

CITY OF ALCOA, TENNESSEE
City of Alcoa Utilities
Division of Power
ELECTRIC UTILITY
Alcoa, Tennessee

FINANCIAL STATEMENTS

June 30, 2019 and 2018

CITY OF ALCOA, TENNESSEE
City of Alcoa Utilities
Division of Power
ELECTRIC UTILITY
Alcoa, Tennessee
June 30, 2019 and 2018

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Whitlock & Company, P.C.

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

City of Alcoa, Tennessee
City of Alcoa Utilities
Division of Power
Electric Utility
Alcoa, Tennessee

Report on the Financial Statement

We have audited the accompanying financial statements of the City of Alcoa Utilities - Division of Power, Electric Utility, a proprietary fund of the City of Alcoa, Tennessee, as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements which collectively comprise the utilities 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 of 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 City of Alcoa Utilities – Division of Power, Electric Utility, as of June 30, 2019 and 2018, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information on pages 28 through 33 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 an opinion on the financial statements as a whole. The schedules listed in the table of contents under Supplemental Information (pages 34 through 42) are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2019, on our consideration of the City of Alcoa Utilities' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 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 Utilities' – Division of Power, Electric Utility's internal control over financial reporting and compliance.

Emphasis of Matter

As disclosed in Note 1, the financial statements present only the City of Alcoa Utilities – Division of Power, Electric Utility and do not purport to, and do not, present fairly the financial position of the City of Alcoa, Tennessee as of June 30, 2019 and 2018, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Whitlock & Company, P C

Alcoa, Tennessee
October 25, 2019

CITY OF ALCOA, TENNESSEE
City of Alcoa Utilities
 Division of Power
 ELECTRIC UTILITY
 Alcoa, Tennessee
 STATEMENTS OF NET POSITION
 June 30, 2019 and 2018

ASSETS	<u>2019</u>	<u>2018</u>
CAPITAL ASSETS:		
Electric plant in service - at cost	\$ 92,855,335	\$ 89,299,181
Construction work in progress	<u>1,423,166</u>	<u>2,292,903</u>
	94,278,501	91,592,084
Less: Accumulated depreciation	<u>(42,034,996)</u>	<u>(39,228,843)</u>
Net Capital Assets	<u>52,243,505</u>	<u>52,363,241</u>
CURRENT ASSETS:		
Cash.....	4,324,843	6,759,380
Cash investments.....	2,086,803	43,828
Accounts receivable - Less provision for doubtful accounts of \$314,476 at June 30, 2019 and \$322,751 at June 30, 2018.....	5,841,066	6,459,561
Accounts receivable - Pole rentals	390,838	345,525
Materials and supplies at average cost	1,394,154	994,519
Prepaid TVA Power Invoice Program	<u>4,093,387</u>	<u>4,027,038</u>
Total Current Assets.....	<u>18,131,091</u>	<u>18,629,851</u>
NON-CURRENT ASSETS:		
Receivables from customers for conservation loans	<u>841,079</u>	<u>1,137,310</u>
TOTAL ASSETS	<u>71,215,675</u>	<u>72,130,402</u>
DEFERRED OUTFLOWS OF RESOURCES:		
Pension contributions after measurement date.....	890,296	929,833
Pension changes in experience.....	377,003	428,657
Pension changes in investment earnings	14,511	137,225
Pension changes in assumption.....	151,592	176,671
Deferred charges – bond regulatory cost	<u>316,639</u>	<u>343,026</u>
Total Deferred Outflows of Resources.....	<u>1,750,041</u>	<u>2,015,412</u>

See accompanying independent auditors' report and notes.

(Continued)

CITY OF ALCOA, TENNESSEE
City of Alcoa Utilities
Division of Power
ELECTRIC UTILITY
Alcoa, Tennessee
STATEMENTS OF NET POSITION (Continued)
June 30, 2019 and 2018

LIABILITIES	<u>2019</u>	<u>2018</u>
NON-CURRENT TERM LIABILITIES:		
Compensated absences.....	\$ 94,250	\$ 39,224
Revenue bonds payable.....	13,285,000	14,215,000
Deferred credits.....	292,590	294,399
Conservation – TVA.....	892,408	1,280,780
Net OPEB liability.....	1,408,009	-
Net Pension liability.....	<u>3,868,337</u>	<u>4,082,229</u>
 Total Non-Current Liabilities.....	 <u>19,840,594</u>	 <u>19,911,632</u>
 CURRENT LIABILITIES:		
Accounts payable.....	11,220,867	11,441,670
Customer deposits.....	2,518,189	2,341,168
Accrued payroll.....	173,118	166,712
Accrued rentals.....	79,549	401,942
Miscellaneous payables.....	8,580	4,171
Compensated absences.....	353,090	319,542
Revenue bonds payable.....	<u>930,000</u>	<u>895,000</u>
 Total Current Liabilities.....	 <u>15,283,393</u>	 <u>15,570,205</u>
 TOTAL LIABILITIES.....	 <u>35,123,987</u>	 <u>35,481,837</u>
 DEFERRED INFLOWS OF RESOURCES:		
Pension changes in experience.....	37,302	8,810
Pension changes in assumption.....	128,298	128,298
Pension changes in investment earnings.....	<u>-</u>	<u>5,801</u>
Total Deferred Inflows of Resources.....	<u>165,600</u>	<u>142,909</u>
 NET POSITION:		
Net investment in capital assets.....	38,028,506	37,253,241
Unrestricted Position (Deficit).....	<u>(352,377)</u>	<u>1,267,827</u>
 TOTAL NET POSITION.....	 <u>\$ 37,676,129</u>	 <u>\$ 38,521,068</u>

See accompanying independent auditors' report and notes.

CITY OF ALCOA, TENNESSEE
City of Alcoa Utilities
Division of Power
ELECTRIC UTILITY
Alcoa, Tennessee
STATEMENTS OF REVENUES, EXPENSES AND
CHANGE IN NET POSITION
For the Fiscal Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
OPERATING REVENUE:		
Sale of Electric Energy:		
Residential - Non-farm	\$ 42,526,095	\$ 41,679,234
Small lighting and power sales	6,002,078	5,602,771
Large lighting and power sales	17,664,739	17,587,089
Street and outdoor lighting	1,141,480	1,140,322
Consumer forfeited discounts	450,286	449,333
Rent from electric property	1,144,306	604,070
Miscellaneous service revenue	351,570	359,114
Other electric revenue	191,135	77,994
Total Operating Revenue	<u>69,471,689</u>	<u>67,499,927</u>
PURCHASED POWER.....	<u>52,459,507</u>	<u>52,272,561</u>
OPERATING EXPENSES:		
Distribution expense	1,975,289	1,455,152
Customer accounts expense	1,589,690	1,422,540
Customer services and informational	20,710	20,401
Sales expense	62,891	57,784
Administrative and general expense	<u>3,448,141</u>	<u>3,014,470</u>
Total Operating Expenses	<u>7,096,721</u>	<u>5,970,347</u>
MAINTENANCE EXPENSE:		
Transmission expense	126,328	120,348
Distribution expense	4,125,984	2,816,194
Administrative and general expense	<u>40,034</u>	<u>23,703</u>
Total Maintenance Expense	<u>4,292,346</u>	<u>2,960,245</u>
OTHER OPERATING EXPENSE:		
Depreciation expense	2,981,293	2,792,803
Taxes and tax equivalents	<u>1,712,767</u>	<u>1,665,638</u>
Total Other Operating Expense	<u>4,694,060</u>	<u>4,458,441</u>
TOTAL PURCHASED POWER AND OPERATING EXPENSES...	<u>68,542,634</u>	<u>65,661,594</u>

See accompanying independent auditors' report and notes.

(Continued)

CITY OF ALCOA, TENNESSEE
City of Alcoa Utilities
Division of Power
ELECTRIC UTILITY
Alcoa, Tennessee
STATEMENTS OF REVENUES, EXPENSES AND
CHANGE IN NET POSITION (Continued)
For the Fiscal Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
OPERATING INCOME	929,055	1,838,333
INTEREST INCOME ON INVESTMENTS	83,120	23,786
	<u>1,012,175</u>	<u>1,862,119</u>
INTEREST EXPENSE:		
Interest on long-term debt	(400,064)	(300,587)
Amortization of long-term debt regulatory expense	(26,387)	(26,387)
Total Interest Expense	<u>(426,451)</u>	<u>(326,974)</u>
OTHER INCOME (EXPENSE):		
State of TN – Unclaimed property returned.....	2,650	-
Gain (loss) on sale of fixed assets	-	2,258
Total Other Income (Expense)	<u>2,650</u>	<u>2,258</u>
Change in Net Position	<u>588,374</u>	<u>1,537,403</u>
Net Position, Beginning of Year, as previously reported.....	38,521,068	40,022,422
Prior Period Adjustment (Note 9)	<u>(1,433,313)</u>	<u>(3,038,757)</u>
Net Position, Beginning of Year, as restated	<u>37,087,755</u>	<u>36,983,665</u>
NET POSITION – END OF YEAR	<u>\$ 37,676,129</u>	<u>\$ 38,521,068</u>

See accompanying independent auditors' report and notes.

CITY OF ALCOA, TENNESSEE
City of Alcoa Utilities
Division of Power
ELECTRIC UTILITY
Alcoa, Tennessee
STATEMENTS OF CASH FLOWS
For the Fiscal Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 70,044,870	\$ 65,888,718
Cash payments to suppliers for goods and services	(60,132,966)	(55,410,436)
Cash payments to employees for services	(4,362,269)	(4,105,580)
Payment of taxes and tax equivalents	<u>(1,712,767)</u>	<u>(1,665,638)</u>
Net Cash Flows From Operating Activities	<u>3,836,868</u>	<u>4,707,064</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Customer deposits	177,021	299,102
Conservation - TVA	296,231	(442,990)
Principal paid on bonds/notes	(895,000)	(840,000)
Interest paid on bonds/notes	(423,801)	(300,587)
Deferred credits	(1,809)	70,133
Pension deferral	-	(380,669)
Acquisition and construction of capital assets	(3,075,820)	(2,522,008)
Removal costs of fixed assets	-	47,181
Conservation loans	(388,372)	456,433
Other income	<u>-</u>	<u>2,258</u>
Net Cash Flows From Capital and Related Financing Activities	<u>(4,311,550)</u>	<u>(3,611,147)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest and dividends on investments	<u>83,120</u>	<u>23,786</u>
Net Cash Flows From Investing Activities	<u>83,120</u>	<u>23,786</u>

See accompanying independent auditors' report and notes.

(Continued)

CITY OF ALCOA, TENNESSEE
City of Alcoa Utilities
Division of Power
ELECTRIC UTILITY
Alcoa, Tennessee
STATEMENTS OF CASH FLOWS (Continued)
For the Fiscal Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....	(391,562)	1,119,703
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	<u>6,803,208</u>	<u>5,683,505</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	<u>\$ 6,411,646</u>	<u>\$ 6,803,208</u>
 Operating Income.....	 <u>\$ 929,055</u>	 <u>\$ 1,838,333</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	3,195,556	3,010,594
Pension deferrals/obligations	74,170	
Post-employment benefit deferrals/obligations	(25,304)	
Changes in assets and liabilities:		
Poles rental	(45,313)	(134,522)
Accounts receivable.....	618,495	(1,142,822)
Prepaid expenses	(66,349)	(267,363)
Inventory.....	(399,635)	(66,502)
Accounts payable.....	(220,803)	1,373,601
Accrued rentals	(322,393)	161,158
Accrued payroll	6,406	(73,271)
Miscellaneous Payables.....	4,409	(1,228)
Compensated Absences	<u>88,574</u>	<u>9,086</u>
Total Adjustments.....	<u>2,907,813</u>	<u>2,868,731</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>\$ 3,836,868</u>	 <u>\$ 4,707,064</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
City of Alcoa Utilities
 Division of Power
ELECTRIC UTILITY
 Alcoa, Tennessee
NOTES TO FINANCIAL STATEMENTS
 June 30, 2019 and 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Financial Reporting Entity:

The City of Alcoa Utilities - Division of Power, Electric Utility, is a municipal system created under State of Tennessee Statutes - Tennessee Public Acts of 1935 and Private Act - Chapter 309 - 1980. The Utility is engaged in the distribution of electrical energy in the area which it serves. The Utility is a proprietary fund of the City of Alcoa, Tennessee, and is managed by the Alcoa City Commission, which also exercises control over a Water and Sewer Department.

Basis of Accounting:

The accounting policies of the City of Alcoa Utilities - Division of Power, Electric Utility are in conformity with all applicable statements of the Governmental Accounting Standards Board. The following is a summary of the more significant policies:

The Utility uses the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the related liability is incurred, except for unbilled revenues at year-end not being reflected in the accounts. This treatment is consistent with preceding years and is recommended by the Tennessee Valley Authority.

Net Position:

Net Position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Accounts Receivable and Unbilled Revenues:

During 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 occurs 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.

CITY OF ALCOA, TENNESSEE
City of Alcoa Utilities
Division of Power
ELECTRIC UTILITY
Alcoa, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

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

Accounts Receivable and Unbilled Revenues (Continued):

In accordance with accounting regulations of the Tennessee Valley Authority, the Utilities' approximate unbilled revenues at June 30, 2019 and June 30, 2018, are as follows:

	<u>2019</u>	<u>2018</u>
Electric Utility Fund.....	\$ 1,848,455	\$ 1,916,692
Water and Sewer Utility Fund.....	<u>425,229</u>	<u>419,542</u>
Total.....	<u>\$ 2,273,684</u>	<u>\$ 2,336,234</u>

Investments:

Investments consist of certificates of deposit and savings accounts stated at cost.

Restricted Assets:

The Utility, based on certain bond covenants, is required to establish and maintain prescribed amounts of resources (consisting of cash and temporary investments) that can be used only to service outstanding debt.

Inventory:

Materials and supplies inventories of the Utility are maintained by a perpetual inventory accounting system and are valued using the average cost method based upon the first-in, first-out method. Physical inventories are conducted annually.

Utility Capital Assets:

The additions, renewals, and betterments to the utility capital assets are capitalized at cost, which includes labor, materials, other direct costs, and an allocation of some indirect costs. The original costs of retirements plus the cost of removal, less salvage, are charged to the depreciation reserve. Depreciation has been provided using the straight-line method. Provision for depreciation amounted to \$3,195,557 for the year ended June 30, 2019 and \$3,010,594 for the year ended June 30, 2018. Of these amounts, \$214,264 and \$217,791 were charged to transportation expense for the years of 2019 and 2018, respectively. Depreciation rates are primarily two (2) to twelve (12) percent for the distribution plant and two (2) to ten (10) percent for the general plant.

(Continued)

CITY OF ALCOA, TENNESSEE
City of Alcoa Utilities
Division of Power
ELECTRIC UTILITY
Alcoa, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

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

Compensated Absences:

The City of Alcoa employees are granted vacation and sick leave in varying amounts. Vacation is generally granted for periods ranging from two (2) to five (5) weeks based on the number of years employed. 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 eligibility. Any sick leave over 80 days is added to the employee's service time at retirement. If an employee terminates prior to attaining the normal retirement age, the accumulated sick leave is forfeited.

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.

The Utility's accounting and reporting for compensated absences complies with Governmental Accounting Standards Board (GASB) Statement No. 16 – Accounting for Compensated Absences. The Utility uses the termination payment method to calculate the liability related to compensated absences for sick leave. Compensated absences for vacation leave are recorded as a liability when earned by employees – based on services performed and the probability of payment in a future period.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

Pensions:

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 Utility's participation in the Public Employee Retirement Plan and Hybrid w/o Cc of the Tennessee Consolidated Retirement System (TCRS), and additions to/deductions from the Utility's fiduciary net position and Hybrid W/O Cc, have been determined on the same basis as they are reported by the TCRS for the Public Employee Retirement Plan. 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. Investments are reported at fair value.

(Continued)

CITY OF ALCOA, TENNESSEE
City of Alcoa Utilities
Division of Power
ELECTRIC UTILITY
Alcoa, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 2 – CASH AND INVESTMENTS:

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

- (1) Bonds, notes, or treasury bills of the United States;
- (2) Non-convertible debt securities of certain issuers;
- (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) 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;
- (6) 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
- (7) The Local Government Investment Pool under which local monies are transferred to and invested with the State Treasurer's cash portfolio.

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.

Total cash and savings at a carrying amount of \$6,411,646 at June 30, 2019 and 2018, are classified as follows:

<u>Type</u>	<u>Amount</u>	
	<u>2019</u>	<u>2018</u>
Petty cash	\$ 3,300	\$ 3,300
Local financial institutions -		
Checking accounts	4,321,543	6,756,000
TVA:		
Savings.....	<u>2,086,803</u>	<u>43,828</u>
Total	<u>\$ 6,411,646</u>	<u>\$ 6,803,208</u>

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.

(Continued)

CITY OF ALCOA, TENNESSEE
City of Alcoa Utilities
Division of Power
ELECTRIC UTILITY
Alcoa, Tennessee
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 2 – CASH AND INVESTMENTS: (Continued)

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

NOTE 3 – PUBLIC IMPROVEMENT BONDS ISSUED:

In August 2009, the City of Alcoa issued \$77,370,000 Local Government Public Improvement Bonds Series E-5-B (Electric Utility portion was \$21,340,000 used to retire all Electric Utility debt and finance the Utility's portion of the City of Alcoa Service Center.) The Utility's total \$21,340,000 issue principal has maturity dates beginning June 1, 2010 through June 1, 2031 in amounts ranging from \$235,000 to \$1,010,000 with an average interest coupon rate of five (5) percent.

Future maturities are as follows:

Fiscal Year Ending June 30	Total	Bond	Interest
2020	\$ 1,640,750	\$ 930,000	\$ 710,750
2021	1,649,250	985,000	664,250
2022	1,650,000	1,035,000	615,000
2023	1,648,250	1,085,000	563,250
2024	<u>1,644,000</u>	<u>1,135,000</u>	<u>509,000</u>
Subtotal	<u>8,232,250</u>	<u>5,170,000</u>	<u>3,062,250</u>
2025	1,637,250	1,185,000	452,250
2026	1,628,000	1,235,000	393,000
2027	1,641,250	1,310,000	331,250
2028	1,625,750	1,360,000	265,750
2029	<u>1,632,750</u>	<u>1,435,000</u>	<u>197,750</u>
Subtotal	<u>8,165,000</u>	<u>6,525,000</u>	<u>1,640,000</u>
2030	1,636,000	1,510,000	126,000
2031	<u>1,060,500</u>	<u>1,010,000</u>	<u>50,500</u>
Subtotal	<u>2,696,500</u>	<u>2,520,000</u>	<u>176,500</u>
Total	<u>\$ 19,093,750</u>	<u>\$ 14,215,000</u>	<u>\$ 4,878,750</u>

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NOTE 4 – CONTRACT WITH TENNESSEE VALLEY AUTHORITY:

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 the event of customer default, the Utility does not have loss exposure.

NOTE 5 – EMPLOYEES' RETIREMENT PLANS:

City of Alcoa Employees' Retirement Plan:

The City of Alcoa has a retirement plan known as the City of Alcoa Employees' Retirement System. The plan was established January 1, 1955. All full-time employees employed at least 30 hours per week and hired before May 18, 2000 are members of the plan. Employees hired after May 18, 2000 can participate in the TN Consolidated Retirement System (TCRS). The plan is managed by a Board of Trustees with the First Tennessee Bank, Memphis, Tennessee, as agent for the Trustees. The City has no beneficial interest in the trust fund and no funds are ever to revert to the City.

The actuarial valuation method is the entry age normal method. An actuarial valuation is done every two (2) years with the last valuation performed as of June 30, 2018. Based on the June 30, 2018 actuarial valuation, the Utility has an unfunded pension benefit obligation of \$3,083,794.

The Utility expended \$431,211 in 2019 for employee pensions and benefits.

Changes in investment earnings, actuarial assumptions and contributions subsequent to the measurement date of June 30, 2018, resulted in net deferred outflows of resources of \$197,419 and net deferred inflows of resources of \$37,289 as of June 30, 2019.

Tennessee Consolidated Retirement Plan:

Plan Description:

Employees of the Utility, as a fund 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. The 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.

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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.

Tennessee Consolidated Retirement Plan (Continued):

Benefits Provided (Continued):

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.

Employees Covered by Benefit Terms:

At the measurement date of June 30, 2018, the following employees (of the City as a whole) were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	69
Inactive employees entitled to but not yet receiving benefits	121
Active employees	<u>217</u>
Total	<u><u>407</u></u>

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NOTE 5 – EMPLOYEES' RETIREMENT PLANS (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 Utility makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2019, employer contributions for the Utility were \$435,664 based on a rate of 16.26% of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept Alcoa's state shared 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 Utility's net pension liability (asset) was measured as of June 30, 2018, and the total pension liability used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date.

Tennessee Consolidated Retirement Plan (Continued):

Actuarial assumptions:

The total pension liability as of June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Salary increases	Graded salary ranges from 8.72 to 3.44 percent based on age, including inflation, averaging 4.00 percent
Investment rate of return	7.25 percent, net of pension plan investment expenses, including inflation
Cost-of-Living Adjustment	2.25 percent

Mortality rates were based on actual experience including an adjustment for some anticipated improvement.

The actuarial assumptions used in the June 30, 2018 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012 through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

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NOTE 5 – EMPLOYEES' RETIREMENT PLANS (Continued):

Changes of assumptions.

In 2017, the following assumptions were changed: decreased inflation rate from 3.00 percent to 2.50 percent; decreased the investment rate of return from 7.50 percent to 7.25 percent; decreased the cost-of-living adjustment from 2.50 percent to 2.25 percent; decreased salary growth graded ranges from an average of 4.25 percent to an average of 4.00 percent; and modified mortality assumptions.

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, 2016 actuarial experience study. A blend of future capital market projections and historical market returns were used in a building block method in which a best-estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best estimates are combined to produce 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 expected inflation of 2.5 percent.

Tennessee Consolidated Retirement Plan (Continued):

Net Pension Liability (Asset) (Continued)

Actuarial assumptions (Continued):

The best estimates of geometric real rates of return and the TCRS investment policy target asset allocation 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	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real estate	4.32%	10%
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 7.25 percent based on a blending of the three factors described above.

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NOTE 5 – EMPLOYEES' RETIREMENT PLANS (Continued):

Discount rate:

The discount rate used to measure the total pension liability was 7.25 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 Utility 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.

Tennessee Consolidated Retirement Plan (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, 2017	<u>\$ 9,266,158</u>	<u>\$ 8,466,265</u>	<u>\$ 799,893</u>
Changes for the year:			
Service cost	305,066	-	305,066
Interest	1,015,639	-	1,015,639
Differences between expected and actual experience	(52,810)	-	(52,810)
Change in assumptions	-	-	-
Contributions – employer	-	623,722	(623,722)
Contributions - employees	-	-	-
Net investment income	-	670,331	(670,331)
Benefit payments, including refunds of employee contributions	(391,924)	(391,924)	-
Administrative expense	-	(6,828)	6,828
Net Changes	<u>875,971</u>	<u>895,301</u>	<u>(19,330)</u>
Balance at June 30, 2018	<u>\$ 10,142,129</u>	<u>\$ 9,361,566</u>	<u>\$ 780,563</u>

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NOTE 5 – EMPLOYEES' RETIREMENT PLANS (Continued):

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

The following presents the net pension liability (asset) of the Utility calculated using the discount rate of 7.25 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 (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1% Decrease <u>(6.25%)</u>	Current Discount Rate (7.25%)	1% Increase <u>(8.25%)</u>
The Utility's net pension liability (asset)	\$ 2,603,767	\$ 780,563	\$ 890,542

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

Pension expense:

For the year ended June 30, 2019, The Utility recognized pension expense of \$435,664.

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

Deferred outflows of resources and deferred inflows of resources:

For the year ended June 30, 2019, The Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Differences between expected and actual experience	\$ 509,956	\$ 56,137
Net difference between projected and actual earnings on pension plan investments	-	71,239
Change in assumptions	226,147	-
Contributions subsequent to the measurement date of June 30, 2018	<u>435,664</u>	<u>-</u>
Total	<u>\$1,171,767</u>	<u>\$ 127,376</u>

The amount shown above for "Contributions subsequent to the measurement date of June 30, 2018," will be recognized as a reduction to net pension liability in the following measurement period.

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NOTE 5 – EMPLOYEES' RETIREMENT PLANS (Continued):

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:		
2020	\$	193,784
2021		105,218
2022		1,695
2023		88,084
2024		115,855
Thereafter		539,755

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

Payable to the Pension Plan.

At June 30, 2019, Alcoa Utility reported no payables outstanding to the pension plan.

Tennessee Consolidated Retirement Plan – Hybrid W/O Cc

General Information about the Pension Plan

Plan description. Employees of the Utility's Hybrid W/O Cc, 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 states statute under Tennessee Code Annotated, Title 8, Chapters 34 – 37. The 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 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. Reduced benefits for early retirement are available at age 60 and vested or pursuant to the rule of 80 in which the member's age and service credit total 80. 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 retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

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NOTE 5 – EMPLOYEES' RETIREMENT PLANS (Continued):

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 benefits. 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.

Employees covered by benefit terms. At the measurement date of June 30, 2018, the following employees (of the City as a whole) were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	-
Inactive employees entitled to but not yet receiving benefits	6
Active employees	<u>76</u>
	<u><u>82</u></u>

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. Alcoa's Utility Hybrid W/O Cc, makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2018, the employer contributions for Alcoa Utility's Hybrid W/O Cc, were \$28,172 based on a rate of 6.01 percent of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept Alcoa Utility's W/O Cc, state shared taxes if required employer contributions are not remitted. The employer's ADC and member contributions are expected to finance the cost of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Liability (Asset)

Alcoa's Utility Hybrid W/O Cc, net pension liability (asset) was measured as of June 30, 2018, and the total pension liability used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date.

Actuarial assumptions. The total pension liability as of June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Salary increases	Graded salary ranges from 8.72 to 3.44 percent based on age, including inflation, averaging 4.00 percent
Investment rate of return	7.25 percent, net of pension plan investment expenses, including inflation
Cost-of-Living Adjustment	2.25 percent

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NOTE 5 – EMPLOYEES' RETIREMENT PLANS (Continued):

Tennessee Consolidated Retirement Plan – Hybrid w/o Cc (Continued)

Mortality rates were based on actual experience including an adjustment for some anticipated improvement.

The actuarial assumptions used in the June 30, 2018 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012 through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

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, 2016 actuarial experience study. A blend of future capital market projections and historical market returns was used in a building-block method in which best-estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best-estimates are combined to produce 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 2.5 percent. The best-estimates of geometric real rates of return and the TCRS investment policy target asset allocation 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	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real estate	4.32%	10%
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 7.25 percent based on a blending of the three factors described above.

Discount rate. The discount rate used to measure the total pension liability was 7.25 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 Alcoa Utility's W/O Cc, 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.

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NOTE 5 – EMPLOYEES’ RETIREMENT PLANS (Continued):

Tennessee Consolidated Retirement Plan – Hybrid w/o Cc (Continued)

Changes in the Net Pension Liability (Asset)

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) – (b)
Balance at June 30, 2017	\$ 32,033	\$ 30,793	\$ 1,240
Changes for the year:			
Service cost	25,746	-	25,746
Interest	4,912	-	4,912
Differences between expected and actual experience	-	-	-
Changes in assumption	10,373	-	10,373
Contributions – employer	-	35,436	(35,436)
Contributions – employees	-	-	-
Net investment income	-	4,756	(4,756)
Benefit payments, including refunds of employee contributions	-	-	-
Administrative expense	-	(1,901)	1,901
Other changes	-	-	-
Net changes	<u>41,031</u>	<u>38,291</u>	<u>2,740</u>
Balance at June 30, 2018	<u>\$ 73,064</u>	<u>\$ 69,084</u>	<u>\$ 3,980</u>

Sensitivity of the net pension liability (asset) to changes in the discount rate. The following presents the net pension liability (asset) of Alcoa Utility’s Hybrid W/O Cc, calculated using the discount rate if 7.25 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 (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Alcoa Utility’s Hybrid W/O Cc, net pension liability (asset)	\$ 27,522	\$ 3,980	\$ 13,632

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.

Pension expense. For the year ended June 30, 2019, Alcoa Utility’s Hybrid W/O Cc, recognized pension expense of \$36,547.

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NOTE 5 – EMPLOYEES' RETIREMENT PLANS (Continued):

Tennessee Consolidated Retirement Plan – Hybrid w/o Cc (Continued)

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

Deferred outflows of resources and deferred inflows of resources. For the year ended June 30, 2019, Alcoa Utility's Hybrid W/O Cc, reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 26,915	\$ -
Net difference between projected and actual earnings on pension plan investments	-	935
Changes in Assumptions	753	-
Contributions subsequent to the measurement date of June 30, 2018	<u>36,547</u>	<u>-</u>
Total	<u>\$ 64,215</u>	<u>\$ 935</u>

The amount shown above for "Contributions subsequent to the measurement date of June 30, 2018," will be recognized as a reduction (increase) to net pension liability (asset) 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:	
2020	\$ 2,346
2021	2,342
2022	2,808
2023	2,473
2024	2,594
Thereafter	50,717

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

Payable to the Pension Plan.

At June 30, 2019, Alcoa Utility's Hybrid W/O Cc, reported no payables outstanding to the pension plan.

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NOTE 5 – EMPLOYEES' RETIREMENT PLANS (Continued):

Reconciliation of the Utility's portion of Net Pension Liability is as follows:

City of Alcoa Employees' Retirement Plan	\$ 3,083,794
Tennessee Consolidated Retirement Plan	780,563
Tennessee Consolidated Retirement Plan – Hybrid w/o cc	<u>3,980</u>
Total Net Pension Liability - Utility portion	<u>\$ 3,868,337</u>

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 105 utility retirees meet the eligibility requirements.

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 with 25 years of service or age 62 with 15 years of service, or be on disability retirement and must have health benefit coverage in the self-insured plan provided by the City. Employees must be hired prior to January 1, 2015 to participate in this plan. The retiree can remain on the City plan from age 55 through age 65 by paying half of the coverage premium to the City.

Employees covered by the benefit terms

At June 30, 2019, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	10
Inactive employees entitled to but not yet receiving benefits	0
Active employees	<u>54</u>
	<u>64</u>

Total OPEB Liability

The Utilities total OPEB liability of \$1,408,009 was measured as of June 30, 2019, and was determined by an actuarial valuation as of that date.

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NOTE 5 – EMPLOYEES' RETIREMENT PLANS (Continued):

Actuarial Assumptions and Other Inputs

The total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods in the measurement, unless otherwise specified:

Salary increases	4.00 percent
Discount rate	3.23 percent
Healthcare cost trend rates	8.00 percent graded uniformly to 5% over 10 years

The discount rate was based on the S&P Municipal Bond Index as of June 30, 2018.

Mortality was updated from table RP-2014 adjusted to 2006 and projected using scale MP-2016 to table RP-2014 adjusted to 2006 and projected using scale MP-2017.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for period July 1, 2017 – June 30, 2018, and are based on allocations from the City of Alcoa.

Balance at June 30, 2018	<u>\$ 1,447,945</u>
Changes for the year:	
Service cost	31,276
Interest	27,533
Changes in benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions or other inputs	-
Benefit payments	<u>98,745</u>
Net changes	<u>39,936</u>
Balance at June 30, 2019	<u>\$ 1,408,009</u>

Sensitivity of the total OPEB liability to changes in discount rate

The following presents the total OPEB liability of the Utility, as well as what the Utility's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage-point lower (2.23 percent) or 1 percentage-point higher (4.23 percent) than the current discount rate:

	1% Decrease <u>2.23%</u>	Current Discount Rate <u>3.23%</u>	1% Increase <u>4.23%</u>
Total OPEB Liability	<u>\$ 1,513,649</u>	<u>\$ 1,408,009</u>	<u>\$ 1,310,617</u>

(Continued)

CITY OF ALCOA, TENNESSEE
City of Alcoa Utilities
 Division of Power
 ELECTRIC UTILITY
 Alcoa, Tennessee
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2019 and 2018

NOTE 5 – EMPLOYEES' RETIREMENT PLANS (Continued):

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates

The following presents the total OPEB liability of the Utility, as well as what the Utility's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage-point lower (7% decreasing to 4%) or 1 percentage-point higher (9% decreasing to 6%) than the current healthcare cost trend rates:

	1% Decrease (7% decreasing to 4%)	Healthcare Cost Trend Rate 8% decreasing to 5%)	1% Increase (9% decreasing to 6%)
Total OPEB Liability	\$ <u>1,283,461</u>	\$ <u>1,408,009</u>	\$ <u>1,552,921</u>

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

For the year ended June 30, 2019, the Utility recognized OPEB expense of \$58,809.

NOTE 6 – RISK FINANCING ACTIVITIES:

The City of Alcoa, Tennessee (which includes Electric Utility employees) has established an Employees' Insurance Trust Fund for risks associated with the employees' health insurance plan. The Employees' Insurance Trust is accounted for in the City as an internal service fund where assets are set aside for claim settlements. The City has obtained a stop/loss commercial insurance policy to cover claims beyond \$90,000 per specific loss.

The Electric Utility carries commercial insurance for all other risks of loss, including general liability, property and casualty, worker's compensation and environmental. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three (3) fiscal years.

NOTE 7 – OTHER ASSETS (RECEIVABLES), PREPAYMENTS AND OTHER LIABILITIES (ADVANCES FROM TVA):

The Utility participates in home energy conservation programs (home insulation and heat pumps), which are under the cognizance of the Tennessee Valley Authority (TVA). Pursuant to the agreement(s), TVA advances funds from which to disburse the insulation and heat pump approved commitments. In the event of default by the borrower, the Utility does not have loss exposure.

The Utility participates in the TVA program for prepayment of wholesale power invoices. The prepayment account earns daily interest based on TVA's Average Short-Term Interest Rate. Each month, TVA reduces the prepayment account for the amount of the Utility's monthly power invoice.

(Continued)

CITY OF ALCOA, TENNESSEE
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NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 8 – DEFERRED CREDITS - REFUNDABLE LINE EXTENSIONS:

During the year ended June 30, 1991, the City of Alcoa Utilities implemented new rules and regulations governing line extensions which will result in some cases that a refund will be due for some contributions in aid of construction paid by customers. The following is a brief explanation of the rules and regulations concerning situations where refunds are possible:

SERVICE TO INDIVIDUAL RESIDENCES AND QUALIFYING INDIVIDUAL MOBILE HOMES:

A standard overhead extension of the electric system to service an individual residence and qualifying individual mobile home will be made at no cost to the customer, except the meter set fee, provided the extension cost shall not exceed \$875. Any estimated costs for extending the overhead electric system beyond the \$875 allowance shall be paid by the customer as contribution in aid of construction. See Section 319 for refund provisions.

SERVICE TO MOBILE HOME PARKS:

A standard overhead extension of the electric system to serve a mobile home park will be made at no cost to the developer provided the estimated cost of construction (not including transformers and meters) does not exceed the product of the number of mobile home units for which evidence can be presented to indicate that placement will commence within thirty days after service is initiated times \$200. Any cost of construction greater than the amount determined above shall be paid by the developer as contribution in aid of construction with refunds being provided in accordance with Section 319.

SERVICE TO RESIDENTIAL SUBDIVISIONS:

A standard overhead extension of the electric system to serve a residential subdivision will be made at no cost to the developer provided the estimated cost of construction (not including transformers and meters) does not exceed the product of the number of houses for which evidence can be presented to indicate that construction will commence within thirty days after service is initiated times \$875. Any cost of construction greater than the amount determined above shall be paid by the developer as contribution in aid of construction with refunds being provided in accordance with Section 319.

PERMANENT SERVICE TO COMMERCIAL OR INDUSTRIAL CUSTOMER WITH 50 KW OR LESS DEMAND:

A standard single phase overhead extension of the electric system to serve a permanent commercial or industrial customer with 50 KW or less demand will be made at no cost to the customer provided the estimated cost of construction (not including transformers and meters) does not exceed \$875.

Any estimated costs greater than \$875 shall be paid as contribution in aid of construction. If a three-phase service is required, all costs exceeding \$875, including the cost of additional transformer(s), shall be paid by the customer to the City of Alcoa Utilities as contribution in aid of construction. See Section 319 for refund credit for customers subsequently added to the extension.

(Continued)

CITY OF ALCOA, TENNESSEE
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 NOTES TO FINANCIAL STATEMENTS
 June 30, 2019 and 2018

NOTE 8 – DEFERRED CREDITS - REFUNDABLE LINE EXTENSIONS (Continued):

SERVICE TO COMMERCIAL OR INDUSTRIAL CUSTOMER WITH A DEMAND LARGER THAN 50 KW:

A standard overhead extension of the electric system to serve a commercial or industrial customer with a demand larger than 50 KW will be made at no cost to the customer provided the estimated cost of construction (not including transformers and meters) does not exceed \$2,500. Any costs in excess of \$2,500 shall be paid by the customer as contribution in aid of construction. See Section 319 for refund credit for customers subsequently added to the extension.

SECTION 319 – CREDIT FOR ADDITIONAL CUSTOMERS:

Refund credit not to exceed the total amount of the contribution in aid of construction paid by the customer or developer will be allowed based on the number of customers subsequently added to the extension without the addition thereto of any primary line. The amount of the refund credit will be the amount listed in the schedule below and refunds will be based upon the per-customer allowance in effect at the time initial service was provided. Only a one-time credit for each new customer will be allowed. No refunds for underground costs shall be made.

Developers shall be responsible for submitting an appropriate invoice to the City of Alcoa Utilities within three months of the end of each year stating the number of additional customers for which reimbursement is due. The year shall be the anniversary date of the time when services were extended.

<u>YEARS AFTER DATE OF AGREEMENT</u>	<u>REFUND PERCENTAGE*</u>	<u>REIMBURSEMENT PER CUSTOMER</u>
1	100%	\$875.00
2	90%	\$787.50
3	80%	\$700.00
4	70%	\$612.50
5	60%	\$525.00

No refunds shall be made after five (5) years.

*Based on service allowance in effect at time initial service was provided.

As of June 30, 2019 the amount available for refunds amounted to \$2,518,189.

(Continued)

CITY OF ALCOA, TENNESSEE
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June 30, 2019 and 2018

NOTE 9 – PRIOR PERIOD ADJUSTMENTS:

The City of Alcoa allocated the Employees' Retirement Plan's net pension liability, deferred outflows of resources and deferred inflows of resources, as of June 30, 2017, to all of the funds based on the payroll for each fund. The Utilities portion of the net pension liability was \$3,901,604, deferred outflow of resources - \$1,118,716 and deferred inflows of resources - \$255,869 netting to a prior period adjustment of \$3,038,757 for June 30, 2018.

In addition, the City of Alcoa allocated Other Post-Employment Benefits (OPEB) liability as of June 30, 2018, to all of the funds based on the number of eligible retirees by fund. The Utilities portion of the OPEB liability was \$1,433,313, resulting in a prior period adjustment for June 30, 2019.

NOTE 10 – SUBSEQUENT EVENT:

The date to which events occurring after June 30, 2019, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosures is October 25, 2019 which is the date on which the financial statements were issued.

CITY OF ALCOA, TENNESSEE
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REQUIRED SUPPLEMENTAL INFORMATION

June 30, 2019

CITY OF ALCOA, TENNESSEE
City of Alcoa Utilities
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SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET)
AND RELATED RATIOS BASED ON PARTICIPATION IN THE
PUBLIC EMPLOYEE PENSION PLAN OF TCRS
For the Fiscal Year Ending June 30,

	<u>2017</u>	<u>2018</u>
Total pension liability		
Service cost	\$ 204,894	\$ 305,066
Interest	612,622	1,015,639
Changes in benefit terms	-	-
Differences between actual & expected experience	394,349	(52,810)
Change of assumptions	201,013	-
Benefit payments, including refunds of employee contributions	<u>(220,250)</u>	<u>(391,924)</u>
Net change in total pension liability	1,192,628	875,971
Total pension liability-beginning	<u>8,073,530</u>	<u>9,266,158</u>
Total pension liability-ending (a)	<u>\$ 9,266,158</u>	<u>\$ 10,142,129</u>
 Plan fiduciary net position		
Contributions – employer	\$ 424,033	\$ 623,722
Contributions – employee	-	-
Net investment income	851,570	670,331
Benefit payments, including refunds of employee contributions	(220,250)	(391,924)
Administrative expense	<u>(4,146)</u>	<u>(6,828)</u>
Net change in plan fiduciary net position	1,051,207	895,301
Plan fiduciary net position – beginning	<u>7,415,058</u>	<u>8,466,265</u>
Plan fiduciary net position – ending (b)	<u>\$ 8,466,265</u>	<u>\$ 9,361,566</u>
 Net Pension Liability (asset)-ending (a) – (b)	<u>\$ 799,893</u>	<u>\$ 780,563</u>
 Plan fiduciary net position as a percentage of total pension liability	91.37%	92.3%
 Covered-employee payroll	\$ 2,610,659	\$ 2,546,657
 Net Pension liability (asset) as a percentage of covered-employee payroll	30.64%	30.65%

GASB 68 requires a 10-year schedule for this data to be presented starting with the implementation of GASB 68. The information in this schedule is not required to be presented retroactively prior to the implementation date. Please refer to previously supplied data from TCRS GASB website for prior years' data, if needed.

CITY OF ALCOA, TENNESSEE
City of Alcoa Utilities
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SCHEDULE OF CONTRIBUTIONS BASED ON PARTICIPATION IN THE
 PUBLIC EMPLOYEE PENSION PLAN OF TCRS
 For the Fiscal Years Ending June 30,

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Actuarially determined contribution	\$ 433,360	\$ 423,971	\$ 414,086	\$ 435,664
Contributions in relation to the actuarially determined contribution	<u>(433,360)</u>	<u>(423,971)</u>	<u>(414,086)</u>	<u>(435,664)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$2,668,471	\$2,610,659	\$2,549,791	\$2,546,657
Contributions as a percentage covered – employee payroll	16.24%	16.24%	16.24%	17.10%

GASB 68 requires a 10-year schedule for this data to be presented starting with the implementation of GASB 68. The information in this schedule is not required to be presented retroactively prior to the implementation date. Please refer to previously supplied data from TCRS GASB website for prior years' data, if needed.

CITY OF ALCOA, TENNESSEE
City of Alcoa Utilities
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 NOTES TO REQUIRED SUPPLEMENTARY SCHEDULES
 PRESENTED ON PAGES 29-30
 For the Fiscal Year Ended June 30, 2018

Valuation date:

Actuarially determined contribution rates for 2019 were calculated based on the July 1, 2017 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed (not to exceed 20 years)
Remaining amortization period	Varies by year
Asset valuation	10-year smoothed with a 20 percent corridor to market value
Inflation	2.5 percent
Salary increases	Graded salary ranges from 8.72 to 3.44 percent based on age, including inflation
Investment Rate of Return	7.25 percent, net of investment expense, including inflation
Retirement age	Pattern of retirement determined by experience study
Mortality	Customized table based on actual experience including an adjustment for some anticipated improvement
Cost of Living Adjustments	2.25 percent

Changes of assumptions.

In 2017, the following assumptions were changed: decreased inflation rate from 3.00 percent to 2.50 percent; decreased the investment rate of return from 7.50 percent to 7.25 percent; decreased the cost-of-living adjustment from 2.50 percent to 2.25 percent; and decreased salary growth graded ranges from an average of 4.25 percent to an average of 4.00 percent.

CITY OF ALCOA, TENNESSEE
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SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET)
AND RELATED RATIOS BASED ON PARTICIPATION IN THE
PUBLIC EMPLOYEE PENSION PLAN OF THE TCRS – HYBRID W/O Cc
Last Fiscal Year Ending June 30,

	<u>2017</u>	<u>2018</u>
Total pension liability		
Service cost	\$ 11,380	\$ 25,746
Interest	1,556	4,912
Changes in benefit terms	-	-
Difference between actual and expected experience	9,059	-
Change of assumptions	678	10,373
Benefit payments, including refunds of employee contributions	-	-
Net change in total pension liability	<u>22,673</u>	<u>41,031</u>
Total pension liability – beginning	<u>9,360</u>	<u>32,033</u>
Total pension liability – ending (a)	<u>\$ 32,033</u>	<u>\$ 73,064</u>
Plan fiduciary net position		
Contributions – employer	\$ 19,940	\$ 35,436
Contributions – employee	-	-
Net investment income	2,172	4,756
Benefit payments, including refunds of employee contributions	-	-
Administrative expense	(843)	(1,901)
Other	-	-
Net change in plan fiduciary net position	<u>21,269</u>	<u>38,291</u>
Plan fiduciary net position - beginning	<u>9,524</u>	<u>30,793</u>
Plan fiduciary net position – ending (b)	<u>\$ 30,793</u>	<u>\$ 69,084</u>
Net Pension Liability (asset) – ending (a) – (b)	<u>\$ 1,240</u>	<u>\$ 3,980</u>

CITY OF ALCOA, TENNESSEE
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SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET)
 AND RELATED RATIOS (CONTINUED) BASED ON PARTICIPATION IN THE
 PUBLIC EMPLOYEE PENSION PLAN OF THE TCRS – HYBRID W/O Cc
 Last Fiscal Year Ending June 30,

	<u>2017</u>	<u>2018</u>
Plan fiduciary net position as a percentage of total pension liability	96.13%	94.3%
Covered payroll	\$ 468,752	\$ 489,094
Net pension liability (asset) as a percentage of covered payroll	(0.26%)	.81%

** GASB 68 requires a 10-year schedule for this data to be presented starting with the implementation of GASB 68. The information in this schedule is not required to be presented retroactively prior to the implementation date. Please refer to previously supplied data from TCRS GASB website for prior years' data, if needed.

Schedule of Contributions**
Based on Participation in the Public Employee Pension Plan of the TCRS
Last Fiscal Year ending June 30

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Actuarially determined contribution	\$ 3,033	\$ 19,940	\$ 28,172	\$ 36,547
Contributions in relation to the actuarially determined contribution	<u>(3,033)</u>	<u>(19,940)</u>	<u>(28,172)</u>	<u>36,547</u>
Contribution deficiency (excess)	<u> -</u>	<u> -</u>	<u> -</u>	<u> -</u>
Covered payroll	51,407	331,780	468,752	489,094
Contributions as a percentage of covered payroll	5.90%	6.01%	6.01%	7.47%

** GASB 68 requires a 10-year schedule for this data to be presented starting with the implementation of GASB 68. The information in this schedule is not required to be presented retroactively prior to the implementation date. Please refer to previously supplied data from TCRS GASB website for prior years' data, if needed.

CITY OF ALCOA, TENNESSEE
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 NOTES TO REQUIRED SUPPLEMENTARY SCHEDULE
 PRESENTED ON PAGES 32 – 33 – HYBRID W/O Cc
 Last Fiscal Year Ending June 30,

Valuation date: Actuarially determined contribution rates for fiscal year 2019 were calculated based on the June 30, 2017 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed (not to exceed 20 years)
Remaining amortization period	Varies by year
Asset valuation	10 – year smoothed within a 20 percent corridor to market value
Inflation	2.5 percent
Salary increases	Graded salary ranges from 8.72 to 3.44 percent based on age, including inflation
Investment rate of return	7.25 percent, net of investment expense, including inflation
Retirement age	Pattern of retirement determined by experience study
Mortality	Customized table based on actual experience including an adjustment for some anticipated improvement
Cost of living adjustments	2.25 percent

CITY OF ALCOA, TENNESSEE
City of Alcoa Utilities
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SCHEDULE OF CHANGES IN CITY OF ALCOA UTILITY TENNESSEE'S
 NET OPEB LIABILITY AND RELATED RATIOS
 Last Fiscal Year Ending June 30

	<u>2018</u>	<u>2019</u>
Total OPEB liability		
Service costs	\$ 29,656	\$ 31,276
Interest	44,734	27,533
Changes in benefit terms	-	-
Differences between actual & expected experience	-	-
Change in assumptions or other inputs	-	-
Benefit payments	<u>(91,028)</u>	<u>(98,745)</u>
Net change in total OPEB liability	<u>(16,638)</u>	<u>(39,936)</u>
Total OPEB liability - beginning	<u>1,464,583</u>	<u>1,447,945</u>
Total OPEB liability – ending	<u>\$ 1,447,945</u>	<u>\$ 1,408,009</u>
Plan Fiduciary Net Position as a percentage of the OPEB liability	0.00%	0.00%
Covered Employee Payroll	\$ 2,958,057	\$ 3,089,967
Net OPEB Liability as a percentage of covered- employee payroll	48.95%	45.57%

This is a ten-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until ten years of information is available.

CITY OF ALCOA, TENNESSEE
City of Alcoa Utilities
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ELECTRIC UTILITY
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SCHEDULE OF CITY OF ALCOA UTILITY TENNESSEE'S
CONTRIBUTIONS TO OPEB PLAN
Last Fiscal Year Ending June 30

	<u>2018</u>	<u>2019</u>
Actuarially determined contribution	\$ 127,860	\$ 132,469
Contributions in relation to the actuarially determined contribution	<u>91,028</u>	<u>98,745</u>
Contribution deficiency (excess)	<u>\$ 36,832</u>	<u>\$ 33,724</u>
Covered-employee payroll	\$ 2,958,057	\$ 3,089,967
Contribution as a percentage of covered-employee payroll	3.10%	3.20%

This is a ten-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until ten years of information is available.

CITY OF ALCOA, TENNESSEE
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SUPPLEMENTAL INFORMATION

June 30, 2019

CITY OF ALCOA, TENNESSEE
City of Alcoa Utilities
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SCHEDULE OF CASH AND INVESTMENTS
June 30, 2019

<u>Description</u>	<u>Account or Certificate No.</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Book Value June 30, 2019</u>
CASH:				
Savings:				
TVA Prepayment Interest	0007	0.76%	-	\$ 2,086,803
Petty/Working cash on hand	-	-	-	3,300
Checking Accounts:				
BB&T	117301508	0.35%	-	1,778,963
Citizens Bank of Blount County	00018112	-	-	<u>2,542,580</u>
Total Cash and Investments (1).....				<u>6,411,646</u>
 (1) Classified in Statement of Net Position as follows:				
Cash				\$ 4,324,843
Cash investments				<u>2,086,803</u>
				<u>\$ 6,411,646</u>

CITY OF ALCOA, TENNESSEE
City of Alcoa Utilities
 Division of Power
ELECTRIC UTILITY
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SCHEDULE OF ELECTRIC PLANT IN SERVICE
 June 30, 2019

	Balance 6-30-18	Additions	Retirements	Reclassify		Balance June 30, 2019
				DR	CR	
TRANSMISSION:						
Station equipment	\$17,438,337	\$ 87,146	\$ -	\$ -	\$ -	\$17,525,483
DISTRIBUTION:						
Land and land rights	6,853	-	-	-	-	6,853
Station equipment	1,891,793	-	-	-	-	1,891,793
Poles, towers and fixtures	13,416,771	816,085	105,234	-	-	14,127,622
Overhead conductors and devices	14,198,438	896,316	6,087	-	-	15,088,667
Underground conduit	721,586	10,089	-	-	-	731,675
Underground conductors and devices	3,240,760	135,252	778	-	-	3,375,234
Line transformers	12,013,270	370,849	18,814	-	-	12,365,305
Services	2,216,120	9,536	36	-	-	2,225,620
Meters	5,491,744	251,110	68,269	-	-	5,674,585
Street lighting and signal systems	3,507,301	876,332	134,792	-	-	4,248,841
Outdoor lighting on customer premises	1,794,655	179,212	54,040	-	-	1,919,827
GENERAL:						
Land and land rights	329,628	-	-	-	-	329,628
Structures and improvements	7,583,663	-	1,393	-	-	7,582,270
Office furniture and equipment	525,969	-	-	-	-	525,969
Transportation equipment	3,175,932	313,670	-	-	-	3,489,602
Stores equipment	51,647	-	-	-	-	51,647
Tools, shop and garage equipment	90,229	-	-	-	-	90,229
Laboratory equipment	30,456	-	-	-	-	30,456
Communication equipment	1,153,634	-	-	-	-	1,153,634
Power operated equipment	405,423	-	-	-	-	405,423
Miscellaneous equipment	14,972	-	-	-	-	14,972
Totals	89,299,181	3,945,597	389,444	-	-	92,855,335
CONSTRUCTION WORK IN PROGRESS	<u>2,292,903</u>	<u>(869,737)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,423,166</u>
Total Electric Plant in Service	<u>\$91,592,084</u>	<u>\$ 3,075,860</u>	<u>\$ 389,444</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$94,278,501</u>

CITY OF ALCOA, TENNESSEE
City of Alcoa Utilities
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 SCHEDULE OF ACCUMULATED PROVISION FOR DEPRECIATION
 June 30, 2019

	Balance 6-30-18	Depreciation Expense	Retirement	Removal Cost and Other	Reclassify		Balance June 30, 2019	Depreciation Rate
					DR	CR		
TRANSMISSION:								
Station equipment.....	\$ 8,448,551	\$ 515,231	\$ -	\$ -	\$ -	\$ -	\$ 8,963,782	4.00%
DISTRIBUTION PLANT:								
Station equipment.....	1,266,970	69,648	-	-	-	-	1,336,618	
Poles, towers, and fixtures.....	5,819,210	570,847	105,234	-	-	-	6,284,823	4.25%
Overhead conductors and devices	3,489,447	462,994	6,087	-	-	-	3,946,354	3.25%
Underground conduit.....	441,242	21,673	-	-	-	-	462,915	3.00%
Underground conductors and devices.....	1,505,825	97,562	778	-	-	-	1,602,609	3.00%
Line transformers	5,654,334	292,990	18,814	40	-	-	5,928,550	2.50%
Services	1,443,194	72,035	36	-	-	-	1,515,193	3.25%
Meters.....	2,566,627	330,848	68,269	-	-	-	2,829,206	6.67%
Street lighting and signal systems	2,249,052	224,083	134,792	-	-	-	2,338,343	12.00%
Outdoor lighting on customer premises...	993,241	89,962	54,040	-	-	-	1,029,163	8.00%
Total Distribution Plant	25,429,142	2,232,642	388,050	40	-	-	27,273,774	
GENERAL PLANT:								
Structures and improvements	1,906,564	156,915	1,393	-	-	-	2,062,086	2.00%
Office furniture and equipment	482,322	13,470	-	-	-	-	495,792	Various
Transportation equipment.....	1,690,052	202,393	-	-	-	-	1,892,445	Various
Stores equipment	33,219	3,122	-	-	-	-	36,341	Various
Tools, shop and garage equipment	88,471	711	-	-	-	-	89,182	8.00%
Laboratory equipment	30,456	-	-	-	-	-	30,456	5.00%
Communication equipment	787,723	58,220	-	-	-	-	845,943	10.00%
Power operated equipment	321,510	11,872	-	-	-	-	333,382	Various
Miscellaneous equipment	10,833	980	-	-	-	-	11,813	8.00%
Total General Plant.....	5,351,150	447,683	1,393	-	-	-	5,797,440	
Totals.....	\$ 39,228,843	\$ 3,195,556	\$ 389,443	\$ 40	\$ -	\$ -	\$ 42,034,996	

CITY OF ALCOA, TENNESSEE
City of Alcoa Utilities
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ELECTRIC UTILITY
Alcoa, Tennessee
SCHEDULE OF BOND AND INTEREST REQUIREMENTS BY FISCAL YEAR
June 30, 2019

Fiscal Year Ending <u>June 30,</u>	Total <u>Requirement</u>	Local Government Public Improvement Bonds, Adjustable Rate <u>Series E-5-B</u> <u>Adjustable Rate Series</u>	
		<u>Bond</u>	<u>Interest</u>
2020	\$ 1,640,750	\$ 930,000	\$ 710,750
2021	1,649,250	985,000	664,250
2022	1,650,000	1,035,000	615,000
2023	1,648,250	1,085,000	563,250
2024	1,644,000	1,135,000	509,000
2025	1,637,250	1,185,000	452,250
2026	1,628,000	1,235,000	393,000
2027	1,641,250	1,310,000	331,250
2028	1,625,750	1,360,000	265,750
2029	1,632,750	1,435,000	197,750
2030	1,636,000	1,510,000	126,000
2031	<u>1,060,500</u>	<u>1,010,000</u>	<u>50,500</u>
Totals	<u>\$ 19,093,750</u>	<u>\$ 14,215,000</u>	<u>\$ 4,878,750</u>

CITY OF ALCOA, TENNESSEE

City of Alcoa Utilities

Division of Power

ELECTRIC UTILITY

Alcoa, Tennessee

SCHEDULES OF OPERATING AND MAINTENANCE EXPENSE

For the Fiscal Years Ended June 30, 2019 and 2018

<u>OPERATING EXPENSE</u>	<u>2019</u>	<u>2018</u>
DISTRIBUTION:		
Supervision and engineering	\$ 119,449	\$ 76,252
Station expense	128,673	112,991
Overhead line expense	726,232	369,852
Underground expense	90,339	53,546
Meter expense	241,785	230,475
Miscellaneous	503,500	421,153
Rents	<u>190,922</u>	<u>190,883</u>
Total Distribution Expense	<u>2,000,900</u>	<u>1,455,152</u>
CUSTOMER ACCOUNTS EXPENSE:		
Meter reading expense	220,243	203,367
Customer record and collection expense.....	1,255,517	1,099,173
Uncollectible accounts	<u>120,000</u>	<u>120,000</u>
Total Customer Accounts Expense	<u>1,595,760</u>	<u>1,422,540</u>
CUSTOMER SERVICES AND INFORMATIONAL:		
Customer assistance expense	20,415	20,106
Informational and instructional advertising expense	<u>295</u>	<u>295</u>
Total Customer Services and Informational	<u>20,710</u>	<u>20,401</u>
SALES EXPENSE:		
Demonstrating and selling expense.....	<u>62,891</u>	<u>57,784</u>
ADMINISTRATIVE AND GENERAL EXPENSE:		
Administrative and general salaries	562,790	458,848
Office supplies and expense.....	49,006	40,791
Outside service employed	77,060	67,330
Property insurance	118,302	112,736
Injuries and damages.....	198,112	191,922
Employee pensions and benefits	2,267,618	1,923,340
Regulatory fees	800	800
Duplicate charges – Credit.....	(1,915)	(1,861)
Rents –City cost recovery	83,428	134,148
Miscellaneous	<u>71,315</u>	<u>86,416</u>
Total Administrative and General Expense	<u>3,426,516</u>	<u>3,014,470</u>
Total Operating Expense.....	<u>7,106,777</u>	<u>5,970,347</u>

(Continued)

CITY OF ALCOA, TENNESSEE

City of Alcoa Utilities

Division of Power

ELECTRIC UTILITY

Alcoa, Tennessee

SCHEDULES OF OPERATING AND MAINTENANCE EXPENSE

For the Fiscal Years Ended June 30, 2019 and 2018

<u>MAINTENANCE EXPENSE</u>	<u>2019</u>	<u>2018</u>
TRANSMISSION EXPENSE:		
Maintenance of station equipment	126,441	120,348
DISTRIBUTION EXPENSE:		
Supervision and engineering	104,954	64,322
Maintenance of station equipment and structures	95,627	80,131
Maintenance of overhead and underground lines	3,723,130	2,505,942
Maintenance of line transformers	23,259	16,135
Street lighting and signal systems	30,340	20,096
Maintenance of meters	98,902	89,957
Maintenance of miscellaneous distribution plant.....	3,830	3,727
Maintenance of underground lines.....	51,881	35,884
Total Distribution Expense	<u>4,131,923</u>	<u>2,816,194</u>
ADMINISTRATIVE AND GENERAL EXPENSE:		
Maintenance of general plant	40,034	23,703
Total Maintenance Expense	<u>4,298,398</u>	<u>2,960,245</u>
Total Operating and Maintenance Expense	<u>\$ 11,405,175</u>	<u>\$ 8,930,592</u>

CITY OF ALCOA, TENNESSEE
City of Alcoa Utilities
 Division of Power
 ELECTRIC UTILITY
 Alcoa, Tennessee
 SCHEDULE OF INSURANCE IN FORCE
 June 30, 2019

	<u>Expiration Date</u>	<u>Amount of Coverage</u>
Worker's Compensation and Employers' Liability	6-30-20	Statutory/\$1,000,000
Property Damage, Bodily Injury and Public Liability	6-30-20	\$ 1,000,000
Boiler Machinery Breakdown	6-30-20	\$ 3,000,000
Catastrophes and Public Liability	6-30-20	\$ 5,000,000
Property Damage and Bodily Injury: Automobiles and Trucks: Combined single limit for all damages because of bodily injury or property damage	6-30-20	\$1,102,808
Property Damage: Building and Contents: Real Property	6-30-29 Co-insurance – 90%	\$ 811,590 \$ 730,431
Personal Property.....	6-30-20 Co-insurance – 90%	\$ 2,282,994 \$ 2,054,695
Crime – Theft and Embezzlement	6-30-20	\$ 500,000
Personal Liability – Directors and Officers	6-30-20	\$ 1,000,000
All Risk Property (without terrorism)	6-30-20	\$ 23,786,677
Property (certified terrorism).....	6-30-20	\$ 22,683,869
Pollution Liability	6-30-20	\$ 3,500,000

CITY OF ALCOA, TENNESSEE
City of Alcoa Utilities
 Division of Power
 ELECTRIC UTILITY
 Alcoa, Tennessee
 SCHEDULE OF UTILITY RATES IN FORCE
 For the Fiscal Year Ended June 30, 2019

The basic utility rates in force as of June 30, 2019 are as follows:

Base Residential Rate - Schedule RS

Customer Charge: \$17.00 per month
 Energy Charge: 9.825 cents per kWh per month

Base General Power Rate - Schedule GSA

PART 1

Customer Charge: \$24.29 per delivery point per month
 Energy Charge: 11.020 cents per kWh per month

PART 2

Customer Charge: \$98.75 per delivery point per month
 Demand Charge: First 50 kW of billing demand per month, no demand charge
 \$14.45/kW for 51 – 1,000 kWh
 Energy Charge: 10.735 cents per kWh for first 15,000 kWh
 6.422 cents per kWh for all additional kWh

PART 3

Customer Charge: \$237.75 per delivery point per month
 Demand Charge: First 1,000 kW of billing demand per month at 13.88 cents per kWh
 From 1,001-5,000 kW of billing demand per month at 14.80 cents per kWh.
 Energy Charge: 6.753 cents per kWh per month

(Continued)

CITY OF ALCOA, TENNESSEE
City of Alcoa Utilities
Division of Power
ELECTRIC UTILITY
Alcoa, Tennessee
SCHEDULE OF UTILITY RATES IN FORCE (Continued)
For the Fiscal Year Ended June 30, 2019

Adjustment

The customer's bill for each month shall be increased or decreased in accordance with the current Adjustment Addendum published by TVA.

Minimum Monthly Bill

The monthly bill under this rate schedule shall not be less than the sum of (a) the base customer charge, (b) the base demand charge, as adjusted, applied to the customer's billing demand, and (c) the base energy charge, as adjusted, applied to the customer's energy takings; provided, however, that under Part 2 of the Base Charges, the monthly bill shall in no event be less than the sum of (a) the base customer charge and (b) 20 percent of the portion of the base demand charge, as adjusted, applicable to the second block (excess over 50 kW) of billing demand, multiplied by the higher of the customer's currently effective contract demand or its highest billing demand established during the preceding 12 months.

Distributor may require minimum bills higher than those stated above.

Payment

Bills under this rate schedule will be rendered monthly. Any amount of bill unpaid after due date specified on bill may be subject to additional charges under Distributor's standard policy.

CITY OF ALCOA, TENNESSEE
City of Alcoa Utilities
Division of Power
ELECTRIC UTILITY
Alcoa, Tennessee

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

June 30, 2019



Whitlock & Company, P.C.

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

City of Alcoa, Tennessee
City of Alcoa Utilities
Division of Power
Electric Utility
Alcoa, Tennessee

We have audited, in accordance with the 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, the financial statements of City of Alcoa Utilities – Division of Power, Electric Utility, which comprise the statements of net position as of June 30, 2019 and 2018, and the related statements of revenues, expenses, and change in net position, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated October 25, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Alcoa Utilities internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Alcoa Utilities' internal control. Accordingly, we do not express an opinion on the effectiveness of the Utilities' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Alcoa Utilities' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Alcoa Utilities' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Alcoa Utilities' internal control and compliance. This report is intended solely for the information and use of the City of Alcoa Utilities' management and the Tennessee Valley Authority, and is not intended to be and should not be used by anyone than these specified parties.

Whitlock & Company, P.C.

Alcoa, Tennessee
October 25, 2019