

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, 2020.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$78,522,809.
- The City's total net position increased by \$2,244,118 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 \$4,406,807, an increase of \$398,083. Approximately 84% of this total amount or \$3,688,991 is reported as unrestricted fund balances.
- At the end of the current fiscal year, unrestricted fund balance for the general fund was \$3,688,765, or approximately 49% of total general fund expenditures.
- The City's total debt decreased by \$1,778,729 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 \$78,522,809 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, 2020 and 2019

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2020	2019	2020	2019	2020	2019
Assets						
Current Assets	\$ 6,207,517	\$ 5,686,973	\$ 11,066,221	\$ 10,927,025	\$ 17,273,738	\$ 16,613,998
Restricted Assets	3,150,659	2,773,209	1,728,547	3,143,554	4,879,206	5,916,763
Capital Assets, Net	10,195,738	10,540,662	104,647,276	103,086,240	114,843,014	113,626,902
Total Assets	<u>19,553,914</u>	<u>19,000,844</u>	<u>117,442,044</u>	<u>117,156,819</u>	<u>136,995,958</u>	<u>136,157,663</u>
Deferred Outflows of Resources	<u>816,874</u>	<u>638,564</u>	<u>335,809</u>	<u>132,745</u>	<u>1,152,683</u>	<u>771,309</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 20,370,788</u>	<u>\$ 19,639,408</u>	<u>\$ 117,777,853</u>	<u>\$ 117,289,564</u>	<u>\$ 138,148,641</u>	<u>\$ 136,928,972</u>
Liabilities, Deferred Inflows and Net Position						
Liabilities						
Current Liabilities	\$ 867,790	\$ 912,654	\$ 11,449,412	\$ 11,712,179	\$ 12,317,202	\$ 12,624,833
Long-Term Liabilities	2,620,851	2,712,685	39,770,488	40,867,366	42,391,339	43,580,051
Total Liabilities	<u>3,488,641</u>	<u>3,625,339</u>	<u>51,219,900</u>	<u>52,579,545</u>	<u>54,708,541</u>	<u>56,204,884</u>
Deferred Inflows of Resources	<u>4,880,665</u>	<u>4,403,236</u>	<u>36,626</u>	<u>42,161</u>	<u>4,917,291</u>	<u>4,445,397</u>
Net Position						
Net Investment in Capital Assets	8,638,404	8,619,717	67,410,921	65,865,414	76,049,325	74,485,131
Restricted	750,528	646,098	0	0	750,528	646,098
Unrestricted (Deficit)	2,612,550	2,345,018	(889,594)	(1,197,556)	1,722,956	1,147,462
Total Net Position	<u>12,001,482</u>	<u>11,610,833</u>	<u>66,521,327</u>	<u>64,667,858</u>	<u>78,522,809</u>	<u>76,278,691</u>
Total Liabilities, Deferred Inflows and Net Position	<u>\$ 20,370,788</u>	<u>\$ 19,639,408</u>	<u>\$ 117,777,853</u>	<u>\$ 117,289,564</u>	<u>\$ 138,148,641</u>	<u>\$ 136,928,972</u>

Net investment in capital assets for governmental activities increased \$18,687 or approximately 0.20% in 2020 as principal repayments and purchases of new assets exceeded depreciation expense. A small portion of the City's net position (6.30%) represents resources that are subject to external restrictions on how they may be used. Restricted net position increased \$104,430 in the current fiscal year. Unrestricted net position in the governmental activities increased \$267,532 as revenues exceeded expenses. The deficit in unrestricted net position in the business-type activities decreased from \$1,197,556 to \$889,594.

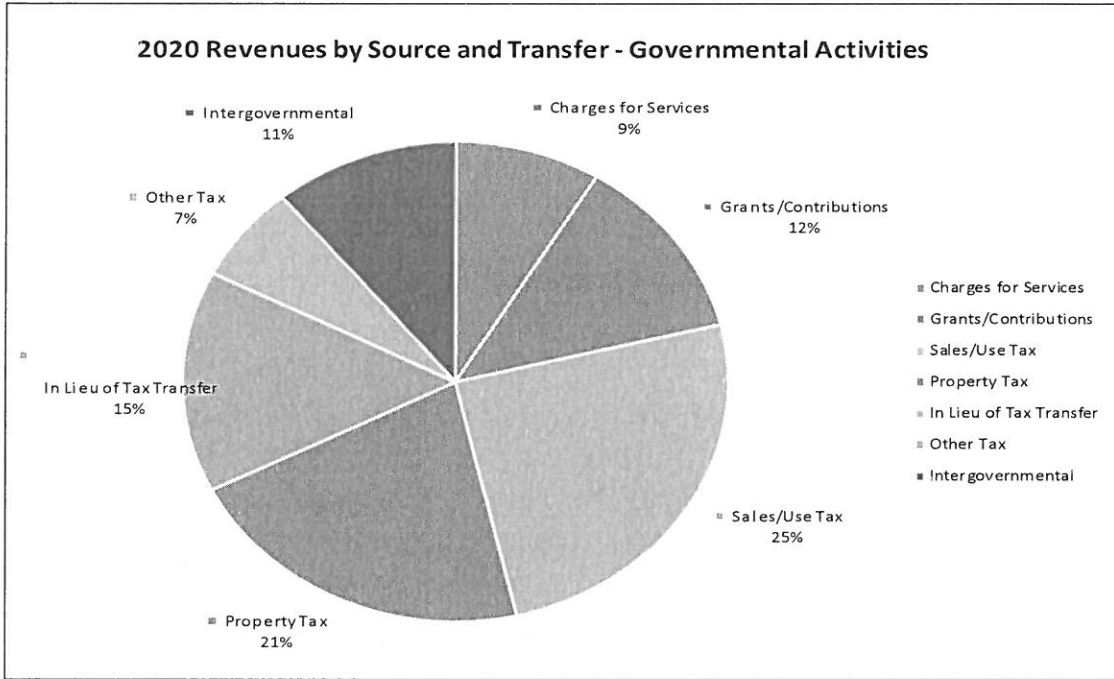
City of LaFollette
Condensed Statement of Activities
As of June 30, 2020 and 2019

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Revenues:						
Program Revenues:						
Charges for Services	\$ 726,432	\$ 672,421	\$ 55,148,347	\$ 57,086,934	\$ 55,874,779	\$ 57,759,355
Operating Grants and Contributions	285,101	274,050	0	0	285,101	274,050
Capital Grants and Contributions	761,111	631,808	0	0	761,111	631,808
General Revenues:						
Property Taxes	1,779,702	1,545,597	0	0	1,779,702	1,545,597
Other Taxes	2,654,242	2,506,287	0	0	2,654,242	2,506,287
Intergovernmental Revenues	926,816	919,521	0	0	926,816	919,521
Interest	52,859	48,452	70,594	142,331	123,453	190,783
Miscellaneous Other Revenues	290,955	323,522	0	0	290,955	323,522
Total Revenues	<u>7,477,218</u>	<u>6,921,658</u>	<u>55,218,941</u>	<u>57,229,265</u>	<u>62,696,159</u>	<u>64,150,923</u>
Program Expenses:						
Administration and Finance	1,414,850	1,624,413	0	0	1,414,850	1,624,413
Codes Administration	89,194	6,353	0	0	89,194	6,353
Police Protection	2,103,709	2,180,055	0	0	2,103,709	2,180,055
Fire Protection	1,709,098	1,569,108	0	0	1,709,098	1,569,108
Animal and Infectious Disease Control	6,532	87,966	0	0	6,532	87,966
Streets and Highways and General Public Works	1,893,803	1,835,104	0	0	1,893,803	1,835,104
Fleet Maintenance	91,082	91,263	0	0	91,082	91,263
Sanitation	207,097	196,971	0	0	207,097	196,971
Recreation Center and Library	769,039	761,955	0	0	769,039	761,955
Interest on Long-Term Debt	51,465	53,173	0	0	51,465	53,173
Electric Department	0	0	45,805,440	48,011,887	45,805,440	48,011,887
Water Department	0	0	6,835,732	6,703,684	6,835,732	6,703,684
Total Program Expenses	<u>8,335,869</u>	<u>8,406,361</u>	<u>52,641,172</u>	<u>54,715,571</u>	<u>60,977,041</u>	<u>63,121,932</u>
Transfers:						
In Lieu of Taxes	<u>1,249,300</u>	<u>1,293,475</u>	<u>(1,249,300)</u>	<u>(1,293,475)</u>	<u>0</u>	<u>0</u>
Capital Contributions	<u>0</u>	<u>0</u>	<u>525,000</u>	<u>0</u>	<u>525,000</u>	<u>0</u>
Change in Net Position	390,649	(191,228)	1,853,469	1,220,219	2,244,118	1,028,991
Net Position - Beginning of Year	<u>11,610,833</u>	<u>11,802,061</u>	<u>64,667,858</u>	<u>63,447,639</u>	<u>76,278,691</u>	<u>75,249,700</u>
Net Position - End of Year	<u>\$ 12,001,482</u>	<u>\$ 11,610,833</u>	<u>\$ 66,521,327</u>	<u>\$ 64,667,858</u>	<u>\$ 78,522,809</u>	<u>\$ 76,278,691</u>

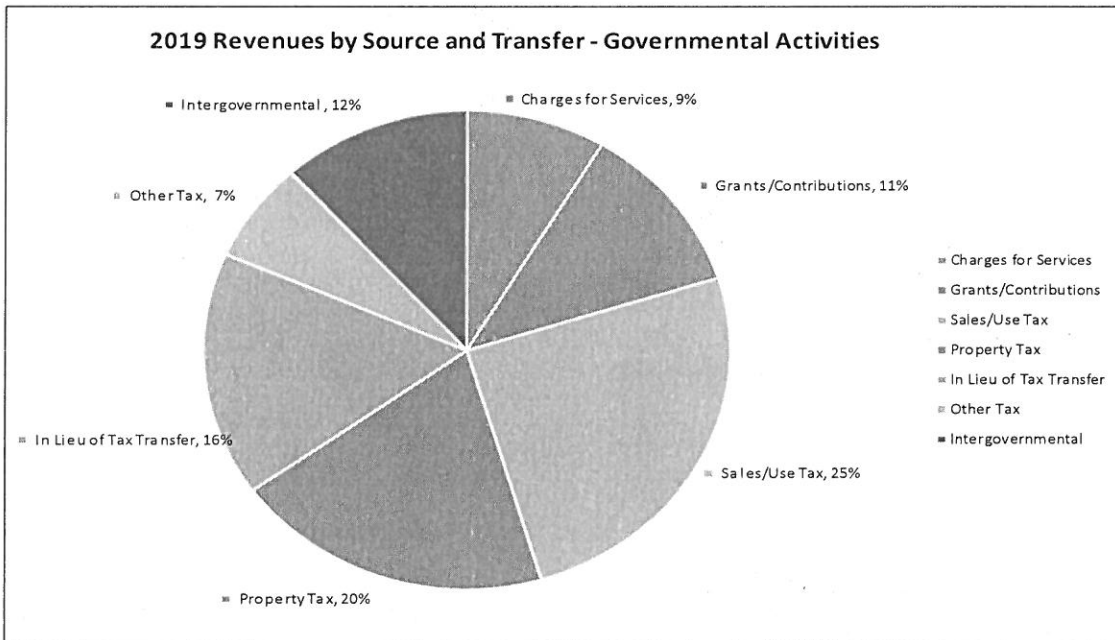
City of LaFollette's Changes in Net Position

Governmental Activities. Governmental activities increased the City's net position by \$390,649 in 2020. The decrease in net position from governmental activities in 2019 was \$191,228.

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

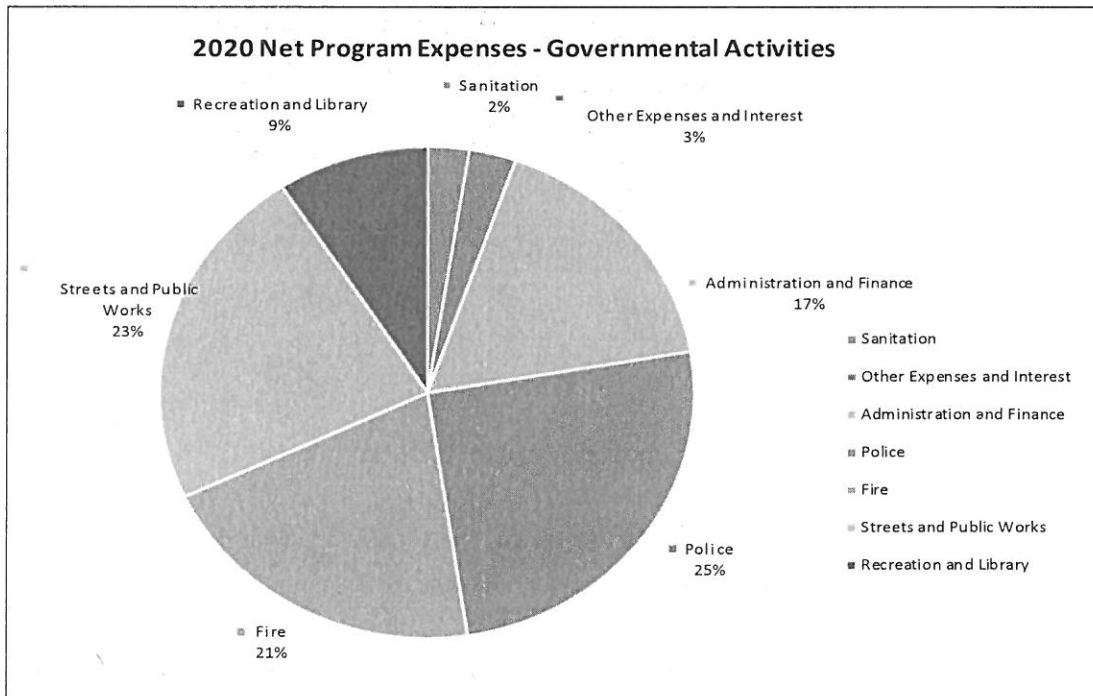


As seen in the chart above, during 2020, local sales and use taxes and property taxes (25% and 21%) represented the largest sources of revenue for the governmental activities, followed by the in lieu of tax transfer from the Electric Department 15%, intergovernmental 11%, charges for services 9%, other taxes 7%, and grants and contributions 12%.

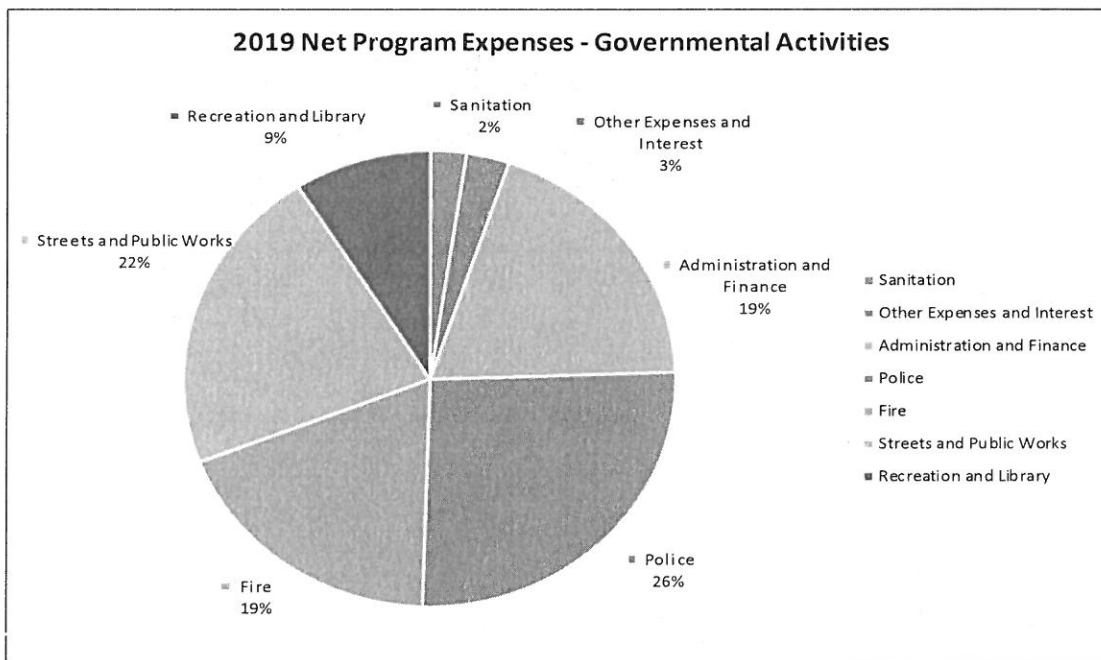


As seen in the chart above, during 2019, local sales and use taxes and property taxes (25% and 20%) represented the largest sources of revenue for the governmental activities, followed by the in lieu of tax transfer from the Electric Department 16%, intergovernmental 12%, grants and contributions 11%,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

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



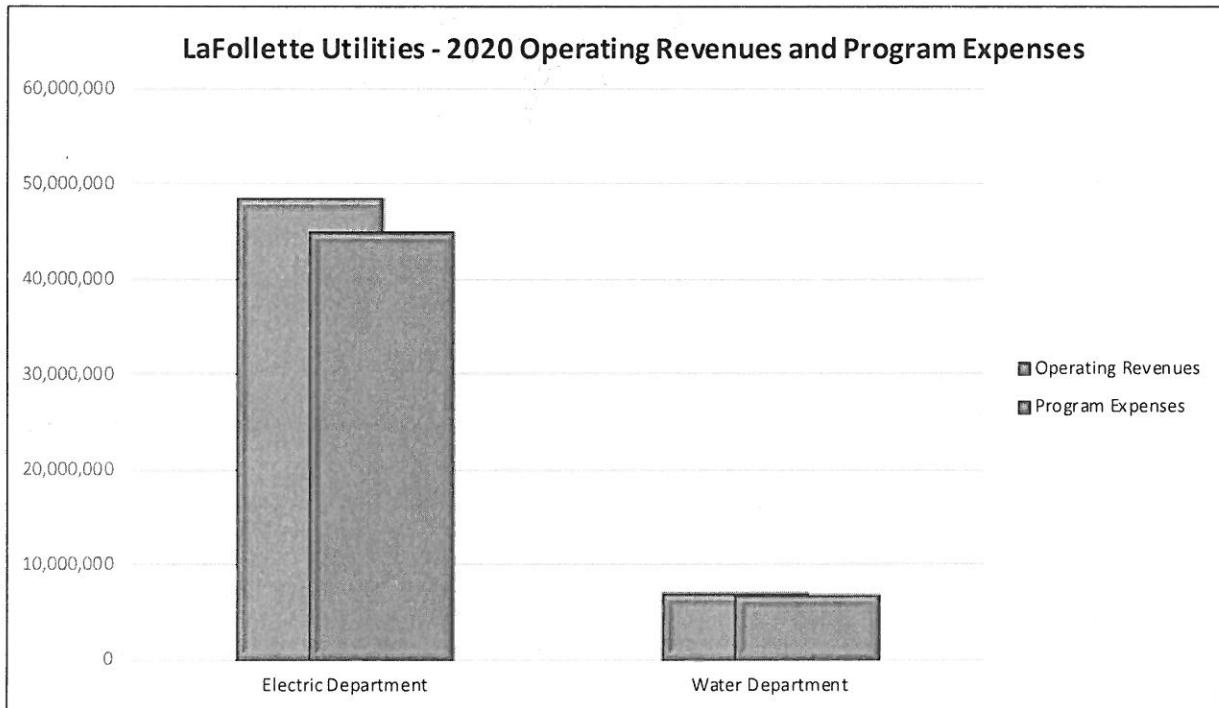
As seen in the chart above, in 2020 police protection expense comprise 25%, followed by streets and public works 23%, fire 21%, administration and finance 17%, recreation and library 9%, other expenses and interest at 3%, and sanitation 2%.



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%.

Business-Type Activities. Business-type activities increased the City's net position by \$1,853,469 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, 2020 and 2019

	As of June 30,	
	2020	2019
Assets		
Current Assets	\$ 582,346	\$ 786,467
Capital Assets, Net	481,401	318,800
Total Assets	<u>\$ 1,063,747</u>	<u>\$ 1,105,267</u>
Liabilities and Net Position		
Current Liabilities	\$ 1,873	\$ 8,348
Net Position:		
Investment in Capital Assets	481,401	318,800
Unrestricted	580,473	778,119
Total Net Position	<u>1,061,874</u>	<u>1,096,919</u>
Total Liabilities and Net Position	<u>\$ 1,063,747</u>	<u>\$ 1,105,267</u>

District's Condensed Statement of Activities for the Years Ended June 30, 2020 and 2019

	For the Years Ended June 30,	
	2020	2019
Operating Revenues	\$ 285,104	\$ 310,158
Operating Expenses	333,379	290,419
Operating Income	(48,275)	19,739
Nonoperating Revenues	13,230	20,323
Nonoperating Expenses	0	526
Nonoperating Income	13,230	19,797
Change in Net Position	(35,045)	39,536
Net Position - Beginning of Year	1,096,919	1,057,383
Net Position - End of Year	\$ 1,061,874	\$ 1,096,919

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, 2020, the City's governmental funds reported combined ending fund balances of \$4,406,807, an increase of \$398,083. Approximately 84% of this total amount or \$3,688,991 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 \$16,695, consisting of gasoline inventory, or restricted, totaling \$701,121, 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, 2020, unrestricted fund balance of the general fund was \$3,688,765. 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 55% of total general fund revenues.

The fund balance of the City's general fund increased by \$390,452 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 \$889,594. 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 \$1,333,247, and the total increase for the Water Department was \$520,222. 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 \$280,921 and can be briefly summarized as follows:

- Appropriated an additional \$60,222 for administration and finance to fund additional insurance costs.
- Appropriated an additional \$107,049 primarily for fire protection repairs and maintenance, personnel costs and to fund additional capital outlay not anticipated in original budgeting.
- Appropriated an additional \$80,114 for streets and highways and general public works to fund additional capital outlay and repairs and maintenance not anticipated at the beginning of the year.

Differences between the final amended budget and actual revenues totaled a net unfavorable variance of \$4,334,411 and can be briefly summarized as follows:

- Grant revenue and contributions were less than budget by \$4,499,153 primarily due to delays in start-up of construction of the Dossett Lane Bridge Project caused by certain properties to be acquired from land owners to continue the project.

Differences between the final amended budget and actual expenditures totaled a net favorable variance of \$5,961,332 and can be briefly summarized as follows:

- Administration and finance expenditures were less than budget by \$553,142 due to appropriated expenditures budgeted but not spent.
- Police protection expenditures were less than budget by \$258,483 due to salaries and benefits and additional expenses budgeted but not spent.
- Fire protection expenditures were less than budget by \$148,282 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 \$4,893,280 primarily due to the Dossett Lane Bridge project being delayed.
- Recreation center and library expenditures were less than budgeted by \$71,387 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 \$114,843,014 (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 \$1,216,112.

Major capital asset events for governmental activities during the current fiscal year include various infrastructure purchases totaling \$24,950 and building and improvement purchases totaling \$21,216.

Capital assets, net of depreciation, as of June 30, 2020 and 2019 is as follows:

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2020	2019	2020	2019	2020	2019
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	3,611,241	3,590,025	0	0	3,611,241	3,590,025
Equipment, Furniture, and Fixtures	6,342,933	6,440,801	42,289,581	39,080,168	48,632,514	45,520,969
Infrastructure	14,838,277	14,813,327	0	0	14,838,277	14,813,327
Structures and Improvements	0	0	23,363,715	22,659,102	23,363,715	22,659,102
Poles, Towers and Transmission Assets	0	0	88,553,013	86,598,589	88,553,013	86,598,589
Street Lighting Systems	0	0	4,601,456	4,283,371	4,601,456	4,283,371
Distribution Reservoirs and Standpipes	0	0	2,465,689	2,390,701	2,465,689	2,390,701
Transmission and Distribution Mains	0	0	30,078,371	30,071,443	30,078,371	30,071,443
Service Installations	0	0	7,704,612	7,486,303	7,704,612	7,486,303
Construction in Progress	736,009	327,366	1,569,328	2,240,763	2,305,337	2,568,129
Accumulated Depreciation	(16,885,922)	(16,184,057)	(97,223,372)	(92,969,083)	(114,109,294)	(109,153,140)
	<u>\$ 10,195,738</u>	<u>\$ 10,540,662</u>	<u>\$ 104,647,276</u>	<u>\$ 103,086,240</u>	<u>\$ 114,843,014</u>	<u>\$ 113,626,902</u>

Additional information on the City's capital assets can be found in Note 4 on pages 29 through 31.

Long-Term Debt. At the end of the current fiscal year, the City had total debt outstanding of \$40,499,822. Of this amount, \$38,589,415 is owed on general obligation bonds and notes. Most of the remaining debt (\$1,616,073) represents revenue and tax bonds and notes. The City's long-term debt as of June 30, 2020 and 2019 is as follows:

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2020	2019	2020	2019	2020	2019
General Obligation Bonds and Notes	\$ 1,263,000	\$ 1,569,000	\$ 37,326,415	\$ 38,707,931	\$ 38,589,415	\$ 40,276,931
Revenue and Tax Bonds and Notes	0	0	1,616,073	1,649,675	1,616,073	1,649,675
Capital Lease Obligations	294,334	351,945	0	0	294,334	351,945
Total	<u>\$ 1,557,334</u>	<u>\$ 1,920,945</u>	<u>\$ 38,942,488</u>	<u>\$ 40,357,606</u>	<u>\$ 40,499,822</u>	<u>\$ 42,278,551</u>

The City's total debt decreased by \$1,778,729 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 31 through 36.

Next Year's Budgets

The general fund revenue estimates for next year are projected basically at a growth rate of 2%. 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 anticipates purchasing four new police vehicles with equipment, and a new mower for the Recreation Department.

The City also anticipates closing a new Capital Outlay Note in the amount of \$1,500,000 to purchase additional equipment for the departments and road and street improvements.

The Electric Department isn't 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.

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.

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 2021.

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.