

**CITY OF LAFOLLETTE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The management of the City of LaFollette (the "City"), has provided this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2019.

**Financial Highlights**

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$76,278,691.
- The City's total net position increased by \$1,028,991 from the results of its operations.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$4,008,724, a decrease of \$423,590. Approximately 82% of this total amount or \$3,301,779 is reported as unrestricted fund balances.
- At the end of the current fiscal year, unrestricted fund balance for the general fund was \$3,301,607, or approximately 40% of total general fund expenditures.
- The City's total debt decreased by \$3,606,666 during the current fiscal year.

**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 comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This discussion and analysis will focus on the primary government. The 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 financial information, in a manner similar to a private-sector business. Activities are considered either as those of the primary government (the government as legally defined) or those of the component unit (a legally separate entity for which the primary government is financially accountable).

The *statement of net position* presents information on all of the City's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator as to whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent 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 flow effects in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial 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 administration and finance, codes administration, police and fire protection, animal and infectious disease control, streets and highways and general public works, fleet maintenance, sanitation, and recreation center and library operations. The business-type activities of the City include the electric department, water department, and emergency communications district. The government-wide financial statements can be found on pages 1 through 3.

The government-wide financial statements include not only the City of LaFollette itself (the primary government), but also the legally separate component unit the City of LaFollette Emergency Communications District.

**Fund Financial Statements.** A fund is a grouping of related accounts that is 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 two categories: governmental funds and proprietary funds.

*Governmental Funds.* *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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 funds balance sheet and the governmental funds 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 five individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered to be a major fund. Data for the other four governmental funds is combined into a single, aggregated column. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining and individual fund schedules* on pages 55 through 60. The basic governmental fund financial statements can be found on pages 4 and 6.

*Proprietary Funds.* Enterprise funds are a type of proprietary fund 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 electric, water and wastewater operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the electric, water and wastewater operations, all of which are considered to be major enterprise funds of the City. The basic proprietary fund financial statements can be found on pages 16 through 20.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21 through 48.

**Other Required Information.** In addition to the basic financial statements and accompanying notes, this report also presents several schedules related to the pension plans and post-retirement benefits on pages 49 through 54 which is required supplementary information.

### **Government-Wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows exceeded liabilities and deferred inflows by \$76,278,691 at the close of the most recent fiscal year.

The largest portion of the City's net position reflects its net investment in capital assets (e.g., infrastructure, land, buildings, transmission and distribution facilities, machinery, and equipment), less accumulated depreciation and any related debt used to acquire those assets that is 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 used to liquidate these liabilities.

**City of Lafollette**  
**Condensed Statement of Net Position**  
**As of June 30, 2019 and 2018**

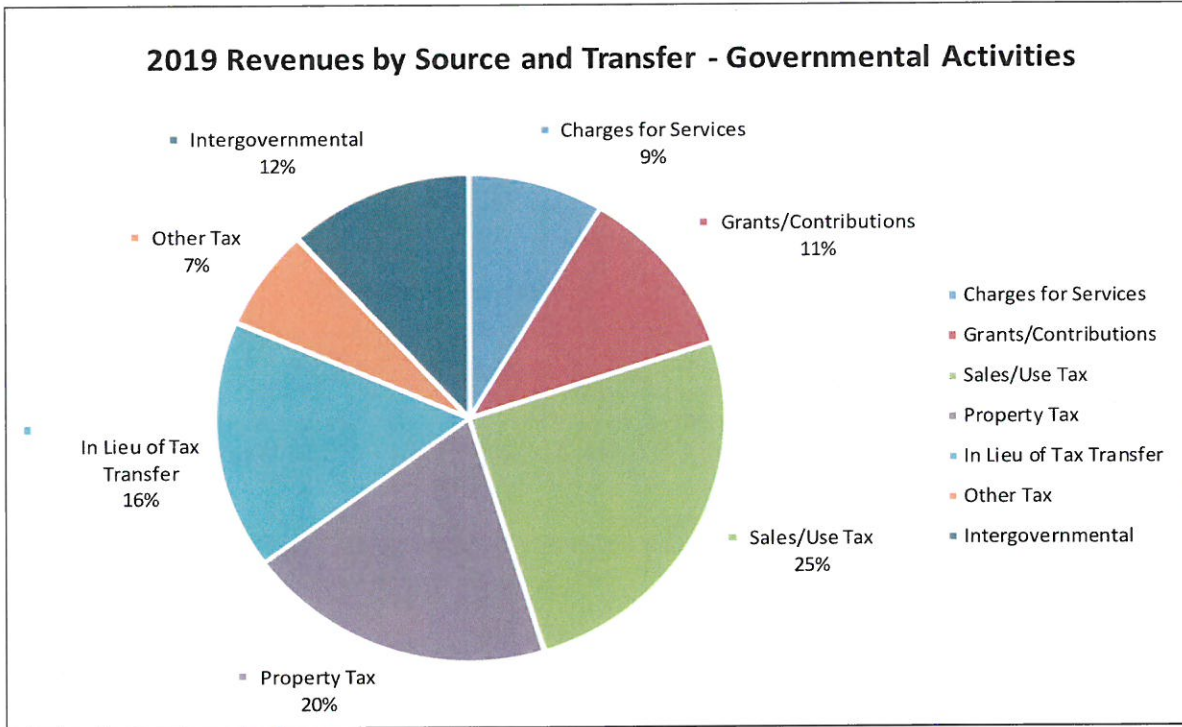
|   | Governmental Activities |               | Business-Type Activities |                | Total Primary Government |                |
|---|-------------------------|---------------|--------------------------|----------------|--------------------------|----------------|
|   | 2019                    | 2018          | 2019                     | 2018           | 2019                     | 2018           |
| <b>Assets</b>   |                         |               |                          |                |                          |                |
| Current Assets  | \$ 5,686,973            | \$ 5,949,774  | \$ 10,927,025            | \$ 11,495,757  | \$ 16,613,998            | \$ 17,445,531  |
| Restricted Assets   | 2,773,209               | 2,355,790     | 3,143,554                | 5,141,254      | 5,916,763                | 7,497,044      |
| Capital Assets, Net   | 10,540,662              | 10,473,655    | 103,086,240              | 102,724,222    | 113,626,902              | 113,197,877    |
| Total Assets  | 19,000,844              | 18,779,219    | 117,156,819              | 119,361,233    | 136,157,663              | 138,140,452    |
| <b>Deferred Outflows of Resources</b>                       | 638,564                 | 656,648       | 132,745                  | 155,102        | 771,309                  | 811,750        |
| <b>Total Assets and Deferred Outflows of Resources</b>      | \$ 19,639,408           | \$ 19,435,867 | \$ 117,289,564           | \$ 119,516,335 | \$ 136,928,972           | \$ 138,952,202 |
| <b>Liabilities, Deferred Inflows and Net Position</b>       |                         |               |                          |                |                          |                |
| <b>Liabilities</b>  |                         |               |                          |                |                          |                |
| Current Liabilities   | \$ 912,654              | \$ 766,568    | \$ 11,712,179            | \$ 11,439,689  | \$ 12,624,833            | \$ 12,206,257  |
| Long-Term Liabilities                                       | 2,712,685               | 3,051,559     | 40,867,366               | 44,611,420     | 43,580,051               | 47,662,979     |
| Total Liabilities   | 3,625,339               | 3,818,127     | 52,579,545               | 56,051,109     | 56,204,884               | 59,869,236     |
| <b>Deferred Inflows of Resources</b>                        | 4,403,236               | 3,815,679     | 42,161                   | 17,587         | 4,445,397                | 3,833,266      |
| <b>Net Position</b>   |                         |               |                          |                |                          |                |
| Net Investment in Capital Assets                            | 8,619,717               | 8,607,655     | 65,865,414               | 63,846,259     | 74,485,131               | 72,453,914     |
| Restricted  | 646,098                 | 542,923       | 0                        | 0              | 646,098                  | 542,923        |
| Unrestricted (Deficit)                                      | 2,345,018               | 2,651,483     | (1,197,556)              | (398,620)      | 1,147,462                | 2,252,863      |
| Total Net Position  | 11,610,833              | 11,802,061    | 64,667,858               | 63,447,639     | 76,278,691               | 75,249,700     |
| <b>Total Liabilities, Deferred Inflows and Net Position</b> | \$ 19,639,408           | \$ 19,435,867 | \$ 117,289,564           | \$ 119,516,335 | \$ 136,928,972           | \$ 138,952,202 |

Net investment in capital assets increased \$2,031,217 or approximately 2.80% in 2019 as principal repayments and purchases of new assets exceeded depreciation expense. A small portion of the City's net position (0.85%) represents resources that are subject to external restrictions on how they may be used. Restricted net position increased \$103,175 in the current fiscal year. Unrestricted net position in the governmental activities decreased \$306,465 as expenses exceeded revenues. The deficit in unrestricted net position in the business-type activities increased from \$398,620 to \$1,197,556.

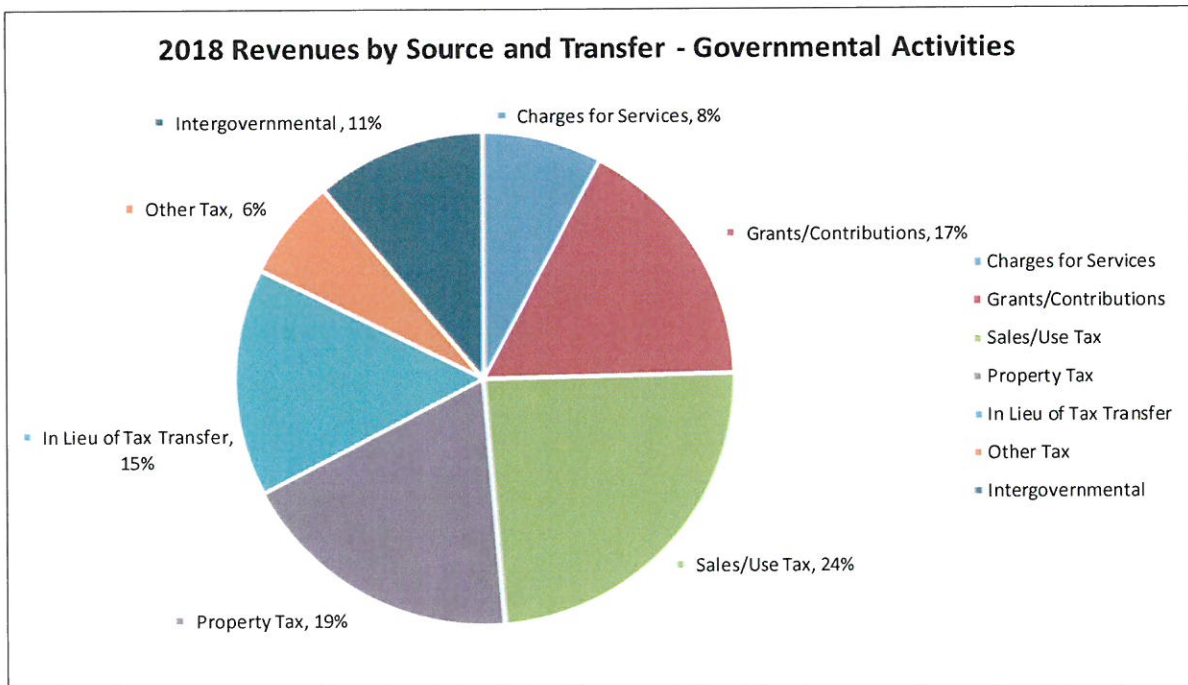
### City of LaFollette's Changes in Net Position

**Governmental Activities.** Governmental activities decreased the City's net position by \$191,228 in 2019. The decrease in net position from governmental activities in 2018 was \$1,309,235.

The following graphs show the revenues by source and transfers for the governmental activities (excluding interest income and other miscellaneous revenues):

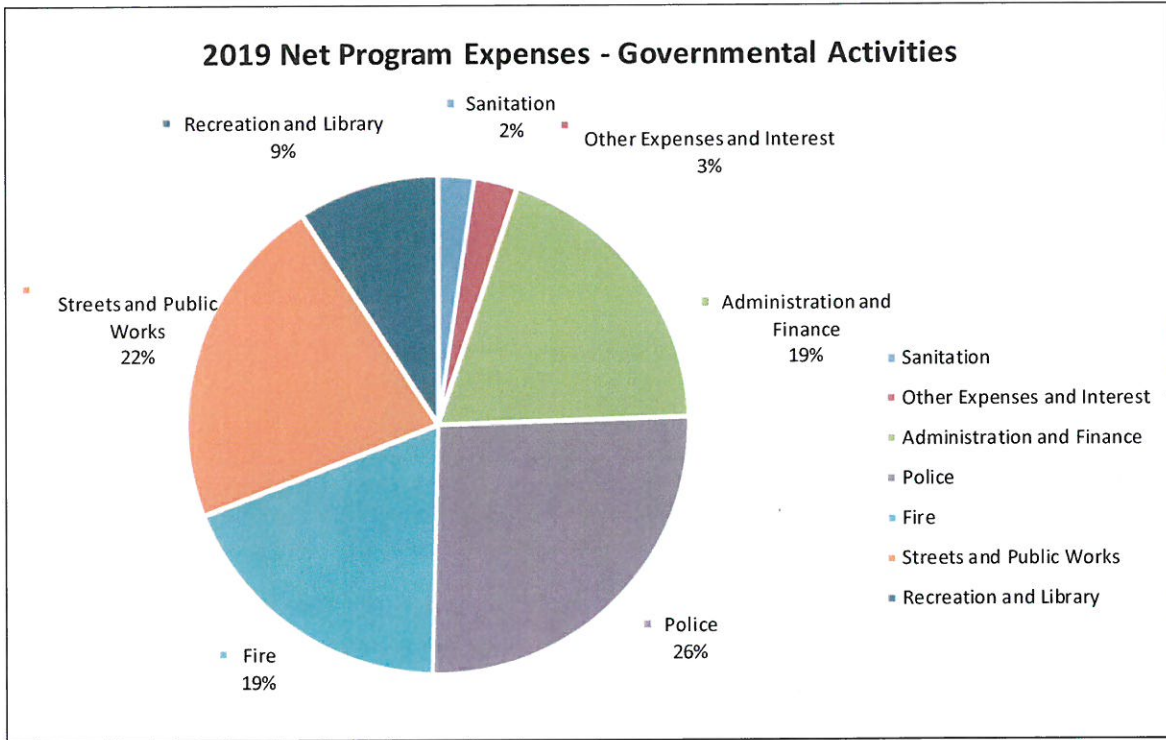


As seen in the chart above, during 2019, local sales and use taxes and property taxes (25% and 20%) represented the largest sources of revenue for the governmental activities, followed by the in lieu of tax transfer from the Electric Department 16%, intergovernmental 12%, grants and contributions 11%, charges for services 9%, and other taxes 7%.

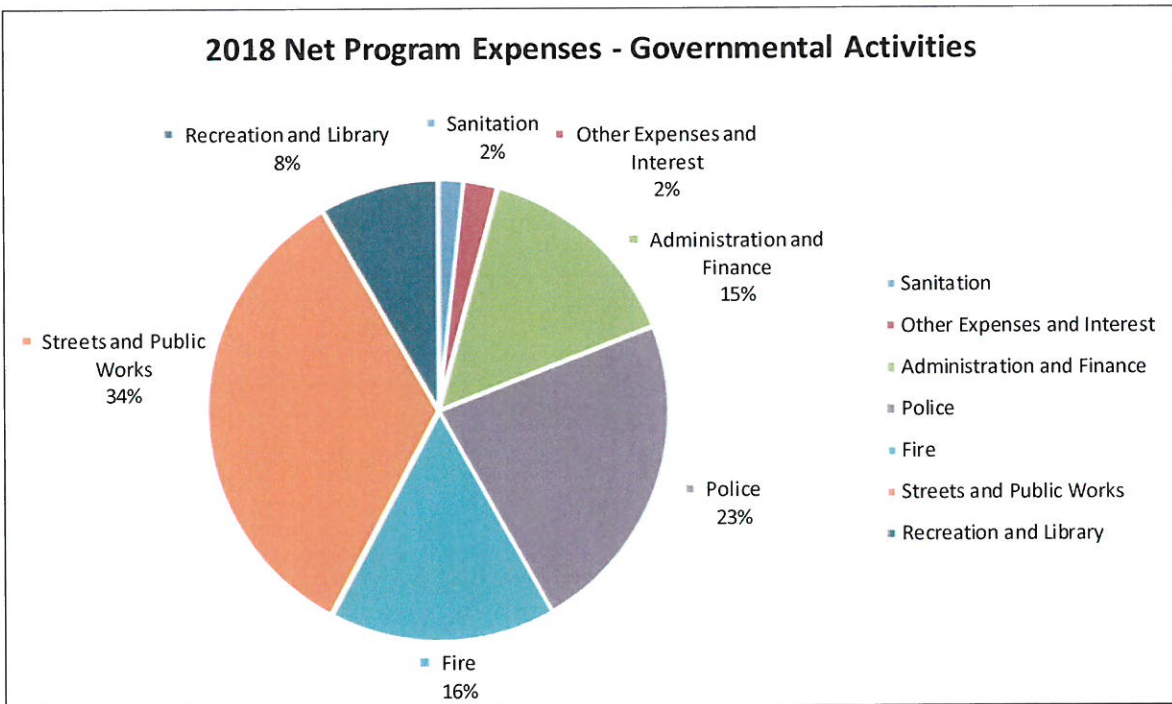


As seen in the chart above, during 2018, local sales and use taxes and property taxes (24% and 19%) represented the largest sources of revenue for the governmental activities, followed grants and contributions 17%, the in lieu of tax transfer from the Electric Department 15%, intergovernmental 11%, charges for services 8%, and other taxes 6%.

The following graphs show the net program expenses for the governmental activities:



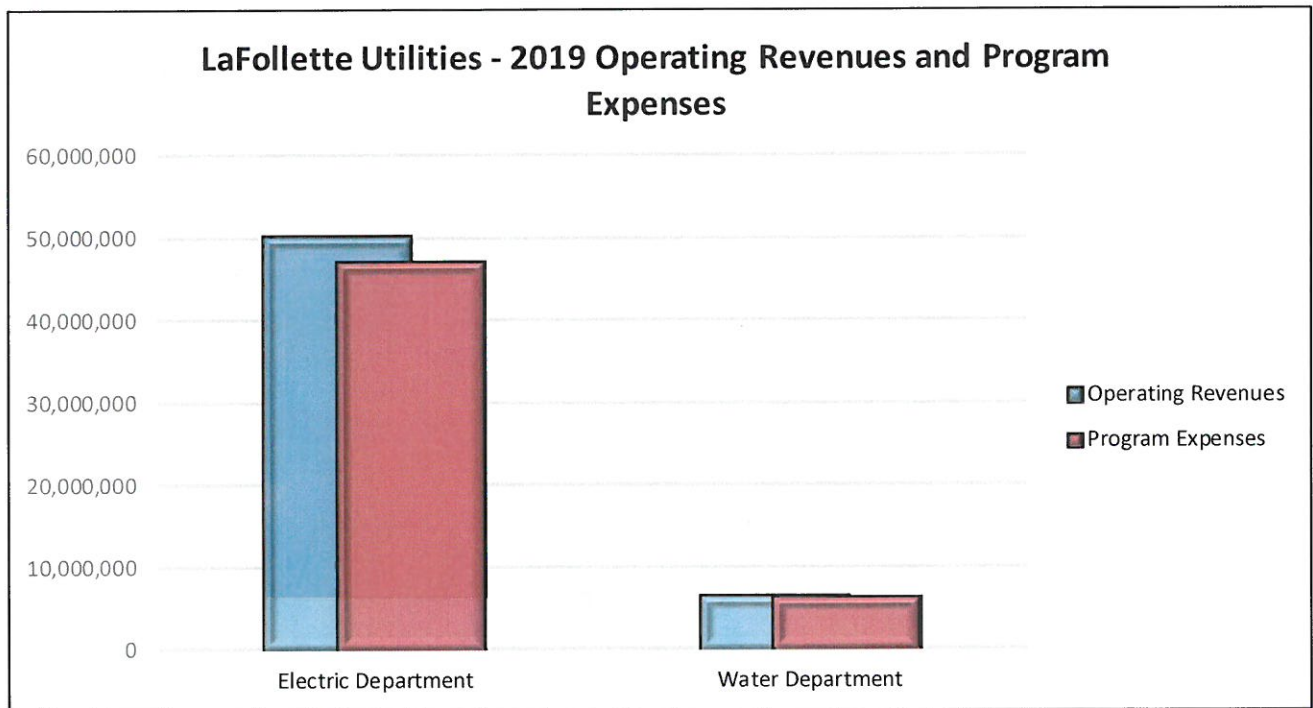
As seen in the chart above, in 2019 police protection expense comprise 26%, followed by streets and public works 22%, fire 19%, administration and finance 19%, recreation and library 9%, other expenses and interest at 3%, and sanitation 2%.



As seen in the chart above, in 2018 streets and public works net program expenses comprise 34%, followed by police 23%, fire 16%, administration and finance 15%, recreation and library 8%, sanitation 2%, and other expenses and interest at 2%.

**Business-Type Activities.** Business-type activities increased the City's net position by \$1,220,219 in the current year.

LaFollette Utilities, consisting of the Electric Department and the Water Department, provides electric, water, and wastewater services to customers in Campbell, Claiborne, and Union Counties. Operating revenues, consisting primarily of user charges for services rendered, exceeded program expenses for both departments, as shown in the following graph:



**Discretely Presented Component Unit.** Component units are legally separate organizations for which the primary government is financially accountable. The component unit for the City is City of LaFollette Emergency Communications District (the "District"). A summary of the City's component unit follows:

**District's Condensed Statement of Net Position as of June 30, 2019 and 2018**

|                                     | As of June 30,      |                     |
|-------------------------------------|---------------------|---------------------|
|                                     | 2019                | 2018                |
| <b>Assets</b>                       |                     |                     |
| Current Assets                      | \$ 786,467          | \$ 959,198          |
| Capital Assets, Net                 | 318,800             | 100,343             |
| Total Assets                        | <u>1,105,267</u>    | <u>1,059,541</u>    |
| <b>Liabilities and Net Position</b> |                     |                     |
| Current Liabilities                 | <u>8,348</u>        | <u>2,158</u>        |
| Net Position:                       |                     |                     |
| Investment in Capital Assets        | 318,800             | 100,343             |
| Unrestricted                        | 778,119             | 957,040             |
| Total Net Position                  | <u>1,096,919</u>    | <u>1,057,383</u>    |
| Total Liabilities and Net Position  | <u>\$ 1,105,267</u> | <u>\$ 1,059,541</u> |

District's Condensed Statement of Activities for the Years Ended June 30, 2019 and 2018

|                                  | For the Years Ended June 30, |              |
|----------------------------------|------------------------------|--------------|
|                                  | 2019                         | 2018         |
| Operating Revenues               | \$ 310,158                   | \$ 287,455   |
| Operating Expenses               | 290,419                      | 270,093      |
| Operating Income                 | 19,739                       | 17,362       |
| Nonoperating Revenues            | 20,323                       | 198,121      |
| Nonoperating Expenses            | 526                          | 0            |
| Nonoperating Income              | 19,797                       | 198,121      |
| Change in Net Position           | 39,536                       | 215,483      |
| Net Position - Beginning of Year | 1,057,383                    | 841,900      |
| Net Position - End of Year       | \$ 1,096,919                 | \$ 1,057,383 |

The District's operating revenues consist primarily of TECB distributions of surcharges and excess revenue. Operating expenses consist primarily of salaries and wages, contracted services, supplies and material, and depreciation.

**Financial Analysis of the Government's Funds**

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 useable resources. This information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At June 30, 2019, the City's governmental funds reported combined ending fund balances of \$4,008,724, a decrease of \$423,590. Approximately 82% of this total amount or \$3,301,779 constitutes unrestricted fund balances, which are available for use at the government's discretion and in accordance with appropriated budgeted amounts. The remainder of fund balance is either non-spendable, totaling \$24,141, consisting of gasoline inventory, or restricted, totaling \$682,804, to indicate that it is not available for use because it has already been restricted to the funding of activities generally in certain special revenue funds.

The general fund is the chief operating fund of the City. At June 30, 2019, unrestricted fund balance of the general fund was \$3,301,607. As a measure of the general fund's liquidity, it may be useful to compare unrestricted fund balance to total fund revenues. The Government Finance Officers Association recommends that general-purpose governments maintain unrestricted fund balances in the general fund of no less than 5% to 15% of regular general fund operating revenues. Unrestricted fund balance represents approximately 43% of total general fund revenues.

The fund balance of the City's general fund decreased by \$525,820 during the current fiscal year.

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

Unrestricted net position of the Electric Department and Water Department Funds at the end of the year amounted to a deficit of \$1,197,556. The Electric Department and Water Department continue to minimize their borrowings and use net position to fund capital assets. The total increase in net position for the Electric Department was \$1,126,755, and the total increase for the Water Department was \$93,464. Other factors concerning these funds have already been addressed in the discussion of the business-type activities.

## General Fund Budgetary Highlights

Differences between the original budget and the final amended budget totaled a net increase in appropriations of \$488,065 and can be briefly summarized as follows:

- Appropriated an additional \$253,955 for administration and finance to fund additional insurance costs, contributions, and additional personnel costs.
- Appropriated an additional \$33,768 primarily for police protection for additional capital outlay not anticipated in original budgeting.
- Appropriated an additional \$42,917 primarily for fire protection capital outlay.
- Appropriated an additional \$137,435 for streets and highways and general public works to fund additional capital outlay and personnel costs not anticipated at the beginning of the year.

Differences between the final amended budget and actual revenues totaled a net unfavorable variance of \$3,691,740 and can be briefly summarized as follows:

- Sales taxes received were more than budget by \$18,088 due to increased consumer spending.
- Grant revenue and contributions were less than budget by \$3,758,212 primarily due to delays in start-up of the Dossett Lane Bridge Project.

Differences between the final amended budget and actual expenditures totaled a net favorable variance of \$4,932,702 and can be briefly summarized as follows:

- Administration and finance expenditures were less than budget by \$636,338 due to appropriated expenditures budgeted but not spent.
- Police protection expenditures were less than budget by \$295,605 due to salaries and benefits and additional expenses budgeted but not spent.
- Fire protection expenditures were less than budget by \$73,767 due to salaries and benefits and additional expenses budgeted but not spent.
- Streets and highways and general public works expenditures were less than budget by \$3,848,096 primarily due to the Dossett Lane Bridge project being delayed.
- Recreation center and library expenditures were less than budgeted by \$50,442 due to appropriated expenditures budgeted but not spent.

## Capital Asset and Debt Administration

**Capital Assets.** The City's investment in capital assets for its governmental and business-type activities as of the current year end amounts to \$113,626,902 (net of accumulated depreciation). This investment in capital assets includes infrastructure, land and land rights, structures and improvements, poles, towers, transmission and distribution mains, street lighting systems, distribution reservoirs and standpipes, service installations, buildings, improvements, equipment, furniture, fixtures, and vehicles. The total increase in the City's net capital assets for the current fiscal year was approximately \$429,025.

Major capital asset events for governmental activities during the current fiscal year include various equipment purchases totaling \$325,747 and vehicle purchases totaling \$462,388.



Capital assets, net of depreciation, as of June 30, 2019 and 2018 is as follows:

|   | Governmental Activities |                      | Business-Type Activities |                       | Total Primary Government |                       |
|---|-------------------------|----------------------|--------------------------|-----------------------|--------------------------|-----------------------|
|   | 2019                    | 2018                 | 2019                     | 2018                  | 2019                     | 2018                  |
| Land and Land Rights                    | \$ 601,634              | \$ 601,634           | \$ 1,244,883             | \$ 1,244,883          | \$ 1,846,517             | \$ 1,846,517          |
| Land Improvements                       | 951,566                 | 951,566              | 0                        | 0                     | 951,566                  | 951,566               |
| Governmental Buildings and Improvements | 3,590,025               | 3,590,025            | 0                        | 0                     | 3,590,025                | 3,590,025             |
| Equipment, Furniture, and Fixtures      | 6,440,801               | 5,660,666            | 39,080,168               | 38,939,525            | 45,520,969               | 44,600,191            |
| Infrastructure                          | 14,813,327              | 14,723,873           | 0                        | 0                     | 14,813,327               | 14,723,873            |
| Structures and Improvements             | 0                       | 0                    | 22,659,102               | 22,414,577            | 22,659,102               | 22,414,577            |
| Poles, Towers and Transmission Assets   | 0                       | 0                    | 86,598,589               | 84,372,662            | 86,598,589               | 84,372,662            |
| Street Lighting Systems                 | 0                       | 0                    | 4,283,371                | 4,145,152             | 4,283,371                | 4,145,152             |
| Distribution Reservoirs and Standpipes  | 0                       | 0                    | 2,390,701                | 2,390,701             | 2,390,701                | 2,390,701             |
| Transmission and Distribution Mains     | 0                       | 0                    | 30,071,443               | 29,864,761            | 30,071,443               | 29,864,761            |
| Service Installations                   | 0                       | 0                    | 7,486,303                | 7,267,461             | 7,486,303                | 7,267,461             |
| Construction in Progress                | 327,366                 | 266,081              | 2,240,763                | 622,288               | 2,568,129                | 888,369               |
| Accumulated Depreciation                | (16,184,057)            | (15,320,190)         | (92,969,083)             | (88,537,788)          | (109,153,140)            | (103,857,978)         |
|   | <u>\$ 10,540,662</u>    | <u>\$ 10,473,655</u> | <u>\$ 103,086,240</u>    | <u>\$ 102,724,222</u> | <u>\$ 113,626,902</u>    | <u>\$ 113,197,877</u> |

Additional information on the City's capital assets can be found in Note 4 on pages 30 through 32.

**Long-Term Debt.** At the end of the current fiscal year, the City had total debt outstanding of \$42,278,551. Of this amount, \$40,276,931 is owed on general obligation bonds and notes. Most of the remaining debt (\$1,649,675) represents revenue and tax bonds and notes. The City's long-term debt as of June 30, 2019 and 2018 is as follows:

|                                    | Governmental Activities |                     | Business-Type Activities |                      | Total Primary Government |                      |
|------------------------------------|-------------------------|---------------------|--------------------------|----------------------|--------------------------|----------------------|
|                                    | 2019                    | 2018                | 2019                     | 2018                 | 2019                     | 2018                 |
| General Obligation Bonds and Notes | \$ 1,569,000            | \$ 1,866,000        | \$ 38,707,931            | \$ 42,336,768        | \$ 40,276,931            | \$ 44,202,768        |
| Revenue and Tax Bonds and Notes    | 0                       | 0                   | 1,649,675                | 1,682,449            | 1,649,675                | 1,682,449            |
| Capital Lease Obligations          | 351,945                 | 0                   | 0                        | 0                    | 351,945                  | 0                    |
| Total                              | <u>\$ 1,920,945</u>     | <u>\$ 1,866,000</u> | <u>\$ 40,357,606</u>     | <u>\$ 44,019,217</u> | <u>\$ 42,278,551</u>     | <u>\$ 45,885,217</u> |

The City's total debt decreased by \$3,606,666 during the current fiscal year as principal payments have been made.

Additional information on the City's long-term debt can be found in Note 5 on pages 32 through 37.

### Next Year's Budgets

The general fund revenue estimates for next year are projected basically at a growth rate of 1%. Using this revenue estimate as a guide, the general fund budget was prepared by funding the necessary operating needs of the various departments. The City does not anticipate purchasing any new major equipment for City departments.

The Electric Department is not expected to add very many new electric customers over the course of the next fiscal year. Capital improvement plans are being developed for projects to be completed over the next 5 fiscal years.

In August 2019, the Board renegotiated its power supply contract with Tennessee Valley Authority (TVA), which included changing the terms from a 10-year to a 20-year rolling termination date.

In October 2019, the City approved the issuance of general obligation refunding bonds for the Board, totaling \$15,100,000, of which \$13,150,000 will be for the Electric Department. The serial bonds will bear interest at rates from 1.35% to 2.10% and have a final maturity of 2031. These funds will be used to refinance all of the variable rate loans payable to the Public Building Authorities of the City of Clarksville, TN and the County of Montgomery, Tennessee and to finance capital projects.

The Water Department is not expected to add very many new water and wastewater customers over the course of the next fiscal year. Charges for both services will be closely monitored, with changes in rates being recommended as circumstances may dictate. The Water Department will implement a \$1.63 per month increase in wastewater minimum bill charge beginning July 1, 2019, in addition to a \$0.55 per thousand gallon increase in the wastewater volume charge.

In October 2019, the City approved the issuance of general obligation refunding bonds for the Board, totaling \$15,100,000, of which \$1,950,000 will be for the Water Department. The serial bonds will bear interest at rates from 1.35% to 2.10% and have a final maturity of 2031. These funds will be used to refinance all of the variable rate loans payable to the Public Building Authorities of the City of Clarksville, TN and the County of Montgomery, Tennessee and to finance capital projects.

No other facts, decisions, or conditions are currently known which would have a significant impact on the City's financial position or results of operations during fiscal year 2020.

### **Requests for Additional Information**

This financial report is designed to provide a general overview of the City's financial information. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of LaFollette, Office of the City Administrator, 207 South Tennessee Avenue, LaFollette, Tennessee, 37766.

The Electric Department and Water Department also issue separate audited financial statements. Additional information regarding these proprietary funds can be obtained by contacting the General Manager at 302 North Tennessee Avenue, LaFollette, Tennessee 37766. The Emergency Communication District also issues separate audited financial statements and additional information can be obtained by sending a request to the City of LaFollette, Office of the City Administrator, 207 South Tennessee Avenue, LaFollette, Tennessee 37766.