” by Moody’s and Standard and Pool’s respectively. The counterparty has posted all collateral requirements with a third-party custodian.

(Continued)

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 7 – DERIVATIVES (Continued):

Derivative Instruments (Continued)

Basic risk: As noted above, the swap exposes the City to basic risk should the rate on the Bonds increase to above 63% of LIBOR, thus increasing the synthetic rate on the bonds. If a change occurs that results in the rate on the Bonds to be below 63% of LIBOR, then the synthetic rate on the bonds will decrease.

Termination risk: The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an “additional termination provision.” The Authority or the counterparty may terminate to swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap’s fair value. Likewise, if the swap has a positive fair value at termination, the counterparty would be liable to the Authority for a payment equal to the swap’s fair value.

Swap payments and associated debt: As of June 30, 2016, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows:

Fiscal Year Ending June 30,	Business-Type Activities			
	Variable Rate Bonds		Net Interest Rate Swap Payment	Total
	Principal	Interest		
2017	\$ -	\$ 41,141	\$ 146,930	\$ 188,071
2018	-	41,141	146,930	188,071
2019	-	41,141	146,930	188,071
2020	-	41,141	146,930	188,071
2021	-	41,141	146,930	188,071
2022 – 2026	700,000	185,595	662,815	1,548,408
2027 – 2031	<u>3,800,000</u>	<u>122,281</u>	<u>436,707</u>	<u>4,358,988</u>
	<u>\$ 4,500,000</u>	<u>\$ 513,581</u>	<u>\$ 1,834,170</u>	<u>\$ 6,847,751</u>

On January 1, 2000, the City entered into a \$10,000,000 loan agreement with the Public Building Authority of Sevier County (the “Authority”). Under its loan agreement, the Authority, at the request of the City, has entered into an interest rate swap agreement for all of the outstanding Local Government Improvement Bonds, Series IV-B-5 on June 19, 2002.

Objective of the interest rate swap: In order to protect against the potential of rising interest rates and to balance its mixture of variables and fixed rate debt, the City requested the Authority, on its behalf, to enter into an interest rate swap in connection with its \$10 million Series IV-B-5 variable-rate bonds. The intention of the swap was to effectively change the City’s variable interest rate on the bonds to a synthetic fixed rate. The Series IV-B-5 bonds have since been refunded with a portion of the proceeds of the Series E-5-B bonds and the interest rate swap is now associated with the Series E-5-B bonds.

(Continued)

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 7 – DERIVATIVES (Continued):

Derivative Instruments (Continued)

Terms: Under the swap, the Authority pays the counterparty a fixed payment of 4.20 percent and receives a variable payment computed as 63.10 percent of the five-year London Interbank Offered Rate (LIBOR). The swap had an original notional amount of \$10 million along with the original associated variable-rate bonds. At no time will the notional amount on interest rate swap agreement exceed the outstanding principle of the Series E-5-B Bonds. The variable-rates on the bonds have historically approximated the Securities Industry and Financial Markets Association Index (the “SIFMA”). The swap agreement and the associated bonds mature on June 1, 2022. As of June 30, 2016, rates were as follows:

	<u>Terms</u>	<u>Rates</u>
Interest rate swap:		
Fixed payment to counterparty	Fixed	4.200%
Variable payment from counterparty	% LIBOR	<u>0.618%</u>
Net interest rate swap payments		3.582%
Variable-rate bond coupon payments		<u>0.914%</u>
Effective Synthetic interest rate on bonds		<u><u>4.496%</u></u>

Fair Value: As of June 30, 2016, the swap had a negative fair value of (\$1,152,297) excluding accrued interest of \$32,660. The negative fair value of the swap may be countered by reductions in total interest payments required under the variable-rate bond, creating lower synthetic rates. Because the rates on the government’s variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value model calculates future cash flows by projecting forward rates, and then discounts those cash flows at their present value.

Credit risk: As of June 30, 2016, the City was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the City would be exposed to credit risk in the amount of the derivative’s fair value. The swap counterparty, Morgan Keegan Financial Products (“MKFP”) was rated “A+” by Standard and Poor’s as of June 30, 2016, with its Credit Support Provider, Deutsche Bank, rated Baa2/BBB+/BBB+ by Moody’s, Standard & Poor’s and Fitch, respectively.

Basic risk: As noted above, the swap exposes the City to basic risk should the rate on the Bonds increase to above 63.1% of LIBOR, thus increasing the synthetic rate on the bonds. If a change occurs that results in the rate on the Bonds to be below 63.1% of LIBOR, then the synthetic rate on the bonds will decrease.

Termination risk: The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an “additional termination provision.” The Authority or the counterparty may terminate to swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap’s fair value. Likewise, if the swap has a positive fair value at termination, the counterparty would be liable to the Authority for a payment equal to the swap’s fair value.

(Continued)

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 7 – DERIVATIVES (Continued):

Derivative Instruments (Continued)

Swap payments and associated debt: As of June 30, 2016, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows:

Fiscal Year Ending June 30,	Governmental Activities			
	Variable Rate Bonds		Net Interest Rate	Total
	Principal	Interest	Swap Payment	
2017	\$ 1,450,000	\$ 91,425	\$ 358,162	\$ 1,899,587
2018	1,550,000	78,169	306,229	1,934,397
2019	1,625,000	63,998	250,713	1,939,711
2020	1,705,000	49,141	192,512	1,946,653
2021	1,790,000	33,553	131,445	1,954,999
2022	<u>1,880,000</u>	<u>17,188</u>	<u>67,334</u>	<u>1,964,522</u>
	<u>\$ 10,000,000</u>	<u>\$ 333,474</u>	<u>\$ 1,306,396</u>	<u>\$ 11,636,869</u>

On May 1, 2001, the City entered into an \$11,175,000 loan agreement with the Public Building Authority of Blount County (the “Authority”). Under its loan agreement, the Authority, at the request of the City, has entered into an interest rate swap agreement for all of the outstanding Local Government Improvement Bonds, Series A-1-C on December 28, 2001.

Objective of the interest rate swap: In order to protect against the potential of rising interest rates and to balance its mixture of variables and fixed rate debt, the City requested the Authority, on its behalf, to enter into an interest rate swap in connection with its \$11.175 million Series A-1-C variable-rate bonds. The intention of the swap was to effectively change the City’s variable interest rate on the bonds to a synthetic fixed rate. The Series A-1-C bonds have since been refunded with a portion of the proceeds of the Series E-3-E bonds and the interest rate swap is now associated with the Series E-3-E bonds.

Terms: Under the swap, the Authority pays the counterparty a fixed payment of 4.23 percent and receives a variable payment computed as 63.10 percent of the five-year London Interbank Offered Rate (LIBOR). The swap had an original notional amount of \$11.175 million along with the original associated variable-rate bonds. At no time will the notional amount on interest rate swap agreement exceed the outstanding principle of the Series E-3-E Bonds. The variable-rates on the bonds have historically approximated the Securities Industry and Financial Markets Association Index (the “SIFMA”). The swap agreement and the associated bonds mature on June 1, 2017. As of June 30, 2016, rates were as follows:

	<u>Terms</u>	<u>Rates</u>
Interest rate swap:		
Fixed payment to counterparty	Fixed	4.230%
Variable payment from counterparty	% LIBOR	<u>0.618%</u>
Net interest rate swap payments		3.612%
Variable-rate bond coupon payments		<u>0.914%</u>
Effective Synthetic interest rate on bonds		<u>4.526%</u>

(Continued)

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 7 – DERIVATIVES (Continued):

Derivative Instruments (Continued)

Fair Value: As of June 30, 2016, the swap had a negative fair value of (\$815) excluding accrued interest of \$69. The negative fair value of the swap may be countered by reductions in total interest payments required under the variable-rate bond, creating lower synthetic rates. Because the rates on the government's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value model calculates future cash flows by projecting forward rates, and then discounts those cash flows at their present value.

Credit Risk. As of June 30, 2016, the City was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the City would be exposed to credit risk in the amount of the swap's fair value. The swap counterparty, Morgan Keegan Financial Products ("MKFP") was rated "A+" by Standard & Poor's as of June 30, 2016, with its Credit Support Provider, Deutsche Bank, rated Baa2/BBB+/BBB+ by Moody's, Standard & Poor's and Fitch, respectively.

Basis risk. As noted above, the swap exposes the City to basis risk should the rate on the bonds increase to above 63.1% of LIBOR, thus increasing the synthetic rate on the bonds. If a change occurs that results in the rate on the Bonds to be below 63.1% of LIBOR, then the synthetic rate on the bonds will decrease.

Termination risk. The swap contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an "additional termination provision." The Authority or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, of at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value. Likewise, if the swap has a positive fair value at termination, the counterparty would be liable to the Authority for a payment equal to the swap's fair value.

Swap payments and associated debt. As of June 30, 2016, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

<u>Fiscal Year Ending June 30</u>	<u>Governmental Activities</u>			
	<u>Principal</u>	<u>Interest</u>	<u>Net Interest Rate Swap Payment</u>	<u>Total</u>
2017	\$ 20,885	\$ 191	\$ 754	\$ 21,830
<u>Fiscal Year Ending June 30</u>	<u>Business-Type Activities</u>			
	<u>Principal</u>	<u>Interest</u>	<u>Net Interest Rate Swap Payment</u>	<u>Total</u>
2017	4,115	38	149	4,302
Totals	\$ 25,000	\$ 229	\$ 903	\$ 26,132

(Continued)

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 7 – DERIVATIVES (Continued):

Prior Period Adjustment for Derivative Instruments/Debt Service:

a) Derivative Instruments:

Reclassification/Correction of Error/Period Adjustment

For the years ended June 30, 2010 through June 30, 2015, an error was made in accounting for hedging derivatives in accordance with Governmental Accounting Standards Board (GASB) Statement No. 53, Accounting and Reporting for Derivative Instruments, requiring that the fair value of financial arrangements called “derivatives” or “derivative instruments” be reported in the financial statements of local governments. The four debt issues involving derivatives are as follows:

- 1) On January 1, 2000, the City entered into a \$10,000,000 loan agreement with PBA of Sevier County, with an interest rate swap agreement on the Series IV-B-5 bonds as of June 19, 2002
- 2) On May 1, 2001, the City entered into an \$11,175,000 loan agreement with the PBA of Blount County, with an interest rate swap agreement on the Series A-1-C as of December 28, 2001
- 3) On December 15, 2005, the City entered into a \$4,500,000 loan agreement with the PBA of Blount County, with an interest rate swap agreement on the Series D-5-C as of December 1, 2006
- 4) On May 1, 2006, the City entered into an \$13,400,000 loan agreement with the PBA of Blount County, with an interest rate swap agreement on the Series D-7-A as of December 1, 2006

The fair value of the swaps at June 30, 2010 are as follows:

<u>Hedging Derivative</u>	<u>Hedged Item</u>	<u>Trade Date</u>	<u>Termination Date</u>	<u>Dollar Offset Method</u>	<u>Swap Value 6/30/2009</u>	<u>Swap Value 6/30/2010</u>	<u>Change In Value</u>	
\$11.5 M 63.1% CMS Swap	Series E-3-E: CUSIP 095175RC1	7/31/2008	6/1/2017	Not Passed	\$ (607,934)	\$ (682,116)	\$ (74,182)	GF/W&Sewer/ Landfill
\$13.4 M 63% CMS Swap	Series E-5-B: CUSIP 095175RQ0	8/7/2008	6/1/2040	Passed	(1,983,742)	(2,677,193)	(693,451)	W&Sewer
\$ 4.5 M 63% CMS Swap	Series E-5-B: CUSIP 095175RQ0	8/7/2008	6/1/2030	Passed	(558,285)	(767,650)	(209,365)	W&Sewer
\$10.0 M 63.1% CMS Swap	Series E-5-B: CUSIP 095175RQ0	8/7/2008	6/1/2022	Passed	(1,129,419)	(1,486,371)	(356,982)	General Fund

GASB Statement No. 53 includes four methods for evaluating hedge effectiveness. A governmental entity can use any of the evaluation methods outlined in the Statement and is not limited to using the same method from period to period. The four methods described in GASB 53 are: consistent critical terms, synthetic instrument, dollar-offset, and regression analysis. As of June 30, 2010, three of the City’s derivatives identified above, passed the GASB 53 hedge effectiveness testing method (dollar-offset method). The changes in the fair value of derivative instruments classified as hedging derivative instruments are reported in the statement of Net Position as deferred outflows or inflows. On the other hand, the changes in fair value of investment derivative instruments (which include ineffective hedging derivative instruments) are reported as part of investment revenue in the current reporting period.

The \$11.5 M CMS Swap was not tested again since it is deemed as an ineffective hedging instrument and classified as an investment derivative for financial reporting purposes as of June 30, 2010 and therefore cannot be tested again per GASB 53.

(Continued)

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 7 – DERIVATIVES (Continued):

Prior Period Adjustment for Derivative Instruments/Debt Service (Continued):

a) Derivative Instruments (Continued):

Hedging Derivative Instruments:

For the years ended June 30, 2010 through June 30, 2015, the following hedging measurements are detailed below for reporting the change in values as deferred inflow/outflows of resources:

	<u>Hedging Derivative</u>	<u>GASB 53 Method Used</u>	<u>Fair Value Beginning</u>	<u>Fair Value Ending</u>
6/30/2010	\$13.4 M 63% CMS Swap	Zero Coupon	\$ (1,983,742)	\$ (2,677,193)
	\$ 4.5 M 63% CMS Swap	Method	(558,286)	(767,650)
	\$10.0 M 63.1% CMS Swap		(1,129,419)	(1,486,371)
6/30/2011	\$13.4 M 63% CMS Swap	Zero Coupon	(2,677,193)	(1,964,565)
	\$ 4.5 M 63% CMS Swap	Method	(767,650)	(569,784)
	\$10.0 M 63.1% CMS Swap		(1,486,371)	(1,194,233)
6/30/2012	\$13.4 M 63% CMS Swap	Zero Coupon	(1,964,565)	(4,894,886)
	\$ 4.5 M 63% CMS Swap	Method	(569,784)	(1,324,833)
	\$10.0 M 63.1% CMS Swap		(1,194,233)	(2,017,598)
6/30/2013	\$13.4 M 63% CMS Swap	Zero Coupon	(4,894,886)	(2,988,710)
	\$ 4.5 M 63% CMS Swap	Method	(1,324,833)	(808,408)
	\$10.0 M 63.1% CMS Swap		(2,017,598)	(1,330,067)
6/30/2014	\$13.4 M 63% CMS Swap	Zero Coupon	(2,988,710)	(3,255,400)
	\$ 4.5 M 63% CMS Swap	Method	(808,408)	(863,112)
	\$10.0 M 63.1% CMS Swap		(1,330,067)	(1,232,501)
6/30/2015	\$13.4 M 63% CMS Swap	Zero Coupon	(3,255,400)	(3,844,554)
	\$ 4.5 M 63% CMS Swap	Method	(863,112)	(969,734)
	\$10.0 M 63.1% CMS Swap		(1,232,501)	<u>(1,117,753)</u>
	Net change in value – 6/30/15 restated			<u>\$ (5,932,041)</u>
			Governmental Funds	\$ 1,117,753
			Enterprise Funds	<u>4,814,288</u>
				<u>\$ 5,932,041</u>
		<u>Governmental Fund</u>	<u>Enterprise Fund</u>	<u>Total</u>
b) Investment income from ineffective hedging derivative instrument		<u>\$ 334,240</u>	<u>\$ 215,436</u>	<u>\$ 549,676</u>

(Continued)

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 7 – DERIVATIVES (Continued):

Prior Period Adjustment for Derivative Instruments/Debt Service (Continued):

c) Debt Service:

In prior years, Water/Sewer and Landfill paid interest expense to Debt Service for bond payments based on amortization schedules rather than current interest rate based schedules resulting in an overpayment of interest expense. Other funds have paid interest expense into the Debt Service fund and amounts will be corrected in the current year. The prior period entry is as follows:

	<u>FYE 6/30/15</u>	<u>Prior Years</u>	<u>Total Due from Debt Service</u>
Water and Sewer	\$ 687,573	\$ 34,578	\$ 722,151
Landfill	<u>99,342</u>	<u>102,943</u>	<u>202,285</u>
	<u>\$ 786,915</u>	<u>\$ 137,521</u>	<u>\$ 924,436</u>

NOTE 8 – RETIREMENT COMMITMENTS:

(A) EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF ALCOA:

Effective Date:

The retirement system was restated in its entirety effective July 1, 2013. 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.

(Continued)

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 8 – RETIREMENT COMMITMENTS:

(A) EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF ALCOA:

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 55th 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 1/12th 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

“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.

(Continued)

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 8 – RETIREMENT COMMITMENTS (Continued):

(A) EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF ALCOA (Continued):

“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, 2016, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	170
Inactive employees entitled to but not yet receiving benefits	<u>68</u>
	<u>238</u>

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.

(Continued)

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 8 – RETIREMENT COMMITMENTS (Continued):

(A) EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF ALCOA (Continued):

Delayed Retirement (Continued):

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.

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.

(Continued)

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 8 – RETIREMENT COMMITMENTS (Continued):

(A) EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF ALCOA (Continued):

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%

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:

Prior to the current year, the funds of the retirement system were invested in a trust fund with First Tennessee Bank and managed by Martin & Company. During the current year, the funds of the retirement system were transferred to the TCRS for investing in the Tennessee Retiree Group Trust (TRGT), and managed by State Street. The City is one participant in the TRGT, and owns shares in the TRGT valued at \$23,584,038.61 as of June 30, 2016. The TRGT is an external investment pool sponsored by the State of Tennessee. The TRGT was established in 2015 under provisions codified in *Tennessee Code Annotated (TCA)*, Title 8, Chapters 34-37.

(Continued)

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 8 – RETIREMENT COMMITMENTS (Continued):

(A) EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF ALCOA (Continued):

Investment of Funds (Continued):

The TCRS and the State Treasurer as custodians are responsible for managing and directing the investment of the Group Trust Funds in the same manner as it invests funds of the TCRS. The TRGT assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided by the TCRS.

Schedule of Changes in Net Pension Liability, Deferrals, and Pension Expense

	<u>Increase (Decrease)</u>		
	Total Pension Liability (a)	Plan Net Position (b)	Net Pension Liability (a) – (b)
Balances – 06/30/2014	\$ 36,952,761	\$ 23,329,406	\$ 13,623,355
Changes for the Year:			
Service cost	190,824	-	190,824
Interest expense	2,688,755	-	2,688,755
Experience losses (gains)	-	-	-
Contributions – Employer	-	2,173,944	(2,173,944)
Net investment income	-	693,555	(693,555)
Benefits paid	(2,587,026)	(2,587,026)	-
Plan administrative expenses	-	(73,003)	73,003
Net Changes	<u>292,553</u>	<u>207,470</u>	<u>85,083</u>
Balances – 06/30/2015	<u>\$ 37,245,314</u>	<u>\$ 23,536,876</u>	<u>\$ 13,708,438</u>

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>\$ 13,708,438</u>	<u>\$ 10,678,525</u>

(Continued)

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 8 – RETIREMENT COMMITMENTS (Continued):

(A) EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF ALCOA (Continued):

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

For the fiscal year ended June 30, 2016, the recognized pension expense will be \$1,499,843. This determination is based on a measurement date of June 30, 2015. At June 30, 2016, the Employees' Retirement System of the City of Alcoa reported deferred outflows of resources and deferred inflows of resources in relation to pensions from the following sources:

	<u>Original Amount</u>	<u>Date Established</u>	<u>Original Amortization Period (Years)</u>	<u>Amount Recognized Annually</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Experience losses (gains)	\$ 547,119	06/30/2015	2.0	\$ 273,560	\$ -	\$ -
	-	06/30/2016	1.5	-	-	-
Change of assumptions						
Investment losses (gains)	(1,012,024)	06/30/2015	5.0	(202,405)	-	(607,214)
	1,037,922	06/30/2016	5.0	207,584	<u>830,338</u>	<u>-</u>
Total					<u>\$ 830,338</u>	<u>\$ (607,214)</u>

Actual investment earnings below (or above) projected earnings are amortized over 5 years. Changes of assumptions and experience losses (gains) are amortized over the average remaining service period of actives and inactive (no future service is assumed for inactive for this calculation).

Contributions subsequent to the measurement date totaling \$2,406,072 were reported as deferred outflows of resources related to pensions and will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Amounts reported as deferred outflows (inflows) of resources related to pensions will be recognized in pension expense as follows:

2017	\$ 5,179
2018	5,179
2019	5,180
2020	207,586
2021	-
Thereafter	-

(Continued)

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 8 – RETIREMENT COMMITMENTS (Continued):

(A) EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF ALCOA (Continued):

Summary of Actuarial Assumptions and Methods

	<u>Age 20</u>	<u>Age 35</u>	<u>Age 50</u>	<u>Age 60</u>
Withdrawal Rates				
Male and Female				
Estimated Experience (1 st Year Select)	342.00	329.00	277.00	219.40
Estimated Experience (2 nd 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		<u>AGE</u>	<u>% RETIRING</u>	
Participants are assumed to retire according to a variable age distribution		55	50.00%	
		56	08.00%	
		57	08.70%	
		58	07.14%	
		59	07.69%	
		60	08.33%	
		61	09.09%	
		62	33.33%	
		63	25.00%	
		64	33.33%	
		65	100.00%	
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, 2016

NOTE 8 – 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 8, 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.

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 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 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, 2015, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	57
Inactive employees entitled to but not yet receiving benefits	107
Active employees	<u>255</u>
	<u>419</u>

(Continued)

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 8 – 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, the Actuarially Determined Contribution (ADC) for the City was \$1,902,848 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 taxes 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, 2015, and the total pension liability (asset) 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, 2015 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, 2015 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

(Continued)

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 8— 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, 2016

NOTE 8 – 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>
Balance at June 30, 2014	<u>\$ 31,215,732</u>	<u>\$ 29,764,986</u>	<u>\$ 1,450,746</u>
Changes for the year:			
Service cost	904,768	-	904,768
Interest	2,379,080	-	2,379,080
Differences between expected and actual experience	361,622	-	361,622
Contributions – employer	-	1,902,848	(1,902,848)
Contributions - employees	-	-	-
Net investment income	-	931,379	(931,379)
Benefit payments, including refunds of employee contributions	(798,854)	(798,854)	-
Administrative expense	<u>-</u>	<u>(12,952)</u>	<u>12,952</u>
Net Changes	<u>2,846,616</u>	<u>2,022,421</u>	<u>824,195</u>
Balance at June 30, 2015	<u>\$ 34,062,348</u>	<u>\$ 31,787,407</u>	<u>\$ 2,274,941</u>

Sensitivity of the net pension liability (asset) to changes in the discount rate:

The following presents the net pension liability (asset) of the City calculated using the discount rate of 7.5 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)	\$ 7,412,866	\$ 2,274,941	\$(1,968,949)

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

Pension expense:

For the year ended June 30, 2016, The City recognized pension expense of \$874,915.

(Continued)

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 8 – RETIREMENT COMMITMENTS (Continued):

(B) TENNESSEE CONSOLIDATED RETIREMENT SYSTEM (Continued):

Deferred outflows of resources and deferred inflows of resources:

For the year ended June 30, 2016, The City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 321,442	\$ 18,035
Net difference between projected and actual earnings on pension plan investments	1,073,527	1,363,748
Contributions subsequent to the measurement date of June 30, 2015	<u>1,949,366</u>	<u>-</u>
Total	<u>\$ 3,344,335</u>	<u>\$ 1,381,783</u>

The amount shown above for “Contributions subsequent to the measurement date of June 30, 2015,” 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:	
2017	\$ (148,597)
2018	(148,597)
2019	(148,597)
2020	305,986
2021	115,388
Thereafter	37,603

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, 2016

NOTE 8 – 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.

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 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 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, 2016 to the Teacher Legacy Pension Plan were \$815,752 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, 2016

NOTE 8 – 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 (assets)

At June 30, 2016, Alcoa City Schools reported a liability of \$95,310 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial value as of that date. Alcoa City Schools' proportion of the net pension liability was based on Alcoa City Schools' share of contributions to the pension plan relative to the contributions of all participating LEAs. At the measurement date of June 30, 2015 Alcoa City Schools' proportion was 0.232672 percent. The proportion measured as of June 30, 2014 was 0.221788 percent.

Negative pension expense

For the year ended June 30, 2016, Alcoa City Schools recognized negative pension expense of \$50,303.

Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2016, Alcoa City Schools 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	\$ 76,491	\$ 1,483,520
Net difference between projected and actual earnings on pension plan investments	1,721,006	2,336,360
Changes in proportion of Net Pension Liability (Asset)	150,815	-
LEA's contributions subsequent to the measurement date of June 30, 2015	<u>815,752</u>	<u>-</u>
TOTAL	<u>\$ 2,764,064</u>	<u>\$ 3,819,880</u>

(Continued)

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 8 – 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 \$815,752, reported as pension related deferred outflows of resources, subsequent to the measurement date will be recognized as an increase in net pension liability (asset) in the year ended June 30, 2017. Other 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	
2017	(599,778)
2018	(599,778)
2019	(599,778)
2020	179,009
2021	(251,243)
Thereafter	-

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

(Continued)

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 8 – 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%	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 all LEAs 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, 2016

NOTE 8 – 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)	\$ 6,497,938	\$ 95,310	\$(5,205,310)

(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 Retirement 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.

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 with an unreduced benefit 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. 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 60 and vested or pursuant to the rule of 80. Members are vested with five years of service credit. Service related disability benefits are provided regardless of length of service.

(Continued)

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 8 – RETIREMENT COMMITMENTS (Continued):

(D) ALCOA CITY SCHOOLS – TEACHER’S RETIREMENT PLAN OF TCRS (Continued):

Benefits Provided (Continued)

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 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 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 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 or by automatic cost controls set out in law. 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 in years when the maximum funded level, as established 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, 2016 to the Teacher Retirement Plan were \$53,225 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 (Assets)

At June 30, 2016, Alcoa City Schools reported an asset of \$1,074 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2015, and the total pension asset used to calculate the net pension asset was determined by an actuarial value as of that date. Alcoa City Schools’ proportion of the net pension asset was based on Alcoa City Schools’ share of contributions to the pension plan relative to the contributions of all participating LEAs. At the measurement date of June 30, 2015 Alcoa City Schools’ proportion was 0.026702 percent.

Pension Expense

For the year ended June 30, 2016, Alcoa City Schools’ recognized pension expense of \$1,408.

(Continued)

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 8 – 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, 2016, Alcoa City Schools 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>
Difference between expected and actual experience	\$ -	\$ 350
Net difference between projected and actual earnings on pension plan investments	87	-
LEAs contributions subsequent to the measurement date of June 30, 2015	<u>53,225</u>	<u>-</u>
Total	<u>\$ 53,312</u>	<u>\$ 350</u>

Alcoa City Schools’ employer contributions of \$53,225 reported as pension related deferred outflows of resources, subsequent to the measurement date, will be recognized as an increase of net pension liability (asset) in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ended June 30:	
2017	\$ (7)
2018	(7)
2019	(7)
2020	(7)
2021	(29)
Thereafter	(204)

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, 2015 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

(Continued)

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 8 – RETIREMENT COMMITMENTS (Continued):

(D) ALCOA CITY SCHOOLS – TEACHER’S RETIREMENT PLAN OF TCRS (Continued):

Mortality rates are customized based on the June 30, 2012 actuarial experience study and included an adjustment for expected future improvement in life expectancy.

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

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3 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 all LEAs 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, 2016

NOTE 8 – RETIREMENT COMMITMENTS (Continued):

(D) ALCOA CITY SCHOOLS – TEACHER’S RETIREMENT 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) calculated using the discount rate of 7.5 percent, as well as what Alcoa City 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 (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Alcoa City Schools’ Proportionate share of the net pension liability (asset)	\$ 190	\$ (1,074)	\$ (2,002)

Pension plan fiduciary net position

Detailed information about the pension plan’s fiduciary net position is available in a separately issued TCRS financial report.

(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 \$17,098,134 and \$18,490,734 as of June 30, 2016 and 2015, respectively.

The following is a summary of activity in the Plan for the year:

Asset balance at July 1, 2015	\$ 18,490,734
Deferrals of compensation	2,253,803
Investment appreciation/depreciation	861,203
Withdrawals	<u>(4,507,606)</u>
Asset balance at June 30, 2016	<u>\$ 17,098,134</u>

(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 41 City retirees and 21 Education retirees meet the eligibility requirements.

(Continued)

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 8 – RETIREMENT COMMITMENTS (Continued):

(F) OTHER POST-EMPLOYMENT BENEFITS (Continued):

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, 2016 the date of the actuarial valuation, membership included:

	<u>Primary Government</u>
Retirees and beneficiaries receiving benefits	41
Terminated employees entitled to, but not yet receiving benefits	0
Employees eligible for coverage	231

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, 2016

NOTE 8 – 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

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>2014/2015</u>	<u>2015/2016</u>
Net OPEB Obligation – July 1	\$ <u>313,393</u>	\$ <u>451,177</u>
Annual Required Contribution (ARC)	395,552	310,746
Interest on Net OPEB Obligation	12,536	18,047
Adjustment on ARC	<u>(10,339)</u>	<u>(15,367)</u>
Annual OPEB Cost	<u>397,749</u>	<u>313,426</u>
Annual Employer Trust Contribution	-	-
Employer Payments for Retiree Benefits	<u>(259,965)</u>	<u>(153,159)</u>
Total Contribution	<u>(259,965)</u>	<u>(153,159)</u>
Increase in Net OPEB Obligation	<u>137,784</u>	<u>160,267</u>
Net OPEB Obligation – June 30	\$ <u>451,177</u>	\$ <u>611,444</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, 2016 (based on an actuarial as of July 1, 2016), 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)
7/01/09	\$ -	\$ 4,187,184	\$ 4,187,184	0%	\$13,540,995	30.9%
7/01/10	\$ -	4,231,148	4,231,148	0%	13,540,995	31.2%
7/01/11	\$ -	5,424,471	5,424,471	0%	12,441,103	43.6%
7/01/12	\$ -	5,561,497	5,561,497	0%	12,441,103	44.7%
7/01/13	\$ -	5,655,719	5,655,719	0%	13,076,017	43.3%
7/01/14	\$ -	5,789,674	5,655,719	0%	13,076,017	43.3%
7/01/15	\$ -	4,861,135	4,861,135	0%	12,618,206	38.5%
7/01/16	\$ -	4,880,813	4,880,813	0%	12,618,206	38.7%

(Continued)

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 8 – 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, information for the 2014 and 2015 fiscal years is based on an actuarial valuation as of July 1, 2014, and information for the 2016 fiscal year is based on an actuarial valuation as of July 1, 2016.

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, 2016 was determined as part of the July 1, 2016, 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	8% graded down to 6% after 4 years, and 6% thereafter
Inflation Rate Assumption	3%
Ultimate Trend Rate.....	6%
Actuarial Cost Method	Entry Age Normal
Annual Payroll Growth Rate.....	4.00%
Remaining amortization period at June 30, 2016	30 years

(Continued)

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 8 – 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, 2016 the date of the actuarial valuation, membership included:

	<u>Alcoa City Schools</u>
Retirees and beneficiaries receiving benefits.....	21
Terminated employees entitled to, but not yet receiving benefits.....	0
Active employees.....	178

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, 2016

NOTE 8 – 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>2014/2015</u>	<u>2015/2016</u>
Net OPEB Obligation – July 1	\$ 347,820	\$ 444,244
Annual Required Contribution (ARC)	236,778	217,975
Interest on Net OPEB Obligation	13,913	17,770
Adjustment on ARC	<u>(14,175)</u>	<u>(18,378)</u>
Annual OPEB Cost	<u>236,516</u>	<u>217,367</u>
Annual Employer Trust Contribution	-	-
Employer Payments for Retiree Benefits	<u>(140,092)</u>	<u>(68,500)</u>
Total Contribution	<u>(140,092)</u>	<u>(68,500)</u>
Increase in Net OPEB Obligation	<u>96,424</u>	<u>148,867</u>
Net OPEB Obligation – June 30	<u>\$ 444,244</u>	<u>\$ 593,111</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, 2016, the School'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)
7/01/08	\$ -	\$ 3,543,694	\$ 3,543,694	0%	\$ 8,128,471	43.6%
7/01/09	\$ -	\$ 1,786,267	\$ 1,786,267	0%	\$ 8,396,138	21.3%
7/01/10	\$ -	\$ 1,846,396	\$ 1,846,396	0%	\$ 8,396,138	22.0%
7/01/11	\$ -	\$ 1,799,973	\$ 1,799,973	0%	\$ 8,519,194	21.1%
7/01/12	\$ -	\$ 1,849,957	\$ 1,849,957	0%	\$ 8,519,194	21.1%
7/01/13	\$ -	\$ 2,291,375	\$ 2,291,375	0%	\$ 8,507,101	27%
7/01/14	\$ -	\$ 2,291,375	\$ 2,291,375	0%	\$ 8,507,101	27%
7/01/15	\$ -	\$ 2,103,986	\$ 2,103,986	0%	\$ 9,950,218	21%
7/01/16	\$ -	\$ 2,188,242	\$ 2,188,242	0%	\$ 9,950,218	22%

(Continued)

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 8 – 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. Information for the 2016 fiscal year is based on an actuarial valuation performed as of July 1, 2016.

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, 2016 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	8% graded down to 6% over 4 years, and 6% thereafter
Inflation Assumption	3%
Ultimate Trend Rate.....	6%
Actuarial Cost Method.....	Entry Age Normal
Annual Payroll Growth Rate.....	3.00%
Remaining amortization period at June 30, 2016	27 years

NOTE 9 – 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).

(Continued)

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 9 – EMPLOYEE HEALTH INSURANCE, INTERNAL SERVICE FUND (Continued):

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
2016	466,736	3,147,126	465,200

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 10 – 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, 2016

NOTE 11 – 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, 2016, the City of Alcoa contributed \$620,727 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, 2016 is presented below:

Industrial Development Board of Blount County and
the Cities of Alcoa and Maryville, Tennessee (Summary)

Revenues	\$ 5,986,633
Expenditures	<u>10,329,994</u>
Excess (deficit) of Expenditures Over Revenues	(4,343,361)
Net Position – July 1, 2015.....	<u>48,018,086</u>
Net Position – June 30, 2016.....	<u>\$ 43,674,725</u>
Total Assets	<u>\$ 76,163,212</u>
Total Liabilities	<u>\$ 32,488,487</u>
Net Position	<u>\$ 43,674,725</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, 2016

NOTE 11 – 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, 2016, the City of Alcoa contributed \$196,513 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, 2016, is presented below:

Revenues	\$ 1,184,253
Other Sources – Operating Transfers	959,108
Expenditures	<u>(2,161,810)</u>
Excess of Revenues and Other Sources Over Expenditures	(18,449)
Fund Balance – July 1, 2015	<u>829,748</u>
Fund Balance – June 30, 2016	<u>\$ 811,299</u>
Total Assets	<u>\$ 872,623</u>
Total Liabilities	<u>\$ 61,324</u>
Total Fund Balance	<u>\$ 811,299</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 Emergency Communications District of Blount County during the fiscal year ended June 30, 2016. Summary financial information as required by accounting principles generally accepted in the United States of America for the fiscal year ended June 30, 2016, is presented at the top of the next page:

(Continued)

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 11 – JOINT VENTURES (Continued):

(C) **EMERGENCY COMMUNICATIONS DISTRICT OF BLOUNT COUNTY, TENNESSEE**
(formerly Blount County Communications Center) (Continued):

Operating Revenues.....	\$ 1,422,519
Operating Expenses	<u>1,893,358</u>
Operating Income (loss)	(470,839)
Non-Operating Revenues	<u>1,075,882</u>
Change in Net Position	605,043
Net Position – July 1, 2015	<u>3,071,830</u>
Net Position – June 30, 2016	<u>\$ 3,676,873</u>
Total Assets	<u>\$ 5,466,088</u>
Total Liabilities	<u>\$ 1,789,215</u>
Total Net Position	<u>\$ 3,676,873</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, 2016, amounted to \$69,832. Summary financial information required by accounting principles generally accepted in the United States of America for the fiscal year ended June 30, 2016, is presented below:

Revenues	\$ 1,053,056
Expenditures.....	<u>(25,690)</u>
Excess of Revenues Over Expenditures Before Franchise	
Fee Distributions	1,027,366
Franchise Fee Distributions to County and Cities	<u>(1,027,462)</u>
Excess (Deficiency) of Revenues Over Expenditures	(96)
Fund Balance – July 1, 2015	<u>18,459</u>
Fund Balance – June 30, 2016.....	<u>\$ 18,363</u>
Total Assets	<u>\$ 268,453</u>
Total Liabilities	<u>\$ 250,090</u>
Total Fund Balance	<u>\$ 18,363</u>

(Continued)

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 11 – 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, 2016. 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 \$497,019 to the operations of the Commission during the fiscal year ended June 30, 2016, and expended an additional \$89,149 for recreation and parks improvements. For the year ended June 30, 2015, the City contributed \$483,210 for Commission operations and \$70,177 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.....	\$ 2,725,195
Expenditures	<u>2,558,176</u>
Excess of Revenues Over Expenditures	167,019
Fund Balance – July 1, 2015.....	<u>1,144,275</u>
Fund Balance – June 30, 2016.....	<u>\$ 1,311,294</u>
Total Assets	<u>\$ 1,731,278</u>
Total Liabilities.....	<u>\$ 419,984</u>
Total Fund Balance.....	<u>\$ 1,311,294</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, 2016

NOTE 11 – 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:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 11,500	\$ 1,175	\$ 12,675
2018	<u>12,000</u>	<u>600</u>	<u>12,600</u>
Total	<u>\$ 23,500</u>	<u>\$ 1,775</u>	<u>\$ 25,275</u>

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:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	<u>\$ 81,000</u>	<u>\$ 5,000</u>	<u>\$ 86,000</u>

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, 2016

NOTE 11 – 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, 2016.

An agreement between the City of Alcoa Utilities and the City of Maryville Utilities (MUB) provides for MUB to treat wastewater from the City of Alcoa Utilities. During the current year, the City of Alcoa Utilities paid MUB \$2,197,113 in operating costs for the year ended June 30, 2016 (June 30, 2015 amount paid \$2,018,333).

(Continued)

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 12 –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 \$118,290 and \$87,297 for the years ended June 30, 2016 and June 30, 2015, 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 \$9,254,595 reported as restricted cash and landfill closure and postclosure care liability at June 30, 2016, 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 2016. 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 13 – 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, 2016

NOTE 14 – REFUNDING OF DEBT/NEW DEBT:

(A) GENERAL OBLIGATION REFUNDING BONDS – SERIES 2016A

In 2016, the City of Alcoa issued \$9,625,000 General Obligation Refunding Bonds. The refunding bonds were issued to refund Series 2008 General Obligation Bond and Local Government Improvement Bond B-17-A. The 2016 Refunding Bonds were issued for Water and Sewer fund \$5,315,000 and General fund \$4,310,000 with annual installments of \$65,000 to \$975,000 through June 2042, variable interest rate.

(B) GENERAL OBLIGATION REFUNDING BONDS – SERIES 2016B

In 2016, the City of Alcoa issued \$4,395,000 Landfill General Obligation Refunding Bonds. The refunding bonds were issued to refund Series 2009 Landfill General Obligation Bond. The bonds are due in annual installments of \$675,000 to \$775,000, 2% interest rate.

(C) 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.

(D) 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.

(E) 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, 2% to 4% interest rate.

(Continued)

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 15 – FUND BALANCES:

(A) FUND BALANCES:

At June 30, 2016, 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	165,441	-	-	-	-	-	-	165,441	Restricted
Streets and Roads	-	-	-	-	-	-	659,038	659,038	Restricted
Vehicle enforcement	-	-	-	-	-	-	1,639	1,639	Restricted
Drug enforcement	-	-	-	-	-	-	18,415	18,415	Restricted
Public Works									
Construction	-	-	-	3,611,429	-	-	-	3,611,429	Restricted
Capital projects	-	-	-	-	-	-	26,464	26,464	Restricted
ASSIGNED TO:									
Education	-	1,184,448	-	-	-	-	-	1,184,448	Restricted
Education Construction	-	-	-	-	105,253	270,414	-	375,667	Assigned
General fund	947,010	-	-	-	-	-	-	947,010	Assigned
Education – Cafeteria	-	-	-	-	-	-	13,157	13,157	Assigned
Education -									
Extended Day	-	-	-	-	-	-	175,744	175,744	Assigned
Debt Service	-	-	1,019,041	-	-	-	-	1,019,041	Assigned
Home Grant Program	-	-	-	-	-	-	743	743	Assigned
2001 Special projects	-	-	-	-	-	-	319,167	319,167	Assigned
Equipment replacement	-	-	-	-	-	-	500,141	500,141	
Landscaping	-	-	-	-	-	-	83,038	83,038	Assigned
UNASSIGNED	5,355,971	-	-	-	-	-	-	5,355,971	Unassigned
Totals	\$ 6,468,422	\$ 1,184,448	\$1,019,041	\$ 3,611,429	\$ 105,253	\$ 270,414	\$ 1,797,546	\$ 14,456,553	

(B) CHANGES IN PROPRIETARY FUNDS' NET POSITION:

	Governmental Activities Internal Service Funds	Enterprise Funds				Total
		Stormwater Utility	Water and Sewer Utility	Electric Utility	Landfill	
Net Position – Beginning (restated)	\$ 1,161,240	\$ 982,702	\$ 20,312,350	\$ 36,274,464	\$ 2,575,050	\$ 60,144,566
Change in Net Position	518,196	(84,881)	(1,294,448)	1,231,844	(44,373)	(191,858)
Net Position – Ending	\$ 1,679,436	\$ 897,821	\$ 19,017,902	\$ 37,506,308	\$ 2,530,677	\$ 59,952,708

(Continued)

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 16 – 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, 2016 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, 2016</u>
GOVERNMENTAL ACTIVITIES:				
General Fund:				
Civic Center Capital Lease		\$ 9,142,400 (1)		\$ 9,142,400
Communication Equipment		<u>751,750</u> (2)	\$ 173,706/2.3%	412,342
Total Capital Leases – Governmental Funds		<u>\$ 9,894,150</u>		<u>\$ 9,554,742</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, 2016:

<u>Fiscal Year Ending June 30,</u>	<u>Governmental Activities</u>
2017	\$ 76,176
2018	79,200
2019	82,344
2020	85,614
2021	<u>89,008</u>
Minimum lease payments for all capital leases except Civic Arts Center (1).....	412,342
Less: Amount representing interest at City's incremental borrowing rate of interest	<u>(12,370)</u>
Present Value of Minimum Lease Payments.....	<u>\$ 399,972</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, 2016

NOTE 16 – COMMITMENTS (Continued):

(B) COMMITTED CONSTRUCTION:

As of June 30, 2016, 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, 2016</u>	<u>Estimated Cost to Complete</u>
West Plant Development	\$ 5,020,000	\$ 395,671	\$ 4,624,329
Electric Utility:			
Voltage and substation improvements, and line extensions	2,490,106	1,775,606	714,500
Fire Department Construction Project	598,000	507,210	90,790
New Alcoa High School	34,928,404	34,111,804	816,600
Springbrook Roundabout	250,000	16,517	233,483
Phase IV Greenway	73,000	53,919	19,081
Greenway Extension Grant	901,515	18,850	882,665
Pistol Creek Phase IV	139,000	135,177	3,823
Duck Pond Centennial Park	75,000	52,792	22,208
Totals.....	<u>\$44,475,025</u>	<u>\$ 37,067,546</u>	<u>\$ 7,407,479</u>

(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, 2016

NOTE 16 – 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, 2016:

Present Value of Minimum Lease Payments	<u>Interest</u>	Total Minimum Lease Payments
<u>\$ 9,142,400</u>	<u>\$ 6,213,260</u>	<u>\$ 15,355,660</u>

(Continued)

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 16 – COMMITMENTS (Continued):

(F) 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.

Present Value of Minimum Lease Payments	Interest	Communication Equipment: Total Minimum Lease Payments
<u>\$ 412,342</u>	<u>\$ 50,388</u>	<u>\$ 462,730</u>

These total minimum lease payments are payable as follows:

Year Ending June 30,	Civic Center	Communication Equipment
2017	\$ 605,100	\$ 92,546
2018	610,650	92,546
2019	605,525	92,546
2020	605,175	92,546
2021	604,375	92,546
Subtotal	<u>3,030,825</u>	<u>462,730</u>
2022 – 2026	3,027,100	92,547
2027 – 2031	3,029,075	-
2032 – 2036	3,032,625	-
2037 – 2038	<u>3,236,035</u>	<u>-</u>
Subtotal	<u>12,324,835</u>	
Total	<u>\$ 15,355,660</u>	<u>\$ 555,277</u>

(Continued)

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 17 – 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 18 – 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 19 – 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:

	Governmental Activities Net Investment <u>In Capital Assets</u>
Total Capital Assets	\$ 96,964,884
Long-Term Debt and Current Debt.....	(86,071,675)
Items in Long-Term Debt:	
Add – compensated absences.....	911,933
Civic Center debt.....	<u>6,500,000</u>
June 30, 2016	<u>\$ 18,305,142</u>

(Continued)

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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. Current year collections of \$328 represent restitution payments made through the court system.

NOTE 21 – SUBSEQUENT EVENTS:

The date to which events occurring after June 30, 2016, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosures is January 24, 2017, 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