OFFICIAL STATEMENT

NEW ISSUE | Rating: Standard & Poor's: "AA-"
BOOK-ENTRY-ONLY | (See "MISCELLANEOUS-Rating")

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

$9,995,000
CITY OF ALCOA, TENNESSEE
General Obligation Bonds, Series 2015

Dated: June 15, 2015 | Due: June 1 (as shown on the inside cover)

The $9,995,000 General Obligation Bonds, Series 2015 (the "Bonds") shall be issued by the City of Alcoa, Tennessee (the "City") as book-entry-only Bonds in denominations of $5,000 and authorized integral multiples thereof. The Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC") except as otherwise described herein. DTC will act as securities depository of the Bonds. So long as Cede & Co. is the registered owner of the Bonds, as the nominee for DTC, principal and interest with respect to the Bonds shall be payable to Cede & Co., as nominee for DTC, which will, in turn, remit such principal and interest to the DTC participants for subsequent disbursements to the beneficial owners of the Bonds. Individual purchases of the Bonds will be made in book-entry-only form, in denominations of $5,000 or integral multiples thereof and will bear interest at the annual rates as shown below. Interest on the Bonds is payable semi-annually from the date thereof commencing on December 1, 2015 and thereafter on each June 1 and December 1 by check or draft mailed to the owners thereof as shown on the books and records of Regions Bank, Nashville, Tennessee, the registration and paying agent (the "Registration Agent"). In the event of discontinuation of the book-entry system, principal of and interest on the Bonds are payable at the principal corporate trust office of the Registration Agent.

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

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

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

The Bonds are offered when, as and if issued by the City, subject to the approval of the legality thereof by Robertson Overbey, Knoxville, Tennessee, bond counsel, whose opinion will be delivered with the Bonds. Certain legal matters will be passed upon from the City by Robertson Overbey, Counsel to the City. It is expected that the Bonds, will be available for delivery through the facilities of DTC, New York, New York, on or about June 15, 2015.

Cumberland Securities Company, Inc.
Financial Advisor

May 18, 2015

$9,995,000
CITY OF ALCOA, TENNESSEE

$9,995,000 General Obligation Bonds, Series 2015

Maturity (June 1)	Amount	Interest Rate	Yield	CUSIPS **	Maturity (June 1)	Amount	Interest Rate	Yield	CUSIPS **
2018	$ 245,000	2.00%	1.10%	013842 YD5	2026	$290,000	2.50%	2.30% c	013842 YM5
2019	250,000	2.00	1.25	013842 YE3	2027	295,000	2.40	2.40	013842 YN3
2020	255,000	2.00	1.45	013842 YF0	2028	305,000	2.55	2.55	013842 YP8
2021	260,000	2.00	1.65	013842 YG8	2029	310,000	3.00	2.65 c	013842 YQ6
2022	265,000	2.00	1.75	013842 YH6	2030	320,000	3.00	2.75 c	013842 YR4
2023	270,000	2.00	1.90 c	013842 YJ2	2031	330,000	3.00	2.85 c	013842 YS2
2024	275,000	2.00	2.00	013842 YK9	2032	340,000	3.25	3.00 c	013842 YT0
2025	280,000	2.50	2.15 c	013842 YL7	2033	350,000	3.25	3.05 c	013842 YU7

$735,000	3.50% Term Bond Due June 1, 2035	@ 3.15% c	013842 YW3
$790,000	3.75% Term Bond Due June 1, 2037	@ 3.40% c	013842 YY9
$855,000	3.75% Term Bond Due June 1, 2039	@ 3.45% c	013842 ZA0
$915,000	4.00% Term Bond Due June 1, 2041	@ 3.50% c	013842 ZC6
$990,000	4.00% Term Bond Due June 1, 2043	@ 3.55% c	013842 ZE2
$1,070,000	4.00% Term Bond Due June 1, 2045	@ 3.60% c	013842 ZG7

c = Yield to call on June 1, 2022.

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

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

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

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

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

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

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

CITY OF ALCOA, TENNESSEE

BOARD OF COMMISSIONERS

Donald R. Mull, *Mayor*

Clint Abbott, *Vice Mayor*

Vaughn D. Belcher   Clayton Bledsoe

Kenneth White

CITY OFFICIALS

Mark L. Johnson
City Manager

Bill Hammon
Assistant City Manager

John Troyer
City Recorder/Finance Director

Doug Overbey
City Attorney

UNDERWRITER

FTN Financial Capital Markets
Memphis, Tennessee

REGISTRATION AND PAYING AGENT

Regions Bank
Knoxville, Tennessee

BOND COUNSEL

Robertson Overbey
Knoxville, Tennessee

FINANCIAL ADVISOR

Cumberland Securities Company, Inc.
Knoxville, Tennessee

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SUMMARY STATEMENT

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

Issuer	City of Alcoa, Tennessee (the "City", "Municipality" or "Issuer"). See APPENDIX B contained herein.
The Bonds.....................................	$9,995,000 General Obligation Bonds, Series 2015 (the "Bonds").
Security...	The Bonds shall be payable from unlimited ad valorem taxes to be levied on all taxable property within the corporate limits of the City. For the prompt payment of principal and interest on the Bonds, the full faith and credit of the Issuer are irrevocably pledged.
Purpose	The Bonds are being issued for the purposes of providing funds for (i) the acquisition of land for schools, and the construction, improvements, renovations and equipping to schools and other public buildings, including but not be limited to school construction, technological improvements and park and athletic facility improvements; (ii) the acquisition of vehicles and equipment, including but not be limited to public works vehicles, public safety vehicles and equipment, computer hardware and software and other technological equipment; (iii) the acquisition of land for schools, preservation of open space, drainage systems, parks, parking facilities, recreation facilities, rights-of-way, highways, streets and roads, bridges, sidewalks, and public buildings; (iv) the construction, improvement, renovation and equipping of drainage systems, parks, parking facilities, recreation facilities, rights-of-way, highways, streets and roads bridges, sidewalks and public buildings; (v) payment of architectural, engineering, legal, fiscal and administrative costs incident to the foregoing; (vi) reimbursement to the Municipality for funds previously expended for any of the foregoing; and (vii) payment of a portion of the costs incident to the bonds authorized herein.
Optional Redemption	The Bonds are subject to optional redemption prior to maturity on or after June 1, 2022, at the redemption price of par plus accrued interest. See section entitled "SECURITIES OFFERED - Optional Redemption".
Tax Matters....................................	In the opinion of Bond Counsel, based on existing law and assuming compliance with certain tax covenants of the City, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account in determining the adjusted current earnings of certain corporations for purposes of the alternative minimum tax on corporations. Interest on the Bonds will be exempt from certain taxation in Tennessee, all as more fully described in the section entitled "LEGAL MATTERS-Tax Matters" and APPENDIX A (form of opinion) included herein.
Bank Qualification	The Bonds have been designated as "qualified tax-exempt obligations" within the meaning of Section 265 of the Internal Revenue Code of 1986, as amended. See the section entitled "LEGAL MATTERS - Tax Matters" for additional information.
Rating..	Standard & Poor's: "AA-". See the section entitled "MISCELLANEOUS - Rating" for more information.
Registration and Paying Agent	Regions Bank, Nashville, Tennessee (the "Registration Agent").
Bond Counsel	Robertson Overbey, Knoxville, Tennessee.

Financial Advisor .... Cumberland Securities Company, Inc., Knoxville, Tennessee. See the section entitled "MISCELLANEOUS - Financial Advisor; Related Parities; Others", herein.

Underwriter.................................... FTN Financial Capital Markets, Memphis, Tennessee.

Book-Entry-Only........................... The Bonds will be issued under the Book-Entry-Only System except as otherwise described herein. For additional information, see the section entitled "BASIC DOCUMENTATION – Book–Entry-Only System".

General .... The Bonds are being issued in full compliance with applicable provisions of Title 9, Chapter 21, *Tennessee Code Annotated*, as supplemented and revised. See the section entitled SECURITIES OFFERED herein. The Bonds will be issued with CUSIP numbers and delivered through the facilities of the Depository Trust Company, New York, New York.

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

Other Information .... The information in the OFFICIAL STATEMENT is deemed "final" within the meaning of such Rule 15c2-12 of the U.S. Securities and Exchange Commission as of the date which appears on the cover hereof. For more information concerning the City, or the OFFICIAL STATEMENT, contact Mr. Donald R. Mull, Mayor or Mark L. Johnson, City Manager, 223 Associates Boulevard, Alcoa, Tennessee 37701, Telephone: 865-380-4700; or the City's Financial Advisor, Cumberland Securities Company, Inc., 813 S. Northshore Drive, Suite 201A, Knoxville, Tennessee 37919, Telephone: (865) 988-2663.

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

	2010	**2011**	**2012**	**2013**	**2014**
Beginning Fund Balance	$2,501,961	$2,409,019	$5,130,428	$2,517,547	$2,592,563
Revenues	14,621,570	19,229,765	15,836,264	18,660,264	20,171,232
Expenditures	(12,897,013)	(16,883,474)	(15,633,790)	(15,892,806)	(16,777,409)
Other Financing Sources:					
Transfers In	500,000	500,000	250,000	250,000	-
Transfers Out	(2,317,499)	(2,757,060)	(4,686,856)	(4,512,099)	(4,050,000)
Other Sources and Uses	-	2,528,947	1,621,501	1,629,657	1,686,883
Excess of Revenue/Other Sources Over (Under)	(92,942)	2,618,178	(2,612,881)	75,016	1,180,706
Ending Fund Balance	**$2,409,019**	**$5,130,428**	**$2,517,547**	**$2,592,563**	**$3,773,269**

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

$9,995,000
CITY OF ALCOA, TENNESSEE
General Obligation Bonds, Series 2015

SECURITIES OFFERED

AUTHORITY AND PURPOSE

This OFFICIAL STATEMENT which includes the Summary Statement hereof and appendices hereto is furnished in connection with the offering by the City of Alcoa, Tennessee (the "City", "Municipality" or "Issuer") of its $9,995,000 General Obligation Bonds, Series 2015 (the "Bonds").

The Bonds are authorized to be issued pursuant to the provisions of Title 9, Chapter 21, *Tennessee Code Annotated,* as amended, and other applicable provisions of the law and pursuant to resolutions (the "Resolution") adopted by the Board of Commissioners of the City on March 10, 2015.

The Bonds are being issued for the purposes of providing funds for (i) the acquisition of land for schools, and the construction, improvements, renovations and equipping to schools and other public buildings, including but not be limited to school construction, technological improvements and park and athletic facility improvements; (ii) the acquisition of vehicles and equipment, including but not be limited to public works vehicles, public safety vehicles and equipment, computer hardware and software and other technological equipment; (iii) the acquisition of land for schools, preservation of open space, drainage systems, parks, parking facilities, recreation facilities, rights-of-way, highways, streets and roads, bridges, sidewalks, and public buildings; (iv) the construction, improvement, renovation and equipping of drainage systems, parks, parking facilities, recreation facilities, rights-of-way, highways, streets and roads bridges, sidewalks and public buildings; (v) payment of architectural, engineering, legal, fiscal and administrative costs incident to the foregoing; (vi) reimbursement to the Municipality for funds previously expended for any of the foregoing; and (vii) payment of a portion of the costs incident to the bonds authorized herein.

DESCRIPTION OF THE BONDS

The Bonds will be dated and bear interest from the date of issuance June 15, 2015. Interest on the Bonds will be payable semi-annually on June 1 and December 1, commencing December 1, 2015. The Bonds are issuable in registered book-entry form only and in $5,000 denominations or integral multiples thereof as shall be requested by each respective registered owner.

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

SECURITY

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

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

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

QUALIFIED TAX-EXEMPT OBLIGATIONS

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

OPTIONAL REDEMPTION

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

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

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

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

MANDATORY REDEMPTION

Subject to the credit hereinafter provided, the City shall redeem Bonds maturing June 1, 2035, June 1, 2037, June 1, 2039, June 1, 2041, June 1, 2043 and June 1, 2045 on the redemption dates set forth below opposite the maturity date, in aggregate principal amounts equal to the respective dollar amounts set forth below opposite the respective redemption dates at a price of par plus accrued interest thereon to the date of redemption. The Bonds to be so redeemed shall be selected by lot or in such other random manner as the Registration Agent in its discretion may designate.

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

Maturity	Redemption Date	Principal Amount of Bonds Redeemed
June 1, 2035	June 1, 2034	$360,000
	June 1, 2035*	$375,000
June 1, 2037	June 1, 2036	$390,000
	June 1, 2037*	$400,000
June 1, 2039	June 1, 2038	$420,000
	June 1, 2039*	$435,000
June 1, 2041	June 1, 2040	$450,000
	June 1, 2041*	$465,000
June 1, 2043	June 1, 2042	$485,000
	June 1, 2043*	$505,000
June 1, 2045	June 1, 2044	$525,000
	June 1, 2045*	$545,000

*Final Maturity

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

NOTICE OF REDEMPTION

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

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BASIC DOCUMENTATION

REGISTRATION AGENT

The Registration Agent, Regions Bank, Nashville, Tennessee, its successor or the City will make all interest payments with respect to the Bonds on each interest payment date directly to Cede & Co., as nominee of DTC, the registered owner as shown on the Bond registration records maintained by the Registration Agent, except as described below.

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

BOOK-ENTRY-ONLY SYSTEM

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

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

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

DTC and its Participants. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the U.S. Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

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

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

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

DISCONTINUANCE OF BOOK-ENTRY-ONLY SYSTEM

In the event that (i) DTC determines not to continue to act as securities depository for the Bonds or (ii) to the extent permitted by the rules of DTC, the City determines to discontinue the Book-Entry-Only System, the Book-Entry-Only System shall be discontinued. Upon the occurrence of the event described above, the City will attempt to locate another qualified securities depository, and if no qualified securities depository is available, Bond certificates will be printed and delivered to beneficial owners.

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

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

DISPOSITION OF BOND PROCEEDS

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

(a) Any accrued interest shall be deposited to the appropriate fund of the Municipality to be used to pay interest on the Bonds on the first interest payment date following delivery of the Bonds; and

(b) the remainder of the proceeds of the sale of the Bonds shall be deposited with a financial institution regulated by the Federal Deposit Insurance Corporation or similar federal agency in a special fund to be known as the 2015 Construction Fund (the "Construction Fund") to be kept separate and apart from all other funds of the Municipality. The Municipality shall disburse funds in the Construction Fund to pay costs of issuance of the Bonds, including necessary legal, accounting and fiscal expenses, printing, engraving, advertising and similar expenses, administrative and clerical costs, Registration Agent fees and other necessary miscellaneous expenses incurred in connection with the issuance and sale of the Bonds. The remaining funds in the Construction Fund shall be disbursed solely to pay the costs of the Project. Money in the Construction Fund shall be secured in the manner prescribed by applicable statutes relative to the securing of public or trust funds, if any, or, in the absence of such a statute, by a pledge of readily marketable securities having at all times a market value of not less than the amount in said Construction Fund. Money in the Construction Fund shall be expended only for the purposes authorized by this resolution. Any funds remaining in the Construction Fund after completion of the Project and payment of authorized expenses shall be paid to the City Recorder and shall be used to pay principal of and interest on the Bonds. Moneys in the Construction Fund shall be invested at the direction of the City Recorder in such investments as shall be permitted by applicable law. Earnings from such investments in the Construction Fund shall be deposited in the Municipality's debt service fund.

DISCHARGE AND SATISFACTION OF BONDS

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

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

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

3. By delivering such Bonds to the Registration Agent for cancellation by it;

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

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

REMEDIES OF BONDHOLDERS

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

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

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

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LEGAL MATTERS

LITIGATION

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

TAX MATTERS

Federal

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

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

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

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

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

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

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

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

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

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

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

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

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

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

State Taxes

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

CHANGES IN FEDERAL AND STATE TAX LAW

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

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

CLOSING CERTIFICATES

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

APPROVAL OF LEGAL PROCEEDINGS

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

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MISCELLANEOUS

RATING

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

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

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

COMPETITIVE PUBLIC SALE

The Bonds were offered for sale at competitive public bidding on May 18, 2015. Details concerning the public sale were provided to potential bidders and others in the *Preliminary Official Statement* that was dated May 5, 2015.

The successful bidder for the Bonds was an account led by FTN Financial Capital Markets, Memphis, Tennessee (the "Underwriters") who contracted with the City, subject to the conditions set forth in the Official Notice of Sale and Bid Form to purchase the Bonds at a purchase price of $10,030,953.91 (consisting of the par amount of the Bonds, plus a reoffering premium of $196,293.70 and less an underwriter's discount of $160,339.79) or 100.360% of par.

FINANCIAL ADVISOR; RELATED PARTIES; OTHER

Financial Advisor. Cumberland Securities Company, Inc., Knoxville, Tennessee has been employed by the City to serve as its Financial Advisor. The Financial Advisor is an independently owned financial advisory firm.

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

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

Cumberland Securities Company, Inc. distributed the *Preliminary Official Statement*, in final form, and the *Official Statement*, in final form on behalf of the City and will be compensated and/or reimbursed for such distribution and other such services.

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

DEBT RECORD

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

CONTINUING DISCLOSURE

The City will at the time the Bonds are delivered execute a Continuing Disclosure Certificate under which it will covenant for the benefit of holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the City by not later than twelve months after the end of each fiscal year commencing with the fiscal year ending June 30, 2015 (the "Annual Report"), and to provide notice of the occurrence of certain significant events not later than ten business days after the occurrence of the events and notice of failure to provide any required financial information of the City. The Annual Report (and audited financial statements if filed separately) and notices described above will be filed by the City with the Municipal Securities Rulemaking Board ("MSRB") at www.emma.msrb.org and with any State Information Depository which may be established in Tennessee (the "SID"). The specific nature of the information to be contained in the Annual Report or the notices of events is summarized below. These covenants have been made in order to assist the Underwriters in complying with U.S. Securities and Exchange Commission Rule 15c2-12(b), as it may be amended from time to time (the "Rule").

Five-Year History of Filing. In the past five years, the City has filed its Annual Reports at www.emma.msrb.org under the base CUSIP Number 13842 which is the base CUSIP Number for the City; however, the City inadvertently failed to also file such Annual Reports under the CUSIP Number of certain conduit issuers of bonds for which the City was an obligated person. The City has now additionally filed its Annual Reports for all outstanding bonds for which it is an obligated person under the conduit issuer's CUSIP Number. While it is believed that all appropriate filings were made with respect to the ratings of the City's outstanding bond issues, some of which were insured by the various municipal bond insurance companies, no absolute assurance can be made that all such rating changes of the bonds or various insurance companies which insured some transaction were made or made in a timely manner as required by SEC Rule 15c2-2. With the exception of the foregoing, for the past five years, the City has complied in all material respects with its existing continuing disclosure agreements in accordance with SEC Rule 15c2-12.

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

1. Summary of bonded indebtedness as of the end of such fiscal year as shown on page B-15;

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

3. Information about the Bonded Debt Service Requirements – General Fund and General Debt Service Fund as of the end of such fiscal year as show on page B-18;

4. Information about Bonded Debt Service Requirements – Solid Waste System as of the end of such fiscal year as shown on page B-19;

5. Information about Bonded Debt Service Requirements – Water and Sewer System as of the end of such fiscal year as shown on page B-20;

6. Information about Bonded Debt Service Requirements – Electric System as of the end of such fiscal year as shown on page B-21;

7. The fund balances and retained earnings for the fiscal year as shown on page B-23;

8. Summary of Revenues, Expenditures and Changes in Fund Balances - General Fund for the fiscal year as shown on page B-24;

9. Summary of Revenues, Expenditures and Changes in Fund Balance – Water and Sewer Fun for the fiscal year as shown on page B-25;

10. Summary of Revenues, Expenditures and Changes in Fund Balance – Electric Fund for the fiscal year as shown on page B-26;

11. The estimated assessed value of property in the City for the tax year ending in such fiscal year and the total estimated actual value of all taxable property for such year as shown on page B-28;

12. Property tax rates and tax collections of the City for the tax year ending in such fiscal year as well as the uncollected balance for such fiscal year as shown on page B-29; and

13. The ten largest taxpayers as shown on page B-29.

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

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

1. Upon the occurrence of a Listed Event (as defined in (3) below), the City shall in a timely manner, but in no event more than ten (10) business days after the occurrence of such event, file a notice of such occurrence with the MSRB and SID, if any. Notwithstanding the foregoing, notice of Listed Events described in subsection (3)(h) and (i) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds pursuant to the Resolution.

2. For Listed Events where notice is only required upon a determination that such event would be material under applicable Federal securities laws, the City shall determine the materiality of such event as soon as possible after learning of its occurrence.

3. The following are the Listed Events:

    a. Principal and interest payment delinquencies;

    b. Non-payment related defaults, if material;

    c. Unscheduled draws on debt service reserves reflecting financial difficulties;

d. Unscheduled draws on credit enhancements reflecting financial difficulties;

e. Substitution of credit or liquidity providers, or their failure to perform;

f. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;

g. Modifications to rights of Bondholders, if material;

h. Bond calls, if material, and tender offers;

i. Defeasances;

j. Release, substitution, or sale of property securing repayment of the securities, if material;

k. Rating changes;

l. Bankruptcy, insolvency, receivership or similar event of the obligated person;

m. The consummation of a merger, consolidation or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

n. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

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

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

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

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

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

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

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

ADDITIONAL INFORMATION

Use of the words "shall," "must," or "will" in the PRELIMINARY OFFICIAL STATEMENT and OFFICIAL STATEMENT in summaries of documents or laws to describe future events or continuing obligations is not intended as a representation that such event will occur or obligation will be fulfilled but only that the document or law contemplates or requires such event to occur or obligation to be fulfilled.

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

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

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

The City has deemed this OFFICIAL STATEMENT as "final" as of its date within the meaning of Rule 15c2-12(b) of the U.S. Securities and Exchange Commission.

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CERTIFICATION OF ISSUER

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

/s/ Donald R. Mull
Mayor

ATTEST:

/s/ John Troyer
City Recorder

APPENDIX A

FORM OF LEGAL OPINION

June 15, 2015

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

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the City of Alcoa, Tennessee (the "Issuer") of $9,995,000 General Obligation Bonds, Series 2015, dated June 15, 2015 (the "Bonds"). In such capacity, we have examined the law and such certified proceedings and other papers as we deemed necessary to render this opinion.

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

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

1. The Bonds have been duly authorized, executed and issued in accordance with the constitution and laws of the State of Tennessee and are valid and binding obligations of the Issuer.

2. The resolution of the Board of Commissioners of the Issuer authorizing the Bonds has been duly and lawfully adopted, is in full force and effect and is a valid and binding agreement of the Issuer enforceable in accordance with its terms.

3. The Bonds constitute general obligations of the Issuer to which the Issuer has validly and irrevocably pledged its full faith and credit. The principal of and interest on the Bonds are payable from unlimited ad valorem taxes to be levied on all taxable property within the corporate limits of the Issuer.

4. Interest on the Bonds (including any original issue discount properly allocable to an owner thereof) is excluded from a bondholder's gross income for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax, and is included in the adjusted current earnings of a corporation under the federal corporate alternative minimum tax. The opinion set forth in the preceding sentence is subject to the condition that the Issuer comply with all requirements of

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

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

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

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

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

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

Yours very truly,

Robertson Overbey

APPENDIX B

SUPPLEMENTAL INFORMATION STATEMENT

GENERAL INFORMATION

LOCATION

The City of Alcoa (the "City") is located in eastern Tennessee in Blount County (the "County"). The County is bordered to the east by Sevier County, to the north by Knox County and to the west by Loudon County. The southern border is Monroe County and the State of North Carolina. Other incorporated towns within the County are Maryville, the county seat and the largest city, Rockford, Friendsville and Townsend. Vonore is an unincorporated town that is in both Blount County and Monroe County.

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

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

GENERAL

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

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

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

TRANSPORTATION

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

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

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

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

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

McGhee Tyson Airport has several major airlines serving 21 non-stop destinations including Atlanta, Dallas/Ft. Worth, Orlando, Miami, Myrtle Beach, New York, Chicago, Denver and Washington D.C. With more than 120 arrivals and departures each day and more than 4,000 seats available, McGhee Tyson Airport is one of the most convenient and accessible regional airports in the nation.

The airport is served by several low fare carriers: Allegiant Air, AirTran Airways, and Frontier Airlines. Allegiant Travel Company is focused on linking travelers in small cities to world-class leisure destinations such as Las Vegas, NV, Myrtle Beach, NC, Orlando, Fla., Ft. Lauderdale, Fla., Sarasota/Fort Meyers, Fla. and Tampa/St. Petersburg, Fla. Through its subsidiary, Allegiant Air, the Company operates a low-cost, high-efficiency, all-jet passenger airline offering air travel both on a stand-alone basis and bundled with hotel rooms, rental cars and other travel related services. AirTran Airways returned to the airport after a nine-year absence to offer new low air fares. Flights began in summer of 2009, but it was announced that in the summer of 2012 the company would leave Knoxville again. Vision Airlines is a Suwannee, Georgia based airline that started flights in early 2011 to beach communities in Northwest Florida. However a few months later in August of 2011 those flights were suspended until the economy improves. Frontier Airlines started flight in the summer of 2011 from Knoxville to its hub in Denver, Colorado and to Chicago, Illinois, Provo, Utah and Sioux Falls, South Dakota.

McGhee Tyson is served by major and regional carriers including:

Major Airlines:		***Regional Carriers:***	
Allegiant Air	AirTran Airways	American Eagle	United Express
Delta Airlines	Frontier Airlines	USAirways Express	

Source: Metropolitan Knoxville Airport Authority.

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

McGhee Tyson Airport

Total Year	**Commercial Passengers**	**Total Air Cargo in Pounds**
2004	1,607,077	78,691,534
2005	1,846,794	84,346,541
2006	1,674,877	92,219,596
2007	1,821,581	100,286,989
2008	1,742,579	97,366,366
2009	1,680,716	82,304,377
2010	1,688,882	93,393,658
2011	1,773,671	92,390,849
2012	1,747,145	91,514,071
2013	1,676,374	84,029,942

Source: Metropolitan Knoxville Airport Authority.

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

2008 West Aviation Area $50.7 million
2008 Airport Rescue and Fire Fighting Facility $11.3 million
2009 New Food Court in Terminal $615,000
2014 Runway and Taxiway System Upgrade $108 million

Source: Metropolitan Knoxville Airport Authority.

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

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

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

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

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

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

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

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EDUCATION

The *Blount County School System* is made up of 21 public schools: fourteen elementary schools, four middle schools, two senior high schools and one alternative education school. Fall 2013 enrollment for Blount County schools is about 11,214 with around 709 teachers total. The District's size is about 584 square miles.

The County is also home to 2 city school systems: Alcoa City schools and Maryville City schools. *Alcoa City Schools District* is made up of about 9 square miles with three schools: one elementary, one middle school and one high school with 114 teachers. The fall 2013 enrollment was about 1,869 students. *Maryville City Schools District* is made up of about 16.2 square miles with seven schools: four elementary, one intermediate, one middle school and one high school with 345 teachers. The fall 2013 enrollment was about 5,135 students.

Source: Tennessee Department of Education and the City.

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

Maryville College. The private, four-year, liberal arts college, located in Maryville, was founded in 1819 and is one of the fifty oldest institutions of higher learning in the United States. The college is co-educational and grants the degrees of Bachelor of Arts and Bachelor of Music with fifty diverse fields of study. Fall 2014 enrollment was 1,213 students, and the college is situated on a 375 acre campus. A dual degree program in engineering is offered in conjunction with both Georgia Institute of Technology and the University of Tennessee at Knoxville. A $47 million new Civic Arts Center was completed in 2010.

Source: Maryville College.

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

Since its founding in 1974 as State Technical Institute at Knoxville, Pellissippi State has expanded the teaching of technology, the use of technology in instruction, and the transfer of technology to local business and industry in support of regional economic development. Enrollment for fall 2013 was listed as 10,836. The Community College continues to support and develop career/technical associate's degrees and institutional certificates, university parallel associate's degree programs, and continuing education opportunities for the citizens of Knox, Blount, and surrounding counties. Pellissippi State Technical Community College (PSTCC) has been named one of the 200 fastest-growing community colleges in the nation, according to Community College Week. The College has released a 2012 report showing the school has pumped an average of $244 million annually into the Knoxville-area economy over the last 5 years.

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

Source: Pellissippi State Technical Community College and the City.

The Tennessee Technology Center at Knoxville. The Tennessee Technology Center at Knoxville is part of a statewide system of 26 vocational-technical schools. The Tennessee Technology Center meets a Tennessee mandate that no resident is more than 50 miles from a vocational-technical shop. The institution's primary purpose is to meet the occupational and technical training needs of the citizens including employees of existing and prospective businesses and industries in the region. The Technology Center at Knoxville serves the central east region of the state including Knox and Blount Counties. The Technology Center at Knoxville began operations in 1966, and the main campus is located in Knox County. Fall 2012 enrollment was 1,458 students.

Source: Tennessee Technology Center at Knoxville and the City.

HOSPITALS

Blount Memorial Hospital. Blount Memorial is an acute care, short-term hospital located in Maryville. The Hospital Facility consists of approximately 715,925 square feet and a licensed capacity of 304 beds and 176 physicians. The hospital employs about 2,060 people and had 11,991 admissions in 2012. The hospital facility is operated by Blount Memorial Hospital Incorporated (the "BMH, Inc."), a governmental non-profit corporation formed by the County pursuant to Tennessee law. The Hospital is governed by a board of directors appointed by the County, the Cities of Alcoa and Maryville, and Maryville College. The Hospital's property is owned either by the County or by BMH, Inc. There are several Special Care Units at Blount Memorial Hospital: ICU, CCU, same day surgery, medical/surgical patient care, Mountain View Recovery Center, emotional health center, family birthing center, and KidCare. The hospital's Emergency Room is open 24 hours and is equipped with 17 treatment rooms.

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

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

Source: University Health Center and Knoxville News Sentinel.

MANUFACTURING AND COMMERCE

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

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

National Safe Skies Alliance is a non-profit consortium dedicated to advancing aviation security by conducting independent testing and evaluation of anti-terrorism technologies in airports nationwide. Safe Skies' membership is comprised of airports, airlines, national laboratories, universities, and the security industry, working in partnership with the Department of Homeland Security - Transportation Security Administration, to protect the traveling public. Safe Skies' staff of security specialists, test engineers and statisticians are experts in the evaluation of security systems for the Passenger Checkpoint, Checked Baggage and Air Cargo, Access Control and the Airport Perimeter.

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

Pellissippi Place is a 450 acre high tech park on the Oak Ridge Corridor in Alcoa. The first construction phase was begun in late 2008. The park plan includes a retail corridor with restaurants and shops along a river walk. Mixed-use space will be available for residential and professional office areas linked by an expansive pedestrian walkway. The park focuses on technology, corporate research and high-tech business development. Phase I involved the infrastructure for the park, a phase that cost around $10 million and was completed in 2010. Subsequent development phases have the capacity to handle up to 100 merchants, six restaurants and a 14-screen cinema among more than 1 million square feet of retail space. The project includes space for a hotel. Residential plans call for construction of upscale loft condominiums. The development is LEED certified, which requires all developers and contractors to following sustainable green building guidelines recognized by the U.S. Green Building Council.

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

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

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

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

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Major Employers in Blount County, Tennessee

Company	Product/Service	Employment
Denso[1]	Automotive Parts	3,400
Blount Memorial Hospital	Healthcare	2,441
McGhee Tyson Air National Guard	Airbase	2,100
Clayton Homes	Mobile Homes	2,099
Blount County Schools	Education	1,800
ALCOA[2]	Aluminum Ingot, Coiled Steel	1,200
Maryville City Schools	Education	648
Blount County Government	Government	605
Wal-Mart	Retail Store	592
Marriott Business Services	Hotel Customer Service	575
Ruby Tuesday Inc.	Restaurants	518
Massey Group		400
Newell Rubbermaid	Rubbermaid Plastic Products	350
Maryville College	University	346
TeamHealth Alcoa Billing	Billing	330
Peninsula Hospital	Healthcare	308
City of Maryville	Government	304
Rockford Manufacturing	Yarn & Cordage	300
First Tennessee Bank	Bank	282
Standard Aero Alliance Inc.	Aircraft Engines and Parts	278
City of Alcoa	Government	263
Cornerstone of Recovery	Healthcare	235
Alcoa City Schools	Education	231
EZ Stop Food Marts	Retail	220
Reinhart Food Service	Distribution	187
U.S. Foodservice	Food Distribution	150
Skier's Choice	Boat Manufacturing	140
Massey Electric Co.	Electrical Contracting	138

[1] Headquarters based in Blount County, but employment excludes 1,050 employees in the McMinn County Plant.
[2] Headquarters are based in Blount County, but employment includes some employees working in Knox County.

Source: Department of Economic & Community Development, Comprehensive Annual Financial Report, Blount County Chamber of Commerce, Blount County Audit, Alcoa Audit, Maryville Audit and Knoxville News Sentinel - 2014.

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EMPLOYMENT INFORMATION

For the month of January 2015, the unemployment rate for Maryville stood at 6.2% with 12,110 persons employed out of a labor force of 12,900. As of January 2015, the unemployment rate for Blount County stood at 6.7% with 54,630 persons employed out of a labor force of 58,540.

The Knoxville MSA's unemployment for January 2015 was at 6.5% with 373,210 persons employed out of a labor force of 399,280. As of January 2015, the unemployment rate in the Knoxville-Sevierville-Harriman CSA stood at 7.2%, representing 473,520 persons employed out of a workforce of 510,460.

Unemployment

	Annual Average **2010**	Annual Average **2011**	Annual Average **2012**	Annual Average **2013**	Annual Average **2014**
National	9.6%	8.9%	8.1%	7.4%	6.2%
Tennessee	9.7%	9.2%	8.0%	8.2%	6.7%
Blount County	**8.4%**	**7.7%**	**6.8%**	**6.9%**	**6.0%**
Index vs. National	88	87	84	93	97
Index vs. State	87	84	85	84	90
Knoxville MSA	**7.9%**	**7.3%**	**6.6%**	**6.9%**	**6.2%**
Index vs. National	82	82	81	93	100
Index vs. State	81	79	82	84	93
Knoxville-Sevierville-Harriman CSA	**8.9%**	**8.3%**	**7.5%**	**7.7%**	**6.5%**
Index vs. National	93	93	93	104	105
Index vs. State	92	90	94	94	97

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

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ECONOMIC DATA

Per Capita Personal Income

	2009	2010	2011	2012	2013
National	$39,379	$40,144	$42,332	$44,200	$44,765
Tennessee	$34,439	$35,426	$37,151	$39,002	$39,558
Blount County	**$30,995**	**$31,725**	**$33,309**	**$34,944**	**$35,310**
Index vs. National	79	79	79	79	79
Index vs. State	90	90	90	90	89
Knoxville MSA	**$33,723**	**$34,714**	**$36,586**	**$37,997**	**$38,506**
Index vs. National	86	86	86	86	86
Index vs. State	98	98	98	97	97
Knoxville-Sevierville-Harriman CSA	**$32,548**	**$33,476**	**$35,223**	**$36,557**	**$37,039**
Index vs. National	83	83	83	83	83
Index vs. State	95	94	95	94	94

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

Social and Economic Characteristics

	National	Tennessee	Blount County	Alcoa
Median Value Owner Occupied Housing	$176,700	$139,200	$163,900	$119,800
% High School Graduates or Higher Persons 25 Years Old and Older	86.00%	84.40%	86.7%	85.3%
% Persons with Income Below Poverty Level	15.40%	17.60%	13.7%	19.0%
Median Household Income	$53,046	$44,298	$45,991	$39,258

Source: U.S. Census Bureau State & County QuickFacts - 2013.

RECREATION

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

Source: National Park Service.

Fort Loudoun State Historic Park. Fort Loudoun State Park is located in Vonore (in Monroe County) on TVA's Tellico Reservoir. This 1,200-acre site is the location of one of the earliest British fortifications on the western frontier, built in 1756. Today the fort and the 1794 Tellico Blockhouse overlook the Tellico Reservoir and the Appalachian Mountains. Much of the park's 1,200-acres lie on an island on Tellico Lake. The park has a Visitor Center/Museum that offers information on the area's history and artifacts that were excavated prior to the Fort's reconstruction. The largest event of each year is an18th Century Trade Faire that showcases many aspects of that century. British soldiers, civilians, ladies and small children come together with traders, French soldiers, Creek and Cherokee Indians.

Source: Tennessee State Parks.

Great Smoky Mountains National Park (the "Park"). The Great Smoky Mountains National Park straddles the border between North Carolina and Tennessee in Blount and Sevier Counties and the southern part of Cocke County. Monroe County is located southwest of the Park. Over 500,000 acres were set aside in 1934 to form the Park. It includes 97 historic and 342 modern structures that are maintained by the Park. The Park is a hiker's paradise with over 800 miles of maintained trails, including the Appalachian Trail. The Smoky Mountains have the most biological diversity of any area in the world's temperate zone. The Park is a sanctuary for a magnificent array of animal and plant life, all of which is protected for future generations to enjoy. Located in the center of the eastern half of the United States, the Park is readily accessible to 70% of the country's population. Each year it draws the largest attendance of any of the National Parks in the United States. Visitors during 2013 reached over 9.3 million.

In 2008 construction was completed to build a $4.5 million Twin Creeks Science and Education Center near Gatlinburg. In late 2009 construction began on the $3 million Oconoluftee Visitor Center near Cherokee, N.C. These are the first new major buildings to be built in the Park since the Sugarlands Visitor Center opened in 1964 at the Gatlinburg entrance.

Source: National Park Service.

RECENT DEVELOPMENTS

ALCOA Inc. A three year, $275 million expansion began in 2013 to convert capacity for the automobile industry. 200 full-time workers will be hired upon completion in 2016, and over 400 jobs will be created during construction. ALCOA announced in 2012 that the smelting operation that was idled in 2009 would be permanently closed. In early 2010 ALCOA cut 90 Blount County jobs on top of the 450 jobs cut in 2009 due to an unprecedented drop in aluminum prices. The 450 jobs represented almost a third of some 1,500 ALCOA jobs in Blount County. The layoffs further reduce employment at the Blount County facility that at one time was the largest aluminum manufacturing facility in the world with 12,000 employees. The Pittsburgh-based manufacturer shut down both smelting production lines in Blount County as part of an 18-percent reduction in annual aluminum output.

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

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

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

Denso Tennessee. Denso Manufacturing produces automotive parts in four plants located in Maryville. Already one of the largest employers in the County, DENSO represents an investment exceeding $1.1 billion in the Blount County Industrial Park. From 2011-2013 the company has hired an additional 900 workers to begin a new production line of fuel efficient starters. The 55-acre addition includes a new state-of-the-art electronics division. The expansion added a 220,000-square-foot wing to the company's existing facility, covering 1.5 million square feet. The company's entire campus, also featuring a training center, logistics center and associate fitness center, covers more than 154 acres. In 2008 Denso completed a $185 million expansion at its Maryville plant in the Blount County Industrial Park.

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

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

G&T Industries. G&T Industries, a supplier to the boating, RV and private aircraft markets has two locations in Blount County and doubled in size by 2010. The manufacturer will consolidate the two existing operations into a new 105,000-square-foot facility build on 15.9 acres of landing the Big Springs Industrial Park. The expansion cost between $4 to $5 million dollars and increased the number of employees to about 100.

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

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

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

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

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

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

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

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

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CITY OF ALCOA, TENNESSEE
SUMMARY OF BONDED INDEBTEDNESS

AMOUNT ISSUED		PURPOSE	DUE DATE	INTEREST RATE(S)		(1) OUTSTANDING
$ 2,000,000		Loan Agreement, Series B-10-A (Taxable)	June 2021	Fixed		$ 295,000
10,750,000	(5)	General Obligation Bonds, Series 2006 (Taxable)	June 2026	Fixed		475,000
9,225,000		Loan Agreement (Maryville Civic Arts Center), Series 2009	June 2036	Variable	(3)	8,345,000
7,600,000	(7)	General Obligation Bonds, Series 2008	June 2042	Fixed		7,350,000
3,000,000		Loan Agreement, Series B-17-A	June 2028	Fixed		2,375,000
10,365,000	(2)	Loan Agreement, Series E-3-E	June 2017	Synthetic Fixed	(3&4)	3,445,000
77,370,000	(6)	Loan Agreement, Series E-5-B	June 2042	Variable/Synthetic	(3)	73,260,000
6,075,000	(8)	General Obligation Bonds, Series 2009	June 2019	Fixed		4,995,000
1,390,000	(9)	General Obligation Refunding Bonds, Series 2011	April 2016	Fixed		585,000
3,960,793	(2)	State Of Tennessee Revolving Fund (Sept. 2012)	Aug. 2032	Fixed		3,703,801
10,000,000		General Obligation Bonds, Series 2012	June 2042	Fixed		9,775,000
10,000,000		General Obligation Bonds, Series 2013A	June 2043	Fixed		10,000,000
2,000,000	(10)	General Obligation Bonds, Series 2013B (Federally Taxable)	June 2019	Fixed		2,000,000
10,000,000		General Obligation Bonds, Series 2014	June 2043	Fixed		10,000,000
9,000,000	(11)	General Obligation Refunding Bonds, Series 2014B (Federally Taxable)	June 2026	Fixed		9,000,000
$ 172,735,793		**TOTAL BONDED DEBT**				$ 145,603,801
$ 9,995,000		General Obligation Bonds, Series 2015	June 2044	Fixed		$ 9,995,000
(77,320,551)		Less: Revenue-Supported Debt				(77,320,551)
$ 105,410,242		**NET BONDED DEBT**				$ 78,278,250

NOTES:

(1) The above figures do not include short-term notes outstanding, if any. Additionally, The City has entered in multiple interest rate swap agreements. For more information, see the notes to the Financial Statements in the GENERAL PURPOSE FINANCIAL STATEMENTS included herein.

(2) Revenue-supported bonds.

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

(4) A portion ($570,000) of the Series E-3-E Bonds will be supported by water and sewer revenue and a portion ($775,000) of the Series E-3-E Bonds will be supported by landfill revenues.

(5) A portion of the Series 2006 Bonds will be supported by water and sewer revenue and landfill revenues and electric system revenue.

(6) A portion ($37,825,000) of the Series E-5-B Bonds will be supported by water and sewer revenue and a portion ($18,280,000) of the Series E-5-B Bonds will be supported by electric revenues.

(7) A portion ($5,150,000) of the Series 2008 Bonds will be supported by water and sewer revenue.

(8) The Bonds will be supported by solid waste revenue.

(9) A portion ($385,000) of the Series 2011 Bonds will be supported by water and sewer revenue.

(10) A portion ($545,000) of the Series 2013B Bonds will be supported by water and sewer revenue and a portion ($605,000) of the Series 2013B Bonds will be supported by landfill revenues.

(11) A portion ($1,440,000) of the Series 2014B Bonds will be supported by water and sewer revenue and a portion ($240,000) of the Series 2014B Bonds will be supported by landfill revenues and a portion ($2,555,000) of the Series 2014B Bonds will be supported by electric system revenues.

CITY OF ALCOA, TENNESSEE

Indebtedness and Debt Ratios

INTRODUCTION

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

	For Fiscal Year Ended June 30					After Issuance
INDEBTEDNESS	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
TAX SUPPORTED						
General Obligation Bonds & Notes	$ 44,507,250	$ 42,872,250	$ 41,119,250	$ 49,244,500	$ 67,908,000	$ 78,278,250
TOTAL TAX SUPPORTED	$ 44,507,250	$ 42,872,250	$ 41,119,250	$ 49,244,500	$ 67,908,000	$ 78,278,250
REVENUE SUPPORTED						
Water & Sewer & Solid Waste Revenue Bonds	$ 56,039,906	$ 54,908,852	$ 57,678,169	$ 56,408,649	$ 56,212,801	$ 56,333,551
Electric Revenue Bonds	23,926,000	23,231,000	22,473,000	21,657,000	20,808,000	20,987,000
TOTAL REVENUE SUPPORTED	$ 79,965,906	$ 78,139,852	$ 80,151,169	$ 78,065,649	$ 77,020,801	$ 77,320,551
TOTAL DEBT	$ 124,473,156	$ 121,012,102	$ 121,270,419	$ 127,310,149	$ 144,928,801	$ 155,598,801
Less: Revenue Supported Debt	$ (79,965,906)	$ (78,139,852)	$ (80,151,169)	$ (78,065,649)	$ (77,020,801)	$ (77,320,551)
Less: Debt Service Fund	-	-	-	-	-	-
NET DIRECT DEBT	$ 44,507,250	$ 42,872,250	$ 41,119,250	$ 49,244,500	$ 67,908,000	$ 78,278,250
OVERLAPPING DEBT (1)	$ 30,416,429	$ 32,287,545	$ 31,532,992	$ 31,962,739	$ 28,926,480	$ 28,926,480
NET DIRECT & OVERLAPPING DEBT	$ 74,923,679	$ 75,159,795	$ 72,652,242	$ 81,207,239	$ 96,834,480	$ 107,204,730
PROPERTY TAX BASE						
Estimated Actual Value	$ 1,487,079,770	$ 1,452,093,943	$ 1,411,195,670	$ 1,454,779,907	$ 1,439,407,011	$ 1,428,883,610
Appraised Value	1,276,955,398	1,452,093,943	1,411,195,670	1,454,779,907	1,439,407,011	1,428,883,610
Assessed Value	413,986,015	467,744,776	454,226,484	468,248,448	463,051,825	460,411,256

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

Source: General Purpose Financial Statements and City Officials.

DEBT RATIOS	For Fiscal Year Ended June 30 2010	2011	2012	2013	2014	After Issuance 2015
TOTAL DEBT to Estimated Actual Value	8.37%	8.33%	8.59%	8.75%	10.07%	10.89%
TOTAL DEBT to Appraised Value	9.75%	8.33%	8.59%	8.75%	10.07%	10.89%
TOTAL DEBT to Assessed Value	30.07%	25.87%	26.70%	27.19%	31.30%	33.80%
NET DIRECT DEBT to Estimated Actual Value	10.75%	9.17%	9.05%	10.52%	14.67%	17.00%
NET DIRECT DEBT to Appraised Value	3.49%	2.95%	2.91%	3.39%	4.72%	5.48%
NET DIRECT DEBT to Assessed Value	10.75%	9.17%	9.05%	10.52%	14.67%	17.00%
OVERLAPPING DEBT to Estimated Actual Value	2.05%	2.22%	2.23%	2.20%	2.01%	2.02%
OVERLAPPING DEBT to Appraised value	2.38%	2.22%	2.23%	2.20%	2.01%	2.02%
OVERLAPPING DEBT to Assessed Value	7.35%	6.90%	6.94%	6.83%	6.25%	6.28%
NET DIRECT & OVERLAPPING DEBT to Estimated Actual Value	5.04%	5.18%	5.15%	5.58%	6.73%	7.50%
NET DIRECT & OVERLAPPING DEBT to Appraised Value	5.87%	5.18%	5.15%	5.58%	6.73%	7.50%
NET DIRECT & OVERLAPPING DEBT to Assessed Value	18.10%	16.07%	15.99%	17.34%	20.91%	23.28%
PER CAPITA RATIOS						
POPULATION (1)	8,449	8,453	8,551	8,640	8,640	8,640
PER CAPITA PERSONAL INCOME (2)	$ 31,725	$ 33,309	$ 34,944	$ 35,310	$ 35,310	$ 35,310
Estimated Actual Value to POPULATION	$ 176,007	$ 171,784	$ 165,033	$ 168,377	$ 166,598	$ 165,380
Assessed Value to POPULATION	$ 48,998	$ 55,335	$ 53,120	$ 54,195	$ 53,594	$ 53,288
Total Debt to POPULATION	$ 14,732	$ 14,316	$ 14,182	$ 14,735	$ 16,774	$ 18,009
Net Direct Debt to POPULATION	$ 5,268	$ 5,072	$ 4,809	$ 5,700	$ 7,860	$ 9,060
Overlapping Debt to POPULATION	$ 3,600	$ 3,820	$ 3,688	$ 3,699	$ 3,348	$ 3,348
Net Direct & Overlapping Debt to POPULATION	$ 8,868	$ 8,891	$ 8,496	$ 9,399	$ 11,208	$ 12,408
Total Debt Per Capita as a percent of PER CAPITA PERSONAL INCOME	46.44%	42.98%	40.58%	41.73%	47.51%	51.00%
Net Direct Debt Per Capita as a percent of PER CAPITA PERSONAL INCOME	16.60%	15.23%	13.76%	16.14%	22.26%	25.66%
Overlapping Debt Per Capita as a % of PER CAPITA PERSONAL INCOME	11.35%	11.47%	10.55%	10.48%	9.48%	9.48%
Net Direct & Overlapping Debt Per Capita as a % of PER CAPITA PERSONAL INCOME	27.95%	26.69%	24.31%	26.62%	31.74%	35.14%

(1) Per Capita computations are based upon POPULATION data according to the U.S. Census.
(2) PER CAPITA PERSONAL INCOME is based upon the most current data available from the U. S. Department of Commerce.

CITY OF ALCOA, TENNESSEE

BONDED DEBT SERVICE REQUIREMENTS - General Obligation

F.Y. Ended 6/30	As of September 17, 2014 Existing Debt - General Obligation (1)			General Obligation Refunding Bonds, Series 2014B (Federally Taxable)			% Series 2015 Principal Repaid	Total Bonded Debt Service Requirements (1) & (2) & (3)			% All Principal Repaid Repaid
	Principal	Interest (2)	TOTAL	Principal	Interest (3)	TOTAL		Principal	Interest	TOTAL	
2015	$ 2,648,250	$ 2,728,870	$ 5,377,120	$ -	$ -	$ -	0.00%	$ 2,648,250	$ 2,728,870	$ 5,377,120	3.38%
2016	2,755,000	2,660,369	5,415,369	-	310,578	310,578		2,755,000	2,970,947	5,725,947	
2017	2,660,000	2,562,194	5,222,194	-	323,145	323,145		2,660,000	2,885,339	5,545,339	
2018	2,760,000	2,460,259	5,220,259	245,000	323,145	568,145		3,005,000	2,783,404	5,788,404	
2019	2,860,000	2,349,146	5,209,146	250,000	318,245	568,245	4.95%	3,110,000	2,667,391	5,777,391	18.11%
2020	2,810,000	2,229,924	5,039,924	255,000	313,245	568,245		3,065,000	2,543,169	5,608,169	
2021	2,920,000	2,108,609	5,028,609	260,000	308,145	568,145		3,180,000	2,416,754	5,596,754	
2022	2,870,000	1,980,841	4,850,841	265,000	302,945	567,945		3,135,000	2,283,786	5,418,786	
2023	2,115,000	1,851,929	3,966,929	270,000	297,645	567,645		2,385,000	2,149,574	4,534,574	
2024	2,195,000	1,775,079	3,970,079	275,000	292,245	567,245	18.21%	2,470,000	2,067,324	4,537,324	36.30%
2025	2,235,000	1,694,669	3,929,669	280,000	286,745	566,745		2,515,000	1,981,414	4,496,414	
2026	2,320,000	1,610,319	3,930,319	290,000	279,745	569,745		2,610,000	1,890,064	4,500,064	
2027	2,195,000	1,522,594	3,717,594	295,000	272,495	567,495		2,490,000	1,795,089	4,285,089	
2028	2,250,000	1,435,894	3,685,894	305,000	265,415	570,415		2,555,000	1,701,309	4,256,309	
2029	2,125,000	1,345,531	3,470,531	310,000	257,638	567,638	33.02%	2,435,000	1,603,169	4,038,169	52.40%
2030	2,195,000	1,260,306	3,455,306	320,000	248,338	568,338		2,515,000	1,508,644	4,023,644	
2031	2,295,000	1,171,431	3,466,431	330,000	238,738	568,738		2,625,000	1,410,169	4,035,169	
2032	2,360,000	1,078,844	3,438,844	340,000	228,838	568,838		2,700,000	1,307,681	4,007,681	
2033	2,485,000	983,019	3,468,019	350,000	217,788	567,788		2,835,000	1,200,806	4,035,806	
2034	2,635,000	879,788	3,514,788	360,000	206,413	566,413	50.03%	2,995,000	1,086,200	4,081,200	69.86%
2035	2,705,000	769,519	3,474,519	375,000	193,813	568,813		3,080,000	963,331	4,043,331	
2036	2,865,000	656,506	3,521,506	390,000	180,688	570,688		3,255,000	837,194	4,092,194	
2037	1,650,000	532,969	2,182,969	400,000	166,063	566,063		2,050,000	699,031	2,749,031	
2038	1,675,000	468,469	2,143,469	420,000	151,063	571,063		2,095,000	619,531	2,714,531	
2039	1,750,000	403,188	2,153,188	435,000	135,313	570,313	70.24%	2,185,000	538,500	2,723,500	86.04%
2040	1,875,000	331,031	2,206,031	450,000	119,000	569,000		2,325,000	450,031	2,775,031	
2041	1,925,000	253,625	2,178,625	465,000	101,000	566,000		2,390,000	354,625	2,744,625	
2042	2,050,000	173,375	2,223,375	485,000	82,400	567,400		2,535,000	255,775	2,790,775	
2043	2,100,000	87,750	2,187,750	505,000	63,000	568,000		2,605,000	150,750	2,755,750	
2044	-	-	-	525,000	42,800	567,800	94.55%	525,000	42,800	567,800	99.30%
2045	-	-	-	545,000	21,800	566,800	100.00%	545,000	21,800	566,800	100.00%
	$ 68,283,250	$ 39,366,045	$ 107,649,295	$ 9,995,000	$ 6,548,426	$ 16,543,426		$ 78,278,250	$ 45,914,471	$ 124,192,721	

NOTES:

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

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

(3) Average Coupon of 3.5541%.

CITY OF ALCOA, TENNESSEE

BONDED DEBT SERVICE REQUIREMENTS - REVENUE AND TAX SUPPORTED

Solid Waste System

As of September 17, 2014

F.Y. Ended 6/30	Total Bonded Debt Service Requirements (1) Principal	Interest (2)	TOTAL	% All Principal Repaid
2015	$ 764,250	$ 213,854	$ 978,104	11.53%
2016	785,000	189,962	974,962	23.37%
2017	820,000	164,123	984,123	35.74%
2018	840,000	141,053	981,053	48.41%
2019	885,000	116,128	1,001,128	61.76%
2020	785,000	88,288	873,288	73.60%
2021	820,000	61,798	881,798	85.97%
2022	835,000	33,268	868,268	98.57%
2023	20,000	3,328	23,328	98.87%
2024	25,000	2,688	27,688	99.25%
2025	25,000	1,838	26,838	99.62%
2026	25,000	938	25,938	100.00%
	$ 6,629,250	$ 1,017,261	$ 7,646,511	

NOTES:

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

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

CITY OF ALCOA, TENNESSEE

BONDED DEBT SERVICE REQUIREMENTS - REVENUE AND TAX SUPPORTED

Water And Sewer System

As of September 17, 2014

F.Y. Ended 6/30	Total Bonded Debt Service Requirements (1) & (2) Principal	Interest	TOTAL	% All Principal Repaid
2015	$ 1,145,464	$ 2,293,015	$ 3,438,479	2.30%
2016	1,175,136	2,260,388	3,435,524	
2017	1,180,500	2,219,399	3,399,899	
2018	1,221,032	2,172,110	3,393,142	
2019	1,261,768	2,121,072	3,382,840	12.04%
2020	1,212,708	2,065,992	3,278,700	
2021	1,268,840	2,011,080	3,279,920	
2022	1,330,188	1,953,269	3,283,457	
2023	1,416,752	1,892,395	3,309,147	
2024	1,478,556	1,828,370	3,306,926	25.53%
2025	1,545,576	1,759,664	3,305,240	
2026	1,617,848	1,687,500	3,305,348	
2027	1,600,372	1,611,674	3,212,046	
2028	1,673,160	1,534,957	3,208,117	
2029	2,066,212	1,454,715	3,520,927	42.64%
2030	2,224,540	1,359,500	3,584,040	
2031	1,893,156	1,256,866	3,150,022	
2032	1,982,072	1,169,240	3,151,312	
2033	1,845,421	1,079,574	2,924,995	
2034	1,885,000	991,875	2,876,875	62.42%
2035	1,980,000	901,725	2,881,725	
2036	2,075,000	807,075	2,882,075	
2037	2,155,000	707,825	2,862,825	
2038	2,260,000	604,575	2,864,575	
2039	2,370,000	496,375	2,866,375	84.23%
2040	2,490,000	382,500	2,872,500	
2041	2,610,000	262,750	2,872,750	
2042	2,740,000	134,500	2,874,500	100.00%
	$ 49,704,301	$ 39,019,979	$ 88,724,280	

NOTES:

(1) The above figures do not include short-term notes outstanding, if any. For more information, see the notes to the Financial Statements in the GENERAL PURPOSE FINANCIAL STATEMENTS included in herein. Includes $4,000,000 State Revolving Loan.

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

CITY OF ALCOA, TENNESSEE

BONDED DEBT SERVICE REQUIREMENTS - Revenue & Tax Supported

Electric System

As of September 17, 2014

F.Y. Ended	Total Bonded Debt Service Requirements (1) & (2) & (3)			% Principal
6/30	Principal	Interest	TOTAL	Repaid
2015	$ 942,000	$ 967,752	$ 1,909,752	4.49%
2016	985,000	942,056	1,927,056	
2017	1,020,000	901,406	1,921,406	
2018	1,045,000	858,401	1,903,401	
2019	1,100,000	813,070	1,913,070	24.26%
2020	1,145,000	764,118	1,909,118	
2021	1,205,000	712,458	1,917,458	
2022	1,265,000	657,378	1,922,378	
2023	1,325,000	598,728	1,923,728	
2024	1,385,000	536,798	1,921,798	54.40%
2025	1,445,000	471,548	1,916,548	
2026	1,500,000	402,938	1,902,938	
2027	1,310,000	331,250	1,641,250	
2028	1,360,000	265,750	1,625,750	
2029	1,435,000	197,750	1,632,750	87.99%
2030	1,510,000	126,000	1,636,000	
2031	1,010,000	50,500	1,060,500	100.00%
	$ 20,987,000	$ 9,597,899	$ 30,584,899	

NOTES:

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

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

FINANCIAL INFORMATION

INTRODUCTION

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

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

BASIS OF ACCOUNTING AND PRESENTATION

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

BUDGETARY PROCESS

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

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

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FUND BALANCES, NET ASSETS AND RETAINED EARNINGS

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

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

	For the year ended June 30				
Fund Type	**2010**	**2011**	**2012**	**2013**	**2014**
Governmental Funds:					
General	$2,409,019	$5,130,428	$2,517,547	$2,592,563	$3,773,269
Education	1,843,734	2,101,890	1,138,977	879,036	399,133
Debt Service	95,766	95,232	94,697	804,120	1,787,413
School Fund	1,328,293	643,496	934,986	12,559	480,000
Alcoa High School	-	-	-	8,158,425	12,034,975
Other Governmental	1,289,298	986,503	3,230,613	3,949,021	3,625,140
Total	**$6,966,110**	**$8,957,549**	**$7,916,820**	**$16,395,724**	**$22,099,930**
Proprietary Net Assets:					
Water/Sewer	$16,399,253	$17,933,097	$19,107,463	$19,154,135	$19,468,901
Stormwater	878,904	1,021,461	1,047,370	1,183,448	1,127,061
Electric	29,660,007	31,646,463	34,201,990	35,635,144	36,522,292
Landfill	2,236,335	2,573,467	3,035,724	2,975,842	2,442,339
Total	**$49,174,499**	**$53,174,488**	**$57,392,547**	**$58,948,569**	**$59,560,593**

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

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

	2010	2011	2012	2013	2014
Revenues:					
Local taxes	$ 11,800,411	$ 13,763,409	$ 11,654,503	$ 15,260,887	$ 16,653,983
Licenses and Permits	36,302	61,824	85,630	107,319	163,953
Intergovernmental Revenue	1,768,951	2,199,372	2,732,447	2,250,043	2,173,709
American Recovery Reinvestment Act (ARRA)	112,403	1,635,667	-	-	-
Charges for Service	98,820	378,405	537,789	372,895	474,484
Fines and Forfeits	534,089	799,272	474,586	435,732	464,448
Rent for use of Facilities	154,744	154,944	136,533	143,389	143,547
Interest and Investment Earnings	336	9,512	11,878	-	-
Miscellaneous	115,514	227,360	202,898	76,703	32,850
Sale of Property / Equipment	-	-	-	13,296	64,258
Total Revenues	$ 14,621,570	$ 19,229,765	$ 15,836,264	$ 18,660,264	$ 20,171,232
Expenditures and Other Uses:					
General Government	$ 1,585,698	$ 1,621,048	$ 1,725,782	$ 1,703,606	$ 1,726,638
Public Safety	6,894,531	7,013,185	7,765,636	8,001,649	8,663,677
Public Works	2,797,037	4,085,717	4,879,116	4,739,978	4,934,270
Recreation and Parks	476,539	583,044	670,432	699,498	739,419
Other Appropriations	1,143,208	790,263	592,824	748,075	713,405
Adjustment	-		-	-	-
Capital Projects	-	2,790,217	-	-	-
Total Expenditures	$ 12,897,013	$ 16,883,474	$ 15,633,790	$ 15,892,806	$ 16,777,409
Excess of Revenues & Over (under) Expenditures	$ 1,724,557	$ 2,346,291	$ 202,474	$ 2,767,458	$ 3,393,823
Other Financing Sources (Uses):					
Interfund Transfers - In	$ 500,000	$ 500,000	$ 250,000	$ 250,000	$ -
Interfund Transfers - Out	(2,317,499)	(2,757,060)	(4,686,856)	(4,572,099)	(4,050,000)
In Lieu of Taxes	-	1,576,436	1,621,501	1,629,657	1,686,883
Proceeds of Bonds	-	-	-	-	150,000
Payment of Refunding Bonds and Maryville College	-	-	-	-	-
Payment to Blount County	-	-	-	-	-
Other	-	952,511	-	-	-
Total Other Financing Sources (Uses)	$ (1,817,499)	$ 271,887	$ (2,815,355)	$ (2,692,442)	$ (2,213,117)
Excess of Revenue and Other Sources over (Under) Expenditures and Other Sources	$ (92,942)	$ 2,618,178	$ (2,612,881)	$ 75,016	$ 1,180,706
Extraordinary Item	-	-	-	-	-
Fund Balance July 1	$ 2,501,961	$ 2,409,019	$ 5,130,428	$ 2,517,547	$ 2,592,563
Prior Period Adjustment	-	103,231	-	-	-
Fund Balance June 30	**$ 2,409,019**	**$ 5,130,428**	**$ 2,517,547**	**$ 2,592,563**	**$ 3,773,269**

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

CITY OF ALCOA, TENNESSEE

FIVE YEAR SUMMARY OF REVENUES, EXPENDITURES AND

CHANGES IN FUND BALANCES - Water and Sewer Fund

For the Fiscal Year Ended June 30

	2010	2011	2012	2013	2014
Revenues:					
Charges for Services	$ 10,328,616	$ 9,700,941	$ 11,079,081	$ 10,572,753	$ 10,937,689
Forfeited Discounts	-	-	-	-	-
Miscellaneous Revenues	25,886	377,257	902,691	113,898	21,122
Total Revenues	$ 10,354,502	$ 10,078,198	$ 11,981,772	$ 10,686,651	$ 10,958,811
Expenses:					
Administrative	$ 653,507	$ 592,863	$ 624,986	$ 700,237	$ 729,133
Accounting & Collection	633,759	675,580	681,933	740,753	805,409
Supervision	175,674	202,392	225,879	232,104	254,265
Water Plant Operation	1,532,703	1,512,087	1,563,571	1,542,722	1,568,618
Distribution	978,106	801,657	826,922	831,263	296,367
Meter Reading and Repair	270,543	300,637	333,595	358,834	305,468
Water Maintenance	244,965	250,084	186,402	177,093	229,214
Sewer Collection and Disposal	2,614,824	2,812,943	2,342,623	2,218,637	2,007,777
Inspection/Environmental Compliance	119,637	91,824	98,673	105,844	115,683
Depreciation and Amortization	2,080,428	2,120,348	2,150,240	2,293,111	2,258,876
Taxes and Tax Equivalents	400,000	-	-	-	-
Total Expenses	$ 9,704,146	$ 9,360,415	$ 9,034,824	$ 9,200,598	$ 8,570,810
Operating Income	$ 650,356	$ 717,783	$ 2,946,948	$ 1,486,053	$ 2,388,001
Other Income/Expense:					
Amortization of Discount/Expense	$ (38,988)	$ (38,989)	$ (44,494)	$ (51,777)	$ (39,643)
Other Income (Expenses)	145,487	49,573	27,499	11,781	3,832
Interest Income (Expense)	(1,414,681)	(1,461,566)	(1,409,806)	(1,395,130)	(1,637,424)
Total Other Income (Expense)	$ (1,308,182)	$ (1,450,982)	$ (1,426,801)	$ (1,435,126)	$ (1,673,235)
Net Income before Capital Contribution and Transfers	$ (657,826)	$ (733,199)	$ 1,520,147	$ 50,927	$ 714,766
Capital Contributions	1,814,111	2,667,043	54,219	370,745	-
Payments in lieu of taxes	-	(400,000)	(400,000)	(375,000)	(400,000)
Changes in Net Assets	$ 1,156,285	$ 1,533,844	$ 1,174,366	$ 46,672	$ 314,766
Net Assets - Beginning of the year	$ 15,242,968	$ 16,399,253	$ 17,933,097	$ 19,107,463	$ 19,154,135
Prior Period Adjustment	-	-	-	-	-
Net Assets - End of the year	**$ 16,399,253**	**$ 17,933,097**	**$ 19,107,463**	**$ 19,154,135**	**$ 19,468,901**

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

CITY OF ALCOA, TENNESSEE

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

	2010	2011	2012	2013	2014
Operating Revenues:					
Residential	$ 32,362,746	$ 38,352,043	$ 35,888,794	$ 37,089,208	$ 38,160,702
Small lighting and power sales	5,052,382	5,559,605	5,766,500	5,850,584	6,110,830
Large lighting and power sales	14,421,760	16,586,668	17,243,546	16,525,841	16,555,636
Street and outdoor	890,539	975,038	1,035,164	1,085,354	1,083,511
Consumer forfeitures and discounts	378,005	439,295	420,582	425,046	451,428
Rent from electric property	502,969	515,378	538,810	558,546	544,454
Miscellaneous service revenue	223,651	248,659	232,357	234,782	245,108
Other electric revenue	1,156	528	51,851	54,797	63,807
Total Revenues	$ 53,833,208	$ 62,677,214	$ 61,177,604	$ 61,824,158	$ 63,215,476
Purchased Power	$ 43,373,895	$ 49,832,583	$ 47,257,423	$ 48,108,297	$ 49,618,161
Operating Expenses:					
Distribution expenses	$ 1,155,266	$ 1,199,588	$ 1,299,299	$ 1,440,403	$ 1,462,995
Customer account expenses	1,298,049	1,348,792	1,307,531	1,312,066	1,371,308
Sales expense	75,659	66,893	117,430	104,554	80,908
Administrative and general expense	2,481,862	2,472,151	2,709,987	2,717,802	3,051,305
Total Operating Expenses	$ 5,010,836	$ 5,087,424	$ 5,434,247	$ 5,574,825	$ 5,966,516
Maintenance Expenses:					
Distribution expenses	$ 1,711,227	$ 1,853,469	$ 2,076,232	$ 2,543,545	$ 2,571,464
Administrative and general expense	10,969	25,292	18,680	44,770	27,593
Total Maintenance Expenses	$ 1,722,196	$ 1,878,761	$ 2,094,912	$ 2,588,315	$ 2,599,057
Other Operating Expenses:					
Depreciation expenses	$ 2,309,630	$ 2,304,265	$ 2,370,321	$ 2,411,498	$ 2,422,746
Taxes and tax equivalents	1,148,497	-	-	-	-
Total Maintenance Expenses	$ 3,458,127	$ 2,304,265	$ 2,370,321	$ 2,411,498	$ 2,422,746
Operating Income	$ 268,154	$ 3,574,181	$ 4,020,701	$ 3,141,223	$ 2,608,996
Interest Income	$ 26,501	$ 18,046	$ 20,185	$ 20,320	$ 22,752
Interest Expense:					
Interest on long term debt	$ (330,000)	$ (405,000)	$ (240,000)	$ (462,500)	$ (378,333)
Amortization of debt expense	(26,387)	(26,387)	(26,387)	(26,387)	(26,387)
Total Interest Expense	$ (356,387)	$ (431,387)	$ (266,387)	$ (488,887)	$ (404,720)
Other Income (Expense):					
Revenue from contract work	$ 1,509	$ 406	$ 696	$ 1,357	$ 473
Expense from contract work	18,000	-	-	-	-
Other income expense	1,826	1,646	1,833	13,798	(53,470)
Total Other Income	$ 21,335	$ 2,052	$ 2,529	$ 15,155	$ (52,997)
Net Income before transfers	$ 672,377	$ 3,162,892	$ 3,777,028	$ 2,687,811	$ 2,174,031
Transfers - In Lieu of Taxes	$ (40,397)	$ (1,176,436)	$ (1,221,501)	$ (1,254,657)	$ (1,286,883)
Extraordinary Item	(672,377)	-	-	-	-
Changes in Net Assets	$ (40,397)	$ 1,986,456	$ 2,555,527	$ 1,433,154	$ 887,148
Net Assets - July 1	$ 29,700,404	$ 29,660,007	$ 31,646,463	$ 34,201,990	$ 35,635,144
Net Assets - June 30	**$ 29,660,007**	**$ 31,646,463**	**$ 34,201,990**	**$ 35,635,144**	**$ 36,522,292**

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

INVESTMENT AND CASH MANAGEMENT PRACTICES

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

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

PROPERTY TAX

Introduction. The City is authorized to levy a tax on all property within the City without limitation as to rate or amount. All real and personal property within the City is assessed in accordance with the State constitutional and statutory provisions by the County Property Tax Assessor except most utility property, which is assessed directly by the Office of State Assessed Property. All property taxes are due on September 1 of each year based upon appraisals as of January 1 of the same calendar year. All property taxes are delinquent on October 1 of the same calendar year. Delinquent taxes begin accumulating interest and penalties on that date. In order to collect delinquent taxes, law suits must be filed in Chancery Court within a ten year period of the delinquency date. Additional costs are incurred and attached to delinquent property after the Chancery Court suit is filed by the City.

Reappraisal Program. Title 67, Chapter 5, Part 16, *Tennessee Code Annotated*, as supplemented and amended, mandates that after June 1, 1989, all property in the State will be reappraised on a continuous six (6) year cycle composed of an on-sight review of each parcel of property over a five (5) year period followed by reevaluation of all such property in the year following the completion of the review. In the third year of the review, there shall be an updating of all real property values by application of an index or indexes established for the jurisdiction by the State Board of Equalization, so as to maintain real property values at full value as defined in Title 67, Chapter 5, Part 6, *Tennessee Code Annotated.* The State Board of Equalization is also required to consider a plan submitted by a local assessor that may be used in lieu of indexing which would have the effect of maintaining real property values at full value.

Title 67, Chapter 5, Part 17, *Tennessee Code Annotated*, provides that at such time as such reappraisal and reassessment processes are completed in a particular county, the respective governing bodies of the county and the municipalities located therein shall determine and certify a tax rate which will provide the same ad valorem tax revenue for the respective jurisdiction as was levied prior to reappraisal and reassessment. In computing the new tax rate, the estimated assessed value of all new construction and improvements placed on the tax rolls since the previous year, and the assessed value of all deletions from the previous tax roll are excluded. The new tax rate therefore, is derived from a comparison of tax revenues, tax rates and assessed values of property on the tax roll in both the year before and the year after the reappraisal. The effect of the reappraisal and reassessment statutes is to adjust the property tax rate downward to prevent a taxing unit from collecting additional property tax revenues as a result of reappraisal. Once a municipality or county complies with State law and certifies a tax rate which provides the same property tax revenue as was collected for reappraisal, its governing body may vote to approve a tax rate change which would produce more or less tax revenue. The last reappraisal program was completed and certified in January 1, 2011.

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

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

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

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

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Property Tax Rates and Collections. The following table shows the property tax rates and collections of the City for tax years 2010 through 2014 as well as the aggregate uncollected balances for each fiscal year ending June 30.

PROPERTY TAX RATES AND COLLECTIONS				**Fiscal Yr Collections**		**Aggregate Uncollected Balance**	
Tax Year (a)	**Assessed Valuation**	**Tax Rates**	**Taxes Levied**	**Amount**	**Pct**	**as of June 30, 2014 Amount**	**Pct**
2010	$467,744,776	$1.96	$9,132,861	$8,864,975	97.1%	$ 97,318	1.1%
2011	454,226,484	1.96	8,945,269	8,641,271	96.6%	88,830	1.0%
2012	468,248,448	1.96	9,172,794	8,759,559	95.5%	0	0.0%
2013	463,051,825	1.96	8,951,791	8,540,278	95.4%	411,513	4.6%
2014	460,441,256	1.96	9,045,155*	**IN PROGRESS**			

(a) The tax year coincides with the calendar year, so tax year 2013, for example is actually fiscal year 2013-2014.
* Estimated

Largest Taxpayers. For the fiscal year ending June 30, 2014 (tax year 2013), the ten largest taxpayers in the City are as follows:

Taxpayer	**Business Type**	**Assessment**	**% of Total Assessment**
1. Aluminum Co. of America	Aluminum Ingot	$124,870,709	27.95%
2. CMH Management LP	MFG & Mortgage Banker	13,582,896	3.03%
3. Hamilton Crossing, LLC	Real Estate	9,578,660	2.14%
4. Faulkner Properties	Real Estate	6,391,400	1.43%
5. MIDEB Nominees #672	Real Estate	4,631,840	1.045
6. MIDEB Nominees Inc	Real Estate	3,302,440	0.74%
7. Stock Creek, LLC	Real Estate	3,202,000	0.72%
8. Coleman-Prospero Industrial	Manufacturer	3,137,360	0.70%
9. Rehold Alcoa, LLC	Manufacturer	2,713,125	0.61%
Total		**$1,71,410,430**	**38.6%**

Source: The City's Audit.

LOCAL OPTION SALES TAX

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

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

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

	2010	2011	2012	2013	2014
General	$5,831,489	$6,249,648	$5,764,787	$6,964,984	$7,269,999
General Purpose School Fund	1,425,344	1,464,124	1,644,348	1,733,137	1,806,846
TOTAL	**$7,256,833**	**$7,713,772**	**$7,409,135**	**$8,698,121**	**$9,076,845**

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

PENSION PLANS

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

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

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

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

UNFUNDED ACCRUED LIABILITY FOR POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

GASB Statement 45 establishes standards for the measurement, recognition, and display of Other Post-Employment Benefits ("OPEB") in the financial reports of state and local government employers. GASB 45 requires the recognition of the accrued liability for the respective year, plus the disclosure of the total unfunded liability. Cash funding of the unfunded liability is not required.

For more information see the Notes to the General Purpose Financial Statements located herein.

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APPENDIX C

GENERAL PURPOSE FINANCIAL STATEMENTS

CITY OF ALCOA

CITY OF ALCOA, TENNESSEE

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2014

"Excellence in Service - Quality of Life"

CITY OF ALCOA, TENNESSEE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2014

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CITY OF ALCOA, TENNESSEE

COMPREHENSIVE ANNUAL
FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2014

BOARD OF COMMISSIONERS

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

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

"Excellence in Service - Quality of Life"

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Alcoa

Tennessee

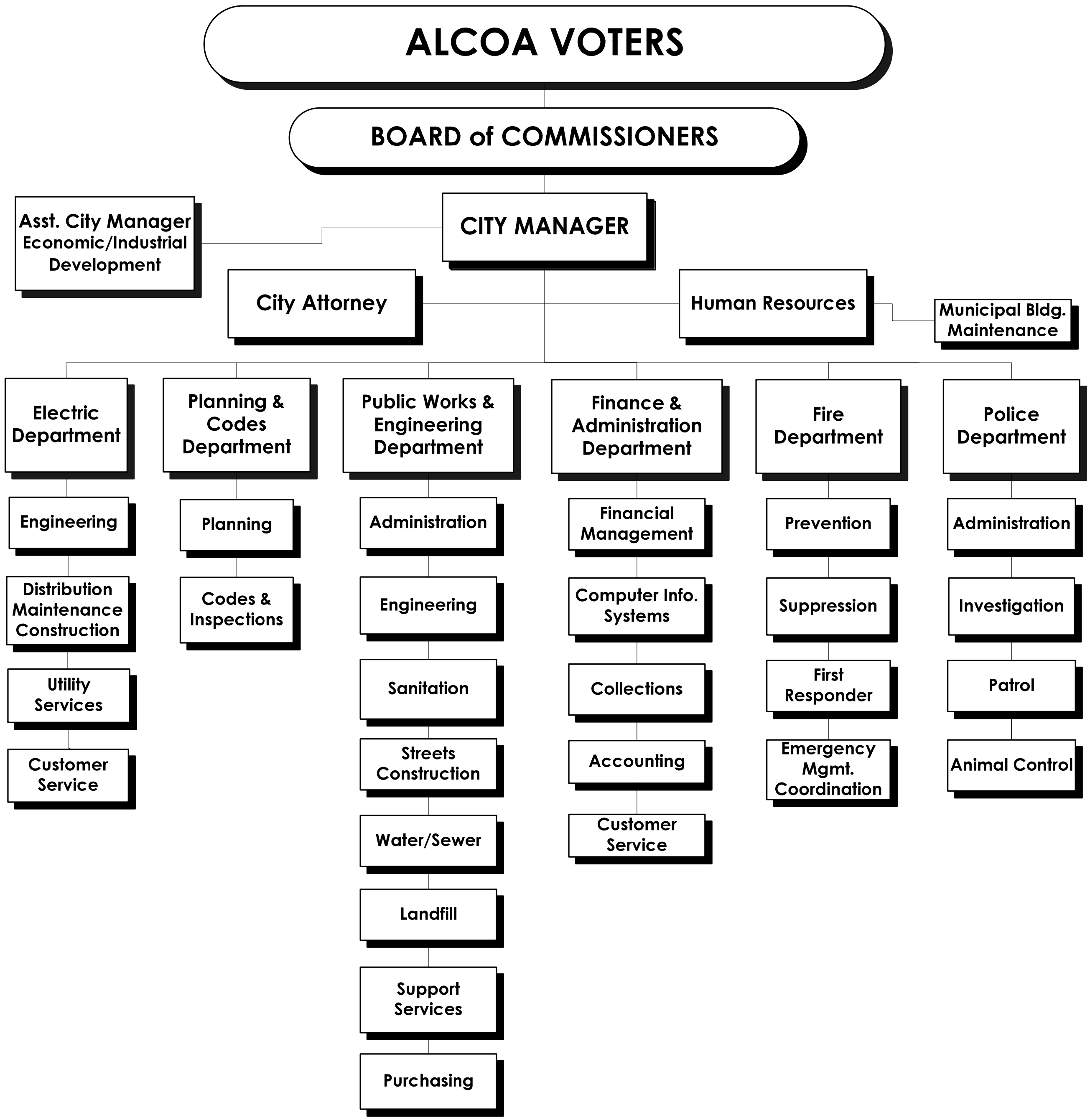
For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO

FY 2013 - 2014

City of Alcoa



CITY OF ALCOA, TENNESSEE

SECTION TWO

FINANCIAL SECTION

For the Fiscal Year Ended June 30, 2014

Ingram Overholt & Bean, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

428 Marilyn Lane
Alcoa, Tennessee 37701

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

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

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Alcoa, Tennessee (the City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Alcoa, Tennessee, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the General Fund and the Education Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages x through xix, and required supplementary schedules pages 78 through 80 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 no express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated December 17, 2014, on our consideration of the City of Alcoa, Tennessee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Alcoa, Tennessee's internal control over financial reporting and compliance.

Ingram, Overholt & Bean, PC
Alcoa, Tennessee
December 17, 2014

CITY OF ALCOA

223 Associates Boulevard, Alcoa, Tennessee 37701-1943 (865) 380-4700 FAX (865) 380-4797

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Alcoa's (the City) Annual Financial Report presents a narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2014. Readers are encouraged to consider the information presented here in conjunction with additional information that has been furnished in the letter of transmittal.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

Fund Financial Statements (Continued)

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

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

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

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

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

- **Enterprise funds** are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Stormwater Utility, Water and Sewer Utility, Electric Utility, and Landfill operations. All enterprise funds are considered to be major funds of the City.

- **Internal Service funds** are used to report activities that provide supplies and services for certain City programs and activities. The City uses internal service funds to account for its health insurance, flexible spending, OPEB and service center operations. The internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service fund is provided in the form of combining statements elsewhere in the financial statements.

Notes to the Financial Statements

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

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by $75.6 million (net position). The total net position increased by $5.9 million compared to the prior year.
- At June 30, 2014, the City's governmental funds reported combined ending fund balances of $22.1 million, an increase of $5.7 million in comparison to the prior year. Approximately 16% of this total amount ($3.53 million) is unassigned fund balance available for spending at the government's discretion.
- At June 30, 2014, total fund balance for the general fund was $3.8 million. The unassigned portion of the fund balance is $3.14 million, which is 18.7% of total general fund expenditures of $16.8 million.
- At June 30, 2014, the City's proprietary funds reported combined total net position of $59.6 million, and total unrestricted net position of $16.6 million.
- The City issued $22 million in bonds for the Alcoa High School Construction Project and Public Works Projects.

Combining Statements

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

GOVERNMENT-WIDE STATEMENTS FINANCIAL ANALYSIS

STATEMENTS OF NET POSITION

	Governmental Activities		Business-Type Activities		Total	Total
Assets	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Current and other Assets	$ 38,387,970	$ 29,761,208	$ 43,546,548	$ 44,182,381	$ 81,934,518	$ 73,943,589
Capital assets (net)	66,114,763	49,042,035	113,863,144	111,404,198	179,977,907	160,446,233
Capital lease property	10,198,992	10,379,548	27,947	130,285	10,226,939	10,509,833
Total Assets	114,701,725	89,182,791	157,437,639	155,716,864	272,139,364	244,899,655
Deferred Outflows of Resources:						
Deferred regulatory Charges - bond issuance costs	-	-	1,217,990	1,294,585	1,217,990	1,294,585
Liabilities						
Long-term liabilities	83,213,832	61,561,407	79,016,205	79,744,176	162,230,037	141,305,583
Other liabilities	6,700,795	8,006,445	20,078,831	18,318,704	26,779,626	26,325,149
Total Liabilities	89,914,627	69,567,852	99,095,036	98,062,880	189,009,663	167,630,732
Deferred Inflows of Resources:						
Deferred Revenue	8,757,435	8,833,086	-	-	8,757,435	8,833,086
Net Position						
Net investment in capital Assets	6,206,361	9,138,604	41,602,343	38,763,375	47,808,704	47,901,979
Restricted for:						
General Fund	633,361	2,096	-	-	633,361	2,096
Special revenue	1,007,601	1,372,178	-	-	1,007,601	1,372,178
Capital projects	15,531,647	10,712,010	-	-	15,531,647	10,712,010
Debt service	1,787,413	804,120	-	-	1,787,413	804,120
Property acquisitions	-	-	1,407,958	1,338,590	1,407,958	1,338,590
Unrestricted (deficit)	(9,136,720)	(11,247,155)	16,550,292	18,846,604	7,413,572	7,599,449
Total Net Position	**$ 16,029,663**	**$ 10,781,853**	**$ 59,560,593**	**$ 58,948,569**	**$ 75,590,256**	**$ 69,730,422**

Analysis of Net Position

As noted earlier, net position may serve as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by $75.6 million and $69.7 million at June 30, 2014 and June 30, 2013, respectively.

The largest portion of the City's net position reflects its investment of $47.8 million in capital assets (e.g. land, buildings, infrastructure, improvements, machinery and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated for these liabilities.

An additional portion of the City's net position, $20.4 million (27%) represents resources that are subject to external restrictions on how they may be used.

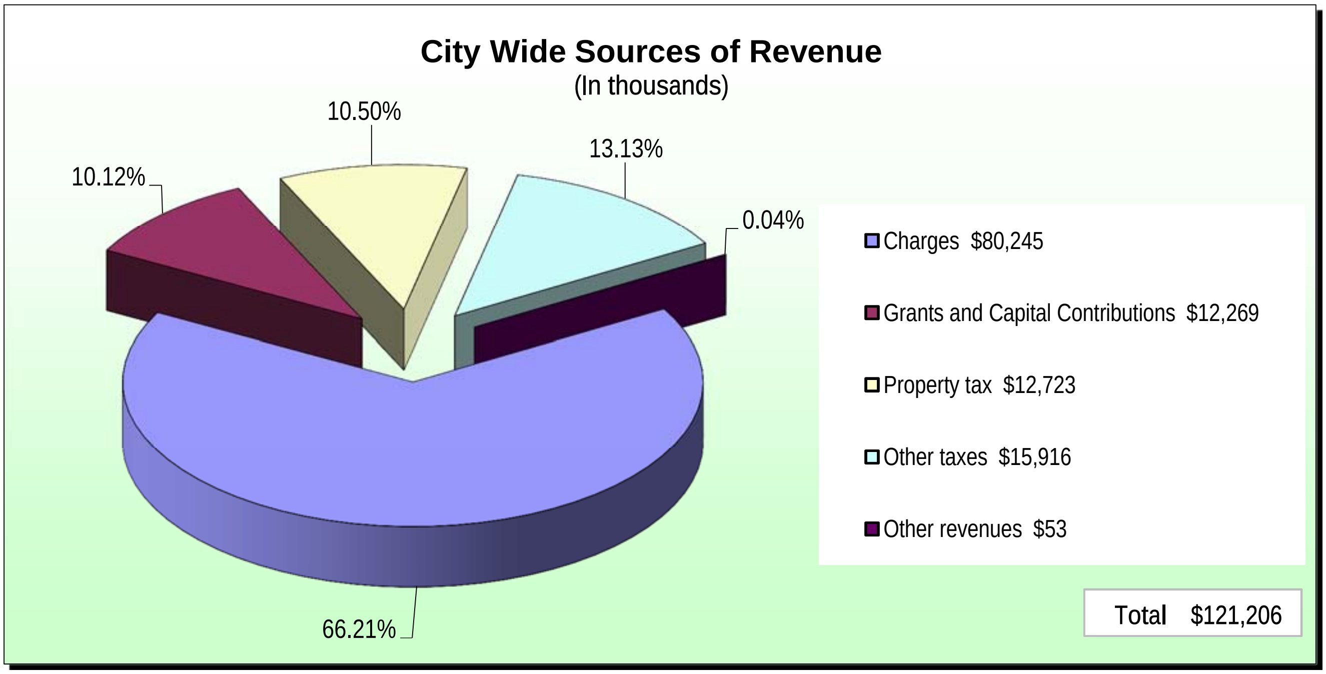
Analysis of Change in Net Position

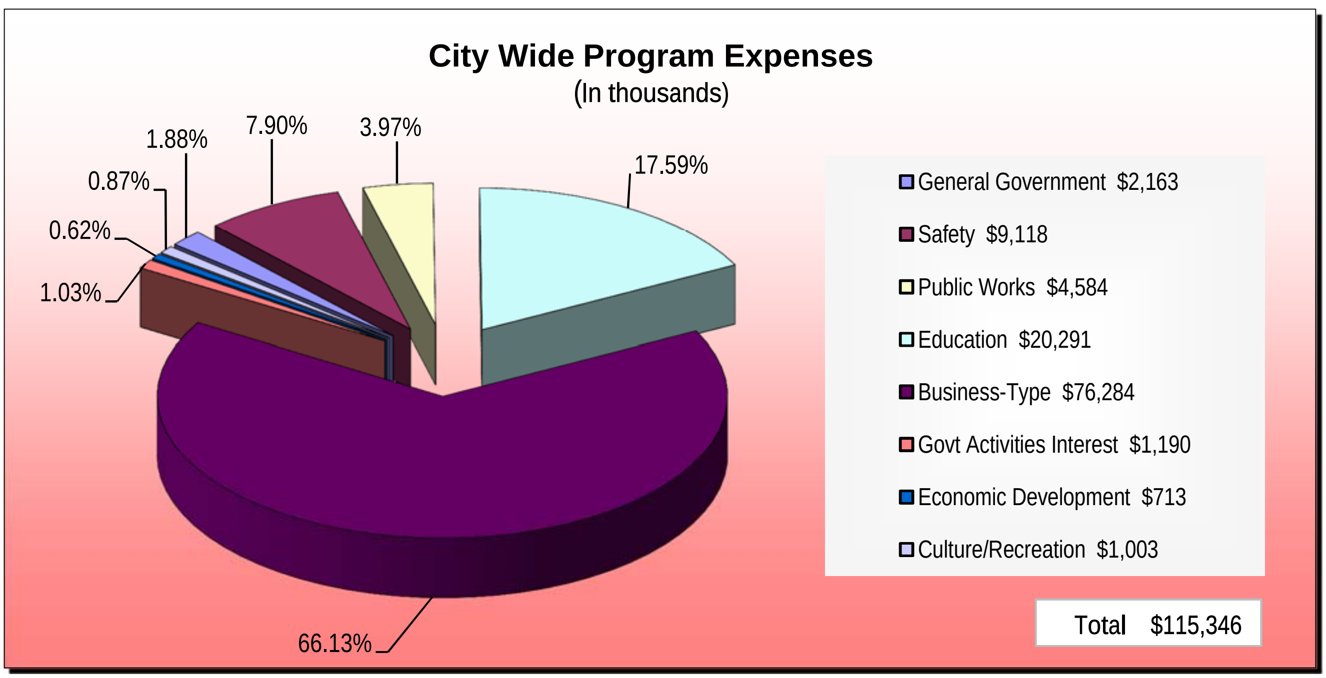
The City's net position increased by $5,859,834 for the fiscal year 2014. These changes are explained in the government and business-type activities presented below.

Changes in Net Position

Revenues	Governmental Activities 2014	Governmental Activities 2013	Business-Type Activities 2014	Business-Type Activities 2013	Total 2014	Total 2013
Program Revenues:						
Charges for services	$ 1,724,608	$ 1,138,918	$ 78,520,302	$ 76,888,513	$ 80,244,910	$ 78,027,431
Operating grants and contributions	9,071,291	8,823,444	90,559	105,603	9,161,850	8,929,047
Capital grants and contributions	3,107,392	223,478	-	473,138	3,107,392	696,616
General Revenues:						
Sales taxes	14,256,596	15,445,336	-	-	14,256,596	15,445,336
State income taxes	87,636	104,705	-	-	87,636	104,705
Property taxes	12,723,141	12,129,571	-	-	12,723,141	12,129,571
Business taxes/licenses	902,658	284,263	-	-	902,658	284,263
Miscellaneous taxes	512,845	467,396	-	-	512,845	467,396
Investment earnings	17,032	3,476	22,752	23,213	39,784	26,689
In-lieu of taxes	155,929	255,535	-	-	155,929	255,535
Gain(loss) on sale of assets	64,258	13,296	(50,755)	45,783	13,503	59,079
Total Revenues	42,623,386	38,889,418	78,582,858	77,536,250	121,206,244	116,425,668
Expenses						
General government	2,163,198	1,263,547	-	-	2,163,198	1,263,547
Police and Fire	9,118,341	7,641,666	-	-	9,118,341	7,641,666
Public works and streets	4,583,593	5,110,915	-	-	4,583,593	5,110,915
Recreation and Culture	1,003,749	1,270,427	-	-	1,003,749	1,270,427
Economic development	713,405	748,075	-	-	713,405	748,075
Education	20,290,532	21,048,665	-	-	20,290,532	21,048,665
Interest on long-term debt	1,189,641	1,166,010	-	-	1,189,641	1,166,010
Water and Sewer	-	-	10,247,877	10,647,505	10,247,877	10,647,505
Electric Utility	-	-	61,009,610	59,171,822	61,009,610	59,171,822
Landfill	-	-	3,943,753	3,629,673	3,943,753	3,629,673
Stormwater Utility	-	-	1,082,711	901,571	1,082,711	901,571
Total expenses	39,062,459	38,249,305	76,283,951	74,350,571	115,346,410	112,599,876
Increase (decrease) in net position before transfers and other sources	3,560,927	640,113	2,298,907	3,185,679	5,859,834	3,825,792
Transfers-in-lieu of tax	1,686,883	1,629,657	(1,686,883)	(1,629,657)	-	-
Change in net position	5,247,810	2,269,770	612,024	1,556,022	5,859,834	3,825,792
Net position at beginning of year	10,781,853	9,899,878	58,948,569	57,392,547	69,730,422	67,292,425
Prior period adjustment	-	(1,387,795)	-	-	-	(1,387,795)
Net position at end of year	**$ 16,029,663**	**$ 10,781,853**	**$ 59,560,593**	**$ 58,948,569**	**$ 75,590,256**	**$ 69,730,422**

City of Alcoa, Tennessee
for the Fiscal Year Ended June 30, 2014





Governmental activities:

- Governmental activities increased the City governmental net position by $5,247,810.
- Governmental activities revenue increased by $3.73 million over the prior year primarily due to increases in property tax collections, sales tax increase, and grant items.
- Investment earnings were greater because of the market interest rate increases.
- The General Fund departments demonstrated fiscal responsibility by under-spending the appropriated budget by $430,605.

Business-type activities:

- Business-type activities increased the City's net position by $612,024, whereas the prior year had produced an increase in net position of $1,556,022.
- The Electric Utility is the largest business-type activity of the City, with a total expense of $61,009,610. The City of Alcoa is a distributor of electrical power that is purchased from the Tennessee Valley Authority (TVA) and then transmitted and sold by the City to its residential and commercial customers. In October 2006, TVA began adjusting the wholesale power costs to the City each quarter for a fuel cost adjustment (FCA), then in 2009 TVA changed the FCA from quarterly to monthly. These FCA cost adjustments are passed through in electric rate adjustments to the City's customers each month. The FCA can fluctuate the City's electric rates up or down each month. TVA, in October 2009, increased their base wholesale rate, as well as the FCA, by 20%.
- The Water and Sewer Utility ended the fiscal year with total expenses of $10,247,877. Beginning July 1, 2009, the City had a rate increase for both water and sewer of 15%. During the 2009 fiscal year, the City initiated a special project to install three (3) sewer flow meters with the purpose to record and charge one of the City's largest commercial accounts. Based on studies, additional sewer revenues could be anticipated. The project, originally scheduled for completion by September 30, 2008, was put on hold due to issues with the flow meters. The project was completed and operational in January 2010. The City had several capital contribution projects that were completed during the fiscal year that resulted in the increase in net position.
- The Landfill Utility ended the fiscal year with total expenses of $3,943,753 and ended with a net loss of $533,503. This loss over the prior year ended June 30, 2013, was mainly due to less revenue generated from private haulers.
- The Stormwater Utility ended the fiscal year with total expenses of $1,082,711 and ended with a net loss of $56,387.
- Fees provide the largest share of revenues for all of the business-type activities.

FUND STATEMENTS FINANCIAL ANALYSIS

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

Governmental funds

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

(Continued)

Governmental funds (Continued)

As of the end of the fiscal year ended June 30, 2014, the City's governmental funds reported combined ending fund balances of $22.1 million, an increase of $5.7 million from 2013. Approximately $3.5 million or (16%) of this total amount constitute unassigned fund balance, which is available for spending at the City's discretion. The remainder of fund balance is restricted, committed, or assigned to indicate that it is not available for new spending because it has already been restricted, committed, or assigned to (1) liquidate existing contracts and purchase orders, (2) to pay debt service, and (3) for other restricted purposes.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the unassigned fund balance of the General Fund was $3.1 million while total fund balance was $3.8 million. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance and total fund balance to total fund expenditures. Total unassigned fund balance represents 18.5% of total general fund expenditures of $16.78 million. The increase in fund balance is due to higher than budgeted collections in the area of local sales tax, property tax, and penalties collected on property tax, etc.

The Education Fund is the operating fund for the Alcoa City Schools. As of June 30, 2014, the fund balance is $399,133 with the unassigned fund balance for Education being $399,133. The unassigned represents 2.3% of the schools total budget of $17,180,500. The primary reason for the decline is the one-time planning and design costs for the new Alcoa High School.

The Debt Service Fund is used to pay principal and interest for debt issued for City and School-related projects. The revenue in the Debt Service Fund was from transfers made by the General Fund and Enterprise Funds. The assigned fund balance at June 30, 2014 is $1,787,413 in the debt service fund.

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

Proprietary funds

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

As of June 30, 2014, the Stormwater Utility net position totaled $1,127,061. As stated earlier, this utility has just completed its sixth year. No major projects have been launched so a fund balance could be created to handle any future ventures. The Utility's expenses exceeded revenue and generated a net loss of $56,387.

Net position for Water and Sewer Utility as of June 30, 2014 were $19,468,901, an increase of $314,766 from 2013. The increase was primarily due to rate increases made in the Water and Sewer Utility.

Net position of the Electric Utility as of June 30, 2014 was $36,522,292, an increase of $887,148. The electric utility rates, as discussed earlier, were increased during the 2011 fiscal year by Tennessee Valley Authority. The rate increases were passed on to our customers. In addition, the City of Alcoa Electric implemented a local retail rate increase of 2.5% effective July 1, 2010. Expenditures during the current year were approximately $1,923,000 more than the prior year, while revenues were up approximately $1,390,000.

Net position of the Landfill Utility as of June 30, 2014 was $2,442,339, a decrease of $533,503, primarily due to less revenue generated from private haulers.

(Continued)

Budget Highlights – General Fund

The difference between the original budget and the final amended budget decreased by $2,446.

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

1. Tax revenues were increased by $447,924 due to public works labor and materials.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's capital assets for its governmental and business type activities as of June 30, 2014 and 2013 amount to $190,177,846 and $170,956,066 (net of accumulated depreciation), respectively. Capital assets include land, buildings, infrastructure, improvements, machinery and equipment, and construction in progress.

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

	Capital Assets, Net of Depreciation					
	Governmental Activities		Business-Type Activities		Total	Total
	2014	2013	2014	2013	2014	2013
Land	$ 1,999,450	$ 1,999,450	$ 2,204,363	$ 2,171,567	$ 4,203,813	$ 4,171,017
Buildings	29,672,905	29,672,905	85,226,075	83,204,309	114,898,980	112,877,214
Infrastructure	29,209,051	29,107,217	-	-	29,209,051	29,107,217
Improvements	14,989,944	14,236,546	51,814,420	50,195,488	66,804,364	64,432,034
Machinery and equipment	7,594,050	8,631,386	32,065,896	31,689,741	39,659,946	40,321,127
Capital lease property	10,657,168	10,379,548	259,222	130,285	10,916,390	10,509,833
Construction in progress	23,179,825	4,047,349	4,056,879	1,036,674	27,236,704	5,084,023
Total Capital Assets	117,302,393	98,074,401	175,626,855	168,428,064	292,929,248	266,502,465
Less: Accumulated Depreciation	(40,988,638)	(38,652,818)	(61,762,764)	(56,893,581)	(102,751,402)	(95,546,399)
Capital Assets, net of Depreciation	**$ 76,313,755**	**$ 59,421,583**	**$113,864,091**	**$111,534,483**	**$ 190,177,846**	**$ 170,956,066**

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

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

(Continued)

Capital Assets (Continued)

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

Debt Administration

At the end of the current fiscal year, the City had total long-term obligations outstanding of $163.9 million. Of this amount, $143.4 million are revenue bonds, general obligation bonds, and capital outlay notes backed by the full faith and credit of the City and $8.2 million is estimated liability for Landfill closure and post closure costs and capital outlay notes. The remainder includes capital leases of $9.8 million and compensated absences of $2.45 million (See Note 6 – Long-Term Liabilities).

	Outstanding Long-Term Obligations					
	Governmental Activities		Business-Type Activities		Total	Total
	2014	2013	2014	2013	2014	2013
General Obligation/ Revenue Bonds	$ 70,550,000	$ 52,975,000	$ 72,833,801	$ 73,640,824	$143,383,801	$126,615,824
Capital leases	9,802,394	10,072,979	27,947	130,285	9,830,341	10,203,264
Compensated absences	1,203,808	1,032,466	1,250,891	1,008,943	2,454,699	2,041,409
Estimated liability for closure/post-closure care costs	-	-	8,248,362	7,748,577	8,248,362	7,748,577
Total long-term obligations	**$ 81,556,202**	**$ 64,080,445**	**$ 82,361,001**	**$ 82,528,629**	**$163,917,203**	**$146,609,074**

The City of Alcoa's total long-term debt increased by a net of $17,308,129 during the current fiscal year. The key factor to this increase was due to the City borrowed $20,000,000 to finance Alcoa High School Construction during the year. The City retired debt in the amount of $5,232,023.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

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

All of these factors were considered in preparing the City of Alcoa's budget for the 2015 fiscal year. During the current fiscal year, the total unassigned fund balance in the general fund increased by $549,441 primarily due to tax revenue increases due to the overall economy upswing. The City of Alcoa has not appropriated any of this amount for spending in the 2015 fiscal year budget. The remaining budgets had very little, if any, changes from the prior year.

(Continued)

REQUESTS FOR INFORMATION

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

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

CITY OF ALCOA, TENNESSEE

GOVERNMENT WIDE FINANCIAL STATEMENTS

June 30, 2014

CITY OF ALCOA, TENNESSEE
STATEMENT OF NET POSITION
June 30, 2014 and 2013

	Primary Government			
	Governmental Activities	Business-type Activities	Total 2014	Total 2013
ASSETS:				
Cash and certificates of deposit	$ 11,123,930	$ 16,777,432	$ 27,901,362	$ 26,303,693
Investments	13,751,466	-	13,751,466	8,570,318
Property taxes receivable (net of allowance)	10,299,429	-	10,299,429	10,403,273
Other receivables (net of allowance)	902,674	9,835,969	10,738,643	10,968,230
Due from other governments	2,310,471	-	2,310,471	1,903,891
Inventories	-	1,447,121	1,447,121	1,294,125
Prepaid items	-	3,780,211	3,780,211	3,423,113
Restricted Assets:				
Cash and certificates of deposit	-	11,732,815	11,732,815	11,076,946
Capital Assets (Note 5):				
Non-depreciable assets	25,179,275	6,261,243	31,440,518	9,255,041
Depreciable assets, net of depreciation	40,935,488	107,574,901	148,510,389	151,191,192
Capital lease property	10,198,992	27,947	10,226,939	10,509,833
Total Capital Assets, net of Depreciation	76,313,755	113,864,091	190,177,846	170,956,066
Total Assets	**114,701,725**	**157,437,639**	**272,139,364**	**244,899,655**
DEFERRED OUTFLOWS OF RESOURCES:				
Deferred Regulatory Charges - bond Issuance costs	**-**	**1,217,990**	**1,217,990**	**1,294,585**
LIABILITIES:				
Accounts payable	4,958,247	12,187,682	17,145,929	13,073,892
Accrued liabilities	182,521	334,788	517,309	472,339
Customer deposits	-	1,561,606	1,561,606	1,504,850
Unearned revenue	1,560,027	-	1,560,027	1,641,151
Other liabilities	-	2,649,959	2,649,959	2,743,078
Long-term Liabilities:				
Due within one year (Note 6)	2,729,883	3,344,796	6,074,679	5,303,491
Due in more than one year (Note 6)	78,826,319	70,767,843	149,594,162	133,557,006
Estimated liability – Landfill closure/ Postclosure (Note 6)	-	8,248,362	8,248,362	7,748,577
Unfunded pension obligation (Note 7)	1,151,457	-	1,151,457	1,158,067
Post-employment benefit obligation (Note 7)	506,173	-	506,173	428,281
Total Liabilities	**89,914,627**	**99,095,036**	**189,009,663**	**167,630,732**
DEFERRED INFLOWS OF RESOURCES:				
Deferred revenue	**8,757,435**	**-**	**8,757,435**	**8,833,086**
NET POSITION:				
Net investment in capital assets, (Note 19)	6,206,361	41,602,343	47,808,704	47,901,979
Restricted for:				
General Fund	633,361	-	633,361	2,096
Special Revenue Funds:				
Education	564,199	-	564,199	879,036
Streets	389,625	-	389,625	402,596
Drug Enforcement	44,901	-	44,901	76,516
Vehicle enforcement	8,876	-	8,876	14,030
Capital Projects:				
Education	12,514,975	-	12,514,975	8,170,984
Public Works/Safety	3,016,672	-	3,016,672	2,541,026
Debt Service	1,787,413	-	1,787,413	804,120
Property Acquisitions	-	1,407,958	1,407,958	1,338,590
Unrestricted (deficit)	(9,136,720)	16,550,292	7,413,572	7,599,449
Total Net Position	**$ 16,029,663**	**$ 59,560,593**	**$ 75,590,256**	**$ 69,730,422**

See accompanying independent auditors' report and notes.

CITY OF ALCOA, TENNESSEE
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2014
With Comparative Totals for the Fiscal Year Ended June 30, 2013

		Program Revenues			Net (Expense) Revenue and Changes in Net Position			
					Primary Government			
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total 2014	Total 2013
PRIMARY GOVERNMENT								
Governmental Activities:								
General Government...........	$ 2,163,198	$ 467,325	$ 55,100	$ -	$ (1,640,773)	$ -	$ (1,640,773)	$(2,465,348)
Public Safety	9,118,341	15,087	-	91,207	(9,012,047)	-	(9,012,047)	(8,112,677)
Public Works	4,583,593	349,703	-	3,016,185	(1,217,705)	-	(1,217,705)	(2,101,176)
Economic Development	713,405	28,680	-	-	(684,725)	-	(684,725)	(748,075)
Education	20,290,532	849,379	9,016,191	-	(10,424,962)	-	(10,424,962)	(12,171,091)
Culture and Recreation	1,003,749	14,434	-	-	(989,315)	-	(989,315)	(1,299,088)
Interest on long-term debt	1,189,641	-	-	-	(1,189,641)	-	(1,189,641)	(1,166,010)
Total Governmental Activities	39,062,459	1,724,608	9,071,291	3,107,392	(25,159,168)	-	(25,159,168)	(28,063,465)
Business-Type Activities:								
Landfill...............................	3,943,753	3,319,691	90,559	-	-	(533,503)	(533,503)	(62,775)
Electric	61,009,610	63,215,476	-	-	-	2,205,866	2,205,866	2,655,239
Water/Sewer Utility...........	10,247,877	10,958,811	-	-	-	710,934	710,934	409,891
Stormwater Utility	1,082,711	1,026,324	-	-	-	(56,387)	(56,387)	114,328
Total Business-type Activities	76,283,951	78,520,302	90,559	-	-	2,326,910	2,326,910	3,116,683
Total Primary Government.......................	**$ 115,346,410**	**$ 80,244,910**	**$ 9,161,850**	**$ 3,107,392**	(25,159,168)	2,326,910	(22,832,258)	(24,946,782)
General Revenues:								
Taxes, net of related credits:								
Property tax					12,723,141	-	12,723,141	12,385,106
Sales tax					14,256,596	-	14,256,596	15,912,732
State income and excise tax					87,636	-	87,636	104,705
Business taxes/licenses					902,658	-	902,658	284,263
In-lieu-of taxes					155,929	-	155,929	-
Miscellaneous taxes					512,845	-	512,845	
Gain (loss) on sale of capital assets					64,258	(50,755)	13,503	59,079
Investment earnings					17,032	22,752	39,784	26,689
Transfers – In-lieu-of-tax payments					1,686,883	(1,686,883)	-	-
Total General Revenues and Transfers					30,406,978	(1,714,886)	28,692,092	28,772,574
Change in Net Position					5,247,810	612,024	5,859,834	3,825,792
Net Position – Beginning					10,781,853	58,948,569	69,730,422	67,292,425
Prior Period Adjustment to Net Position					-	-	-	(1,387,795)
Adjusted Net Position - Beginning					10,781,853	58,948,569	69,730,422	65,904,630
Net Position – Ending					**$16,029,663**	**$59,560,593**	**$75,590,256**	**$69,730,422**

See accompanying independent auditors' report and notes.

CITY OF ALCOA, TENNESSEE

FUND FINANCIAL STATEMENTS

June 30, 2014

CITY OF ALCOA, TENNESSEE
BALANCE SHEET
Governmental Funds
June 30, 2014 and 2013

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	General	Education	Debt Service	School Construction and Improvement Fund	Alcoa High School Construction Fund	Non-Major Other Governmental Funds	Total Governmental Funds 2014	Total Governmental Funds 2013
Assets:								
Cash and cash equivalents	$ 2,948,628	$ 774,146	$ 1,309,293	$ -	$ 985,138	$ 4,047,184	$ 10,064,389	$ 6,638,735
Investments and certificates of deposit	-	-	-	-	13,448,267	-	13,448,267	8,266,737
Tennessee Local Government Investment Pool	-	-	-	-	-	303,199	303,199	303,581
Receivables:								
Sales Taxes	1,228,721	317,700	-	-	-	-	1,546,421	1,443,472
Property Taxes (net of allowance for uncollectible taxes)	10,299,429	-	-	-	-	-	10,299,429	10,403,273
Accounts	785,171	17,144	-	-	-	9,058	811,373	586,923
Note	1,982	-	-	-	-	-	1,982	1,982
Due from other governments	-	70,457	-	-	-	20,069	90,526	174,295
Due from grantors	3,024	-	-	-	-	670,500	673,524	1,055,228
Due from other funds	1,310	385,564	478,120	480,000	-	-	1,344,994	589,186
Due from credit union	265	-	-	-	-	-	265	1,418
Total Assets	15,268,530	1,565,011	1,787,413	480,000	14,433,405	5,050,010	38,584,369	29,464,830
Deferred Outflows of Resources	-	-	-	-	-	-	-	-
Total Assets and Deferred Outflows of Resources	$15,268,530	$ 1,565,011	$ 1,787,413	$ 480,000	$ 14,433,405	$ 5,050,010	$ 38,584,369	$ 29,464,830
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES								
Liabilities:								
Accounts payable	$ 625,012	$ 215,230	$ -	$ -	$ 2,398,430	$ 862,813	$ 4,101,485	$ 1,744,203
Due to other funds	453,120	480,000	-	-	-	385,564	1,318,684	592,277
Accrued payroll	182,521	-	-	-	-	-	182,521	161,107
Due to State of Tennessee	-	470,648	-	-	-	-	470,648	-
Deferred revenue	1,477,173	-	-	-	-	2,081	1,479,254	1,507,181
Unearned grant revenue	-	-	-	-	-	80,773	80,773	133,970
Due to Blount County	-	-	-	-	-	93,639	93,639	97,282
Total Liabilities	2,737,826	1,165,878	-	-	2,398,430	1,424,870	7,727,004	4,236,020
Deferred Inflows of Resources:								
Deferred Revenue	8,757,435	-	-	-	-	-	8,757,435	8,833,086

See accompanying independent auditors' report and notes.

(Continued)

CITY OF ALCOA, TENNESSEE
BALANCE SHEET (Continued)
Governmental Funds
June 30, 2014 and 2013

	General Fund	Education Fund	Debt Service Fund	School Construction and Improvement Fund	Alcoa High School Construction Fund	Non-Major Other Governmental Funds	Total Governmental Funds 2014	Total Governmental Funds 2013
Fund Balances:								
Nonspendable	-	-	-	-	-	-	-	-
Restricted	2,222	-	-	-	-	2,774,092	2,776,314	3,215,522
Committed	-	-	-	-	-	-	-	-
Assigned	631,139	-	1,787,413	480,000	12,034,975	851,048	15,784,575	9,709,956
Unassigned	3,139,908	399,133	-	-	-	-	3,539,041	3,470,246
Total Fund Balances	3,773,269	399,133	1,787,413	480,000	12,034,975	3,625,140	22,099,930	16,395,724
Total Liabilities, Deferred Inflows of Resources and Fund Balances	**$15,268,530**	**$ 1,565,011**	**$1,787,413**	**$ 480,000**	**$ 14,433,405**	**$ 5,050,010**	**$ 38,584,369**	**$ 29,464,830**

See accompanying independent auditors' report and notes.

CITY OF ALCOA, TENNESSEE
RECONCILIATIONS OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION – GOVERNMENTAL ACTIVITIES
June 30, 2014 and 2013

			2014	2013
Fund Balances – Total Governmental Funds			$ 22,099,930	$ 16,395,724
Amounts to be reported for governmental activities in the statement of net position are different because:				
(1) Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	2014	2013		
Capital Assets	$ 76,313,755	$ 59,421,583	76,313,755	59,421,583
(2) Internal service funds are used by management to charge the cost of certain activities, such as employee health, service center, post retirement and flexible spending to individual funds. The assets and liabilities are included in governmental activities in the statement of net position.			829,810	631,339
(3) Long-term liabilities are not due and payable in the current period and therefore, are not reported in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when paid. All liabilities, both current and long-term are reported in the statement of net position as follows:				
	2014	2013		
Bonds Payable	$ 70,550,000	52,975,000		
Compensated absences	1,203,808	1,032,466		
Capital Leases	9,802,394	10,072,979		
	$ 81,556,202	$ 64,080,445	(81,556,202)	(64,080,445)
(4) The General pension plan has an unfunded liability at 6/30/14 and 6/30/13 not reported in the government funds.			(1,151,457)	(1,158,067)
(5) Net OPEB Obligation – current year funding for the City's postemployment benefits was required as follows:	2014	2013		
Amount funded	$ 391,998	$ 165,332		
Required	(374,493)	(341,190)		
Excess OPEB	$ 17,505	$ (175,858)	(158,353)	(175,858)
(6) OPEB Obligation – Education (not reported in the governmental fund)			(347,820)	(252,423)
NET POSITION OF GOVERNMENTAL ACTIVITIES			**$ 16,029,663**	**$ 10,781,853**

See accompanying independent auditors' report and notes.

CITY OF ALCOA, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Governmental Funds
For the Fiscal Year Ended June 30, 2014
With Comparative Totals for the Fiscal Year Ended June 30, 2013

	General Fund	Education Fund	Debt Service Fund	School Construction and Improvement Fund	Alcoa High School Construction Fund	Non-Major Other Governmental Funds	Total Governmental Funds 2014	Total Governmental Funds 2013
Revenues:								
Taxes	$ 16,653,983	$ 7,495,047	$ -	$ -	$ -	$ -	$ 24,149,030	$ 22,449,030
Licenses, permits and fees	163,953	363,260	-	-	-	-	527,213	448,607
Intergovernmental	2,173,709	9,314,840	-	-	-	4,503,528	15,992,077	14,337,120
Charges for services	474,484	-	-	-	-	551,305	1,025,789	942,279
Fines, forfeitures and costs	464,448	-	-	-	-	43,472	507,920	467,396
Property rental	143,547	-	-	-	-	-	143,547	143,389
Investment income	-	-	-	-	16,978	54	17,032	3,476
Miscellaneous revenue	32,850	3,158	-	-	-	18,726	54,734	84,825
Sale of property/equipment	64,258	-	-	-	-	11,815	76,073	13,296
Total Revenues	20,171,232	17,176,305	-	-	16,978	5,128,900	42,493,415	38,889,418
Expenditures:								
Current:								
General government	1,726,638	-	-	-	-	-	1,726,638	1,703,606
Public Safety	8,663,677	-	-	-	-	28,070	8,691,747	8,047,944
Public Works	4,934,270	-	-	-	-	233,064	5,167,334	4,913,515
Education	-	17,107,708	-	-	-	1,761,392	18,869,100	18,468,873
Recreation and Culture	739,419	-	-	-	-	8,308	747,727	1,060,417
Community Development	713,405	-	-	-	-	-	713,405	748,075
Capital Outlay/Capital Assets/Capital Leases	-	-	-	12,559	16,140,428	4,121,947	20,274,934	4,403,369
Debt Service:								
Principal Retirement	-	-	4,157,023	-	-	-	4,157,023	3,354,834
Interest and Fiscal Charges	-	-	3,433,555	-	-	-	3,433,555	3,118,018
Total Expenditures	16,777,409	17,107,708	7,590,578	12,559	16,140,428	6,152,781	63,781,463	45,818,651
Excess (Deficiency) of Revenues Over (Under) Expenditures	3,393,823	68,597	(7,590,578)	(12,559)	(16,123,450)	(1,023,881)	(21,288,048)	(6,929,233)

(Continued)

CITY OF ALCOA, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (Continued)
Governmental Funds
For the Fiscal Year Ended June 30, 2014
With Comparative Totals for the Fiscal Year Ended June 30, 2013

	General	Education	Debt Service	School Construction and Improvement Fund	Alcoa High School Construction Fund	Non-Major Other Governmental Funds	Total Governmental Funds 2014	Total Governmental Funds 2013
Other Financing Sources (Uses):								
Transfers to other funds	(4,050,000)	(548,500)	-	-	-	-	(4,598,500)	(4,890,599)
Transfer from other funds	-	-	8,573,871	480,000	-	-	9,053,871	8,669,079
Payments in lieu of taxes	1,686,883	-	-	-	-	-	1,686,883	1,629,657
Bond proceeds..................................	150,000	-	-	-	20,000,000	700,000	20,850,000	10,000,000
Total Other Financing Sources (Uses)	(2,213,117)	(548,500)	8,573,871	480,000	20,000,000	700,000	26,992,254	15,408,137
Net Change in Fund Balance......................	1,180,706	(479,903)	983,293	467,441	3,876,550	(323,881)	5,704,206	8,478,904
Fund Balance, July 1st	2,592,563	879,036	804,120	12,559	8,158,425	3,949,021	16,395,724	7,916,820
Fund Balance, June 30th...........................	**$ 3,773,269**	**$ 399,133**	**$ 1,787,413**	**$ 480,000**	**$ 12,034,975**	**$ 3,625,140**	**$ 22,099,930**	**$ 16,395,724**

See accompanying independent auditors' report and notes.

CITY OF ALCOA, TENNESSEE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
For the Years Ended June 30, 2014 and 2013

	2014	**2013**
Net Change in Fund Balances – Total Governmental Funds:	$ 5,704,206	$ 8,478,904

Amounts reported for the governmental activities in the statement of activities are different because:

1) Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over the estimated lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period:

	2014	2013
Capital Outlay	$19,856,114	$ 3,987,779
Depreciation	(2,882,114)	(2,866,036)
	$16,974,000	$ (1,121,743)

	2014	2013
	16,974,000	1,121,743

2) Lease payments are reported as expenditures in the governmental funds when paid. For the city as a whole, however, the principal portion of the payments serve to reduce the liability in the statement of net position while the acquisition of new leases increase the liability. This is the amount by which principal payments (exceed) or are less than new capital leases:

	2014	2013
New Leases	$ -	$ -
Payments	(270,585)	(370,305)
	$ (270,585)	$ (370,305)

	2014	2013
	270,585	370,305

3) The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This is the amount by which the bond proceeds (exceed) or are less than retirement in the current period:

	2014	2013
Bonds issued	$ 22,000,000	$ 10,000,000
Retired	(4,157,023)	(1,890,000)
	$ 17,842,977	$ 8,110,000

	2014	2013
3)	(17,842,977)	(8,110,000)
4) The net revenues (expenditures) of internal service funds activities are reported with governmental activities.	129,971	(503,965)
5) Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported in the governmental fund:		
a. OPEB Obligation – Education	(347,820)	(252,423)
b. OPEB Obligation – City	(158,353)	(175,858)
c. Unfunded Pension obligation	(1,151,457)	(1,158,067)
d. Change in compensated absences	(171,342)	(123,408)
e. Construction in-progress	1,840,997	2,622,539
Changes in Net Position of Governmental Activities	**$ 5,247,810**	**$ 2,269,770**

See accompanying independent auditors' report and notes.

CITY OF ALCOA, TENNESSEE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2014
With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2013

	June 30, 2014				
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)	June 30, 2013 Actual
	Original	Final			
REVENUES:					
Taxes	$ 15,615,166	$ 15,615,166	$ 16,653,983	$ 1,038,817	$ 15,260,887
Licenses and permits	117,900	117,900	163,953	46,053	107,319
Fines and forfeits	500,000	500,000	464,448	(35,552)	435,732
Intergovernmental	2,094,075	2,135,528	2,058,508	(77,020)	2,017,241
Interest earned	15,000	15,050	-	(15,050)	-
Public works, labor and material	5,000	407,120	349,703	(57,417)	372,895
Miscellaneous	10,341	10,241	32,850	22,609	26,703
CATV franchise fee	76,000	76,000	83,521	7,521	78,188
Property rental	139,910	139,910	143,547	3,637	143,389
Department services	125,000	125,000	127,781	2,781	122,495
Fees development	9,000	9,000	28,680	19,680	6,629
Insurance refunds	-	5,000	-	(5,000)	25,490
Sale of property	10,000	14,401	64,258	49,857	13,296
Contributions and donations – business	5,000	-	-	-	50,000
Total Revenues	18,722,392	19,170,316	20,171,232	1,000,916	18,660,264
EXPENDITURES:					
General government	1,791,500	1,791,500	1,726,638	64,862	1,703,606
Public works	5,225,234	5,225,234	4,934,270	290,964	4,739,978
Public safety – Police	5,253,509	5,245,955	5,229,276	16,679	4,851,070
Public safety – Fire	3,454,878	3,464,878	3,434,401	30,477	3,150,579
Contributions and grants to other agencies	1,480,447	1,480,447	1,452,824	27,623	1,447,573
Total Expenditures	17,205,568	17,208,014	16,777,409	430,605	15,892,806
Excess of Revenues Over Expenditures	**1,516,824**	**1,962,302**	**3,393,823**	**1,431,521**	**2,767,458**

See accompanying independent auditors' report and notes.

(Continued)

CITY OF ALCOA, TENNESSEE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL (CONTINUED)
For the Fiscal Year Ended June 30, 2014
With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2013

	June 30, 2014				
	Budgeted Amounts		Actual Amounts (Budgetary	Variance with Final Budget Positive	June 30, 2013
	Original	Final	Basis)	(Negative)	Actual
OTHER FINANCING SOURCES (USES):					
Operating transfers in (out):					
Payments in lieu of taxes	1,680,000	1,680,000	1,686,883	6,883	1,629,657
Debt Service	(4,050,000)	(4,050,000)	(4,050,000)	-	(3,370,431)
School Construction	-	-	-	-	250,000
Equipment Replacement Fund	(2,446)	-	-	-	(200,000)
Proceeds from bonds	-	147,500	150,000	2,500	-
General Obligation Public Works Construction	-	-	-	-	(1,001,668)
Total Other Financing Sources (Uses)	(2,372,446)	(2,222,500)	(2,213,117)	9,383	(2,692,442)
Excess (Deficit) of Revenues and Other Sources Over Expenditures and Other Uses	(855,622)	(260,198)	1,180,706	1,440,904	75,016
FUND BALANCE AT BEGINNING OF YEAR	2,592,563	2,592,563	2,592,563	-	2,517,547
FUND BALANCE AT END OF YEAR	**$ 1,736,941**	**$ 2,332,365**	**$ 3,773,269**	**$ 1,440,904**	**$ 2,592,563**

See accompanying independent auditors' report and notes.

CITY OF ALCOA, TENNESSEE
EDUCATION FUND – SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2014
With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2013

	June 30, 2014				
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)	June 30, 2013 Actual
	Original	Final			
Revenues:					
Taxes	$ 7,576,000	$ 7,496,000	$ 7,495,047	$ (953)	$ 7,188,143
Miscellaneous	2,072,500	2,122,500	2,173,264	50,764	2,082,547
Revenue from other agencies	7,354,500	7,501,500	7,507,994	6,494	7,057,677
Total Revenues	17,003,000	17,120,000	17,176,305	56,305	16,328,367
Expenditures:					
Board of Education	215,874	241,374	240,498	876	210,797
Office of the Director	242,802	157,412	154,079	3,333	245,240
Office of Principals	929,177	1,058,179	1,055,757	2,422	983,414
Fiscal services	170,015	145,932	145,479	453	176,465
Transportation	219,683	258,581	258,313	268	210,127
Instruction/Elementary/Secondary	10,093,080	10,065,784	10,057,212	8,572	9,637,187
Instruction – Regular	549,631	438,694	436,071	2,623	475,921
Other student support	375,802	381,498	381,005	493	362,539
Health services	177,493	197,709	197,701	8	177,477
Operation of plant	1,114,513	1,076,731	1,075,284	1,447	1,077,612
Maintenance of plant	572,341	685,521	685,482	39	667,457
Food services	650	28,712	27,015	1,697	592
Capital outlay	25,000	71,800	71,704	96	109,000
Special education	1,103,786	1,142,018	1,100,953	41,065	1,103,727
Vocational education	345,234	305,317	299,485	5,832	326,847
Lottery Pre-K	215,738	224,189	223,117	1,072	220,300
Central and other	421,114	455,244	454,822	422	443,619
Human services	-	150,785	150,152	633	
Family Resource Center	98,067	95,020	93,579	1,441	91,487
Total Expenditures	16,870,000	17,180,500	17,107,708	72,792	16,519,808
Excess (Deficiency) of Revenues Over Expenditures	133,000	(60,500)	68,597	129,097	(191,441)
Other Financing Sources (Uses):					
Transfer to School Construction and Improvement Fund	(480,000)	(480,000)	(480,000)	-	-
Transfer to School OPEB Insurance Fund	(68,500)	(68,500)	(68,500)	-	(68,500)
Net Change in Fund Balance	(415,500)	(609,000)	(479,903)	129,097	(259,941)
Fund Balance at Beginning of Year	879,036	879,036	879,036	-	1,138,977
Fund Balance at End of Year	**$ 463,536**	**$ 270,036**	**$ 399,133**	**$ 129,097**	**$ 879,036**

See accompanying independent auditors' report and notes.

CITY OF ALCOA, TENNESSEE
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
June 30, 2014
With Comparative Totals for June 30, 2013

	Business-Type Activities – Enterprise Funds 2014						Governmental Activities Internal Service Funds	
	Stormwater Utility	Water/ Sewer Utility	Electric Utility	Landfill	Total	2013 Total	2014	2013
ASSETS								
Current Assets:								
Cash in bank/Certificate of deposit	$ 714,126	$ 6,391,840	$ 7,519,469	$ 2,151,997	$ 16,777,432	$ 18,809,925	$ 1,059,541	$ 855,033
Accounts receivable – Net	85,596	1,008,572	5,948,057	419,171	7,461,396	7,313,923	89,054	30,531
Due from other funds	-	-	-	-	-	-	65,000	-
Accrued interest	-	-	18,683	-	18,683	1,615	-	-
Inventory	-	848,435	598,686	-	1,447,121	1,294,125	-	-
Prepaid TVA Power Invoice Program	-	-	3,780,211	-	3,780,211	3,423,113	-	-
Certificates of deposit – bond redemption reserve	-	-	3,329,396	-	3,329,396	3,328,369	-	-
Total Current Assets	799,722	8,248,847	21,194,502	2,571,168	32,814,239	34,171,070	1,213,595	885,564
NonCurrent Assets:								
Capital Assets:								
Nondepreciable:								
Land and easements	-	1,194,236	336,481	673,647	2,204,364	2,171,568	-	-
Construction in progress	-	306,805	3,750,074	-	4,056,879	1,036,674	-	-
Plant and equipment – depreciable	650,242	81,313,909	73,837,811	13,563,650	169,365,612	165,219,825	-	-
Accumulated depreciation	(232,126)	(23,026,436)	(30,565,810)	(7,938,392)	(61,762,764)	(56,893,584)	-	-
Net Capital Assets	418,116	59,788,514	47,358,556	6,298,905	113,864,091	111,534,483	-	-
Other NonCurrent Assets:								
Receivables from customers for conservation loans/back utilities	-	-	2,255,890	-	2,255,890	2,162,734	-	-
Long-term note receivable	-	-	100,000	-	100,000	100,000	-	-
Cash in bank – Restricted	-	-	-	5,042,162	5,042,162	4,542,376	-	-
Investments – Certificates of deposits - restricted for construction	-	-	-	3,361,257	3,361,257	3,206,201	-	-
Total Other NonCurrent Assets	-	-	2,355,890	8,403,419	10,759,309	10,011,311	-	-
TOTAL ASSETS	**1,217,838**	**68,037,361**	**70,908,948**	**17,273,492**	**157,437,639**	**155,716,864**	**1,213,595**	**885,564**
DEFERRED OUTFLOWS OF RESOURCES:								
Deferred regulatory charges - bond issuance costs	**-**	**687,394**	**448,573**	**82,023**	**1,217,990**	**1,294,585**	**-**	**-**

See accompanying independent auditors' report and notes.

(Continued)

CITY OF ALCOA, TENNESSEE
PROPRIETARY FUNDS
STATEMENT OF NET POSITION (Continued)
June 30, 2014
With Comparative Totals for June 30, 2013

	Business-Type Activities – Enterprise Funds 2014						Governmental Activities Internal Service Funds	
	Stormwater Utility	Water/ Sewer Utility	Electric Utility	Landfill	Total	2013 Total	2014	2013
LIABILITIES								
Current Liabilities:								
Accounts payable	20,841	643,362	11,426,410	97,069	12,187,682	10,963,973	12,562	12,562
Medical claims payable	-	-	-	-	-	-	306,223	241,663
Other accrued payables	7,836	51,629	255,956	19,367	334,788	311,232	-	-
Bonds payable – current	-	914,964	-	745,000	1,659,964	1,021,848	-	-
Customer deposits	-	-	1,561,606	-	1,561,606	1,504,850	-	-
Due to other funds	3,382	-	-	34,047	37,429	11,118	65,000	-
Compensated absences	30,771	285,634	389,015	111,465	816,885	725,267	-	-
Revolving loan payable – current	-	110,000	730,000	-	840,000	935,000	-	-
Capital lease payable – current	27,947	-	-	-	27,947	102,338	-	-
Retainage payable	-	-	-	-	-	221,256	-	-
Total Current Liabilities	90,777	2,005,589	14,362,987	1,006,948	17,466,301	15,796,882	383,785	254,225
Long-Term Liabilities:								
Compensated absences	-	96,428	309,712	27,866	434,006	283,676	-	-
Bonds payable	-	43,600,000	17,550,000	5,630,000	66,780,000	71,298,976	-	-
Estimated liability for Landfill closure and postclosure care costs	-	-	-	8,248,362	8,248,362	7,748,577	-	-
Revolving loan payable	-	3,553,837	-	-	3,553,837	385,000	-	-
Capital lease payable	-	-	-	-	-	27,947	-	-
Advances – TVA Conservation Loans	-	-	2,334,992	-	2,334,992	2,235,490	-	-
Deferred Credits	-	-	277,538	-	277,538	286,332	-	-
Total Long-Term Liabilities	-	47,250,265	20,472,242	13,906,228	81,628,735	82,262,998	-	-
TOTAL LIABILITIES	90,777	49,255,854	34,835,229	14,913,176	99,095,036	98,062,880	383,785	254,225
DEFERRED INFLOWS OF RESOURCES	-	-	-	-	-	-	-	-
NET POSITION:								
Unrestricted	736,892	7,859,188	7,443,736	510,476	16,550,292	18,846,604	829,810	631,339
Restricted for property acquisitions	-	-	-	1,407,958	1,407,958	1,338,590	-	-
Net investment in capital assets	390,169	11,609,713	29,078,556	523,905	41,602,343	38,763,375	-	-
TOTAL NET POSITION	**$ 1,127,061**	**$ 19,468,901**	**$ 36,522,292**	**$ 2,442,339**	**$ 59,560,593**	**$ 58,948,569**	**$ 829,810**	**$ 631,339**

See accompanying independent auditors' report and notes.

CITY OF ALCOA, TENNESSEE
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
June 30, 2014
With Comparative Totals for June 30, 2013

	Business-Type Activities – Enterprise Funds 2014						Governmental Activities Internal Service Funds	
	Stormwater Utility	Water/ Sewer Utility	Electric Utility	Landfill	Total	2013 Total	2014	2013
Operating Revenues:								
Charges for services	$ 1,026,324	$ 10,937,689	$ 61,910,679	$ 3,310,821	$ 77,185,513	$ 75,592,486	$ 5,219,750	$ 4,877,440
Forfeited discounts	-	-	451,428	-	451,428	425,046	-	-
Miscellaneous revenues	-	21,122	853,369	372	874,863	969,584	4,939	1,937
Total Operating Revenues	1,026,324	10,958,811	63,215,476	3,311,193	78,511,804	76,987,116	5,224,689	4,879,377
Operating Expenses:								
Medical claims paid	-	-	-	-	-	-	3,444,629	3,726,164
Insurance premiums/administration	-	-	-	-	-	-	1,363,814	1,347,728
Administrative	246,170	729,133	3,132,213	421,028	4,528,544	4,122,952	-	-
Accounting and collections	-	805,409	-	-	805,409	740,753	-	-
Supervision	-	254,265	-	-	254,265	232,104	-	-
Water plant operation	-	1,568,618	-	-	1,568,618	1,542,722	-	-
Distribution and transmission	-	296,367	1,462,995	-	1,759,362	2,271,666	-	-
Meter reading and repair	-	305,468	-	-	305,468	358,834	-	-
Water maintenance	-	229,214	-	-	229,214	177,093	-	-
Sewage collection/disposal/pumping	-	61,837	-	-	61,837	2,218,637	-	-
Customer accounts	-	1,945,940	1,371,308	-	3,317,248	1,312,066	-	-
Purchased power	-	-	49,618,161	-	49,618,161	48,108,297	-	-
Landfill operation	-	-	-	2,440,926	2,440,926	2,194,047	-	-
Environmental compliance	-	115,683	-	120,523	236,206	222,451	-	-
Depreciation	72,169	2,258,876	2,422,746	716,110	5,469,901	5,467,515	-	-
Operations and maintenance	645,268	-	2,599,057	-	3,244,325	-	-	-
Street cleaning	119,104	-	-	-	119,104	-	-	-
Service center operations	-	-	-	-	-	-	286,275	309,450
Total Operating Expenses	1,082,711	8,570,810	60,606,480	3,698,587	73,958,588	72,146,888	5,094,718	5,383,342

See accompanying independent auditors' report and notes.

(Continued)

CITY OF ALCOA, TENNESSEE
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION (Continued)
June 30, 2014
With Comparative Totals for June 30, 2013

	Business-Type Activities – Enterprise Funds 2014						Governmental Activities Internal Service Funds	
	Stormwater Utility	Water/ Sewer Utility	Electric Utility	Landfill	Total	2013 Total	2014	2013
Operating Income (loss)	(56,387)	2,388,001	2,608,996	(387,394)	4,553,216	4,840,228	129,971	(503,965)
Other Income (Expense):								
Grant	-	-	-	90,559	90,559	105,603	-	-
Other income (expense)	-	3,832	(52,997)	8,498	(40,667)	44,728	-	-
Amortization of debt discount and expense	-	(39,643)	(26,387)	(17,009)	(83,039)	(93,209)	-	-
Interest expense	-	(1,637,424)	(378,333)	(228,157)	(2,243,914)	(2,105,629)	-	-
Interest income	-	-	22,752	-	22,752	23,213	-	-
Total Other Income (Expense)	-	(1,673,235)	(434,965)	(146,109)	(2,254,309)	(2,025,294)		-
Net Income (loss) Before Contributions and Transfers	(56,387)	714,766	2,174,031	(533,503)	2,298,907	2,814,934	129,971	(503,965)
Transfers In (Out)	-	-	-	-	-	-	68,500	68,500
Capital Contributions	-	-	-	-	-	370,745	-	-
Payments in Lieu of Taxes	-	(400,000)	(1,286,883)	-	(1,686,883)	(1,629,657)	-	-
Change in Net Position	(56,387)	314,766	887,148	(533,503)	612,024	1,556,022	198,471	(435,465)
Net Position – Beginning	1,183,448	19,154,135	35,635,144	2,975,842	58,948,569	57,392,547	631,339	1,066,804
Net Position – Ending	**$ 1,127,061**	**$ 19,468,901**	**$ 36,522,292**	**$ 2,442,339**	**$ 59,560,593**	**$ 58,948,569**	**$ 829,810**	**$ 631,339**

See accompanying independent auditors' report and notes.

CITY OF ALCOA, TENNESSEE
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2014
With Comparative Totals for June 30, 2013

	Business-Type Activities – Enterprise Funds						Governmental Activities Internal Service Funds	
	2014							
	Stormwater Utility	Water/ Sewer Utility	Electric Utility	Landfill	Total	2013 Total	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:								
Cash received from customers/employees' insurance	$1,026,085	$11,014,984	$63,053,972	$ 3,269,291	$ 78,364,332	$ 76,927,987	$ 5,015,368	$ 4,848,846
Cash payments to suppliers for goods and services/ medical claims	(606,884)	(4,902,029)	(53,744,598)	(808,212)	(60,061,723)	(58,512,458)	(4,814,360)	(5,306,609)
Cash payments to employees for services	(390,296)	(1,552,806)	(3,638,881)	(2,121,090)	(7,703,073)	(7,474,550)	-	-
Net Cash Flows From Operating Activities	28,905	4,560,149	5,670,493	339,989	10,599,536	10,940,979	201,008	(457,763)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:								
Transfers out – in lieu of taxes	-	(400,000)	(1,286,883)	-	(1,686,883)	(1,629,657)	-	-
Closure/postclosure payments	-	-	-	499,785	499,785	544,905	-	-
Receipts from other funds	-	-	-	-	-	-	68,500	68,500
Net Cash Flows From Non-Capital Financing Activities	-	(400,000)	(1,286,883)	499,785	(1,187,098)	(1,084,752)	68,500	68,500
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:								
Advances from TVA	-	-	617,242	-	617,242	606,339	-	-
Utility plant removal costs	-	-	(8,082)	-	(8,082)	(44,530)	-	-
Principal paid on bonds/notes/capital leases/revolving loan	(54,491)	(657,023)	(705,000)	(590,000)	(2,006,514)	(1,584,666)	-	-
Interest paid on bonds/notes/capital leases/revolving loan	-	(1,637,424)	(378,333)	(228,157)	(2,243,914)	(2,105,629)	-	-
Customer deposits received	-	-	334,399	-	334,399	339,760	-	-
Customer deposits refunded	-	-	(277,643)	-	(277,643)	(304,419)	-	-
Repayments of advances	-	-	(523,775)	-	(523,775)	(576,433)	-	-
Deferred credits	-	-	(8,794)	-	(8,794)	(100,375)	-	-
Merchandizing, jobbing, and contract work revenue	-	-	473	8,498	8,971	9,180	-	-
Collection on conservation loans	-	-	617,242	-	617,242	648,788	-	-
Payments for acquisition and construction of capital assets	(34,929)	(2,386,590)	(5,151,641)	(435,775)	(8,008,935)	(4,465,827)	-	-
Additional long-term bond/capital outlay notes/ revolving loans	-	545,000	-	600,000	1,145,000	-	-	-
Acquisition of conservation loans	-	-	(531,539)	-	(531,539)	(617,548)	-	-
Proceeds from sale of assets	-	3,832	-	-	3,832	21,750	-	-
Grant proceeds	-	-	-	90,559	90,559	105,603	-	-
Contributions in aid of construction	-	-	-	-	-	370,745	-	-
Net Cash Flows From Capital and Related Financing Activities	(89,420)	(4,132,205)	(6,015,451)	(554,875)	(10,791,951)	(7,697,262)	-	-

See accompanying independent auditors' report and notes.

(Continued)

CITY OF ALCOA, TENNESSEE
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS (Continued)
For the Fiscal Year Ended June 30, 2014
With Comparative Totals for June 30, 2013

	Business-Type Activities – Enterprise Funds 2014						Governmental Activities Internal Service Funds	
	Stormwater Utility	Water/ Sewer Utility	Electric Utility	Landfill	Total	2013 Total	2014	2013
CASH FLOWS FROM INVESTING ACTIVITIES:								
Purchase of investment securities	-	-	(3,261,499)	(4,334,743)	(7,596,242)	(13,751,833)	-	-
Proceeds from sale and maturities of investment Securities	-	-	3,262,826	3,657,684	6,920,510	13,300,102	-	-
Interest and dividends on investments	-	-	22,752	-	22,752	23,213	-	-
Net Cash Flows From Investing Activities	-	-	24,079	(677,059)	(652,980)	(428,518)	-	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(60,515)	27,944	(1,607,762)	(392,160)	(2,032,493)	(1,730,447)	269,508	(389,263)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	774,641	6,363,896	9,127,231	2,544,157	18,809,925	17,079,478	855,033	1,244,296
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 714,126**	**$ 6,391,840**	**$ 7,519,469**	**$ 2,151,997**	**$16,777,432**	**$18,809,925**	**$ 1,124,541**	**$ 855,033**
Reconciliation of Operating Income (Loss) to Net Cash Flows Provided by (Used) in Operating Activities:								
Operating Income (loss)	$ (56,387)	$ 2,388,001	$ 2,608,996	$ (387,394)	$ 4,553,216	$ 4,840,228	$ 129,971	$ (503,965)
Adjustments to reconcile operating income to net cash provided by operating activities:								
Depreciation	72,169	2,258,876	2,422,746	716,110	5,469,901	5,467,515	-	-
Amortization	-	-	26,387	-	26,387	93,209	-	-
Changes in assets and liabilities:								
Accounts receivable	(239)	56,173	(161,504)	(41,902)	(147,472)	(105,646)	(58,523)	(30,531)
Prepaid expenses	-	-	(357,098)	-	(357,098)	350,279	-	-
Inventory	-	(166,671)	13,675	-	(152,996)	(184,374)	-	-
Other receivables	-	-	(17,068)	-	(17,068)	8,892	-	-
Accounts payable	4,736	148,047	1,042,669	28,257	1,223,709	341,720	64,560	(11,283)
Other liabilities	-	-	50,453	-	50,453	78,248	65,000	88,016
Accrued payroll	1,740	11,584	12,258	4,277	29,859	7,171	-	-
Retainage payable	-	(221,256)	-	-	(221,256)	3,883	-	-
Due to employee insurance fund	-	-	-	-	-	3,382	-	-
Compensated absences	6,886	85,395	28,979	20,641	141,901	36,472	-	-
Total Adjustments	85,292	2,172,148	3,061,497	727,383	6,046,320	6,100,751	71,037	46,202
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	**$ 28,905**	**$ 4,560,149**	**$ 5,670,493**	**$ 339,989**	**$10,599,536**	**$10,940,979**	**$ 201,008**	**$ (457,763)**

(Continued)

CITY OF ALCOA, TENNESSEE
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS (Continued)
For the Fiscal Year Ended June 30, 2014
With Comparative Totals for June 30, 2013

(1) Cash and cash equivalents are as follows:

	Cash in Bank	Certificates of Deposit/ Cash Equivalents	Total
StormWater Utility	$ 714,126	$ -	$ 714,126
Water/Sewer Utility	6,391,840	-	6,391,840
Electric Utility	6,127,189	1,392,280	7,519,469
Landfill	2,151,997	-	2,151,997
Totals	**$ 15,385,152**	**$ 1,392,280**	**$ 16,777,432**

Accounting Policy Note:

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

See accompanying independent auditors' report and notes.

CITY OF ALCOA, TENNESSEE
EMPLOYEES' RETIREMENT SYSTEM - FIDUCIARY FUND
STATEMENT OF FIDUCIARY NET POSITION
June 30, 2014 and 2013

	2014	2013
ASSETS:		
Investments		
Cash and cash equivalents	$ 890,505	$ 1,367,559
U.S. Treasury obligations	3,538,433	2,755,088
Corporate and foreign bonds	5,345,952	5,198,605
Common equity securities	11,308,475	11,225,252
Municipal obligations	2,116,289	1,211,277
Accrued interest	129,752	132,193
Total Assets	**23,329,406**	**21,889,974**
LIABILITIES	-	-
NET POSITION:		
Held in trust for pension benefits	23,329,406	21,889,974
Total Net Position	**$ 23,329,406**	**$ 21,889,974**

See accompanying independent auditors' report and notes.

CITY OF ALCOA, TENNESSEE
EMPLOYEES' RETIREMENT SYSTEM - FIDUCIARY FUND
STATEMENT OF CHANGES IN FIDUCIARY PLAN NET POSITION
For the Fiscal Year Ended June 30, 2014
With Comparative Totals for June 30, 2013

	2014	2013
Additions:		
Employer contributions	$ 1,451,649	$ 1,144,180
Interest and dividend income	667,231	633,591
Net appreciation in fair value of investments	1,781,486	1,424,073
Realized gain on sale of investments	163,898	102,180
Total Additions	4,064,264	3,304,024
Deductions:		
Benefit payments	2,549,182	2,523,916
Administrative expenses	75,650	74,004
Total Deductions	2,624,832	2,597,920
Change in Net Position	1,439,432	706,104
Net Position – Beginning of Year	21,889,974	21,183,870
Net Position – End of Year	**$ 23,329,406**	**$ 21,889,974**

See accompanying independent auditors' report and notes.

CITY OF ALCOA, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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CITY OF ALCOA, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

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

(A) FINANCIAL REPORTING ENTITY:

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

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

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

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

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

City of Alcoa Schools' Student Activity Funds:

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

(Continued)

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

(A) FINANCIAL REPORTING ENTITY (Continued):

Tennessee Consolidated Retirement System (TCRS):

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

(B) BASIC FINANCIAL STATEMENTS:

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

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

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

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

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

(Continued)

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

(B) BASIC FINANCIAL STATEMENTS (Continued):

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

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

(C) BASIS OF PRESENTATION:

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

The following fund categories are used by the City:

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

Governmental Funds include the following fund types:

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

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

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

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

(C) BASIS OF PRESENTATION (Continued)

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

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

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

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

Proprietary funds include the following fund types:

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

The following Enterprise funds are used by the City:

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

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

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

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

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

(Continued)

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

(C) BASIS OF PRESENTATION (Continued)

Internal Service Funds (Continued)

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

The following Internal Service Funds are used by the City:

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

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

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

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

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

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

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

(D) MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

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

(Continued)

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

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

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

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

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

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

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

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

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

(Continued)

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

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

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

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

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

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

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

(Continued)

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

(E) BUDGETS AND BUDGETARY ACCOUNTING:

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

1. In a timely manner, the City Manager submits to the Board of Commissioners a proposed operating budget for the fiscal year commencing the following July 1st. The operating budget includes proposed expenditures and the means of financing them.

2. A public hearing is conducted by the City to obtain taxpayer comments.

3. Prior to July 1st, the budget is legally enacted through passage of an ordinance.

4. The City Manager is authorized to transfer budgeted amounts within a department of any fund; however, any revisions that alter the total expenditures of any department or fund must be approved by the Board of Commissioners.

5. Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, and Capital Projects Funds. Formal budgetary integration is not employed for Debt Service Funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions.

6. Budgets for the General Fund, Special Revenue Funds (excluding the Special Assessment Fund), and Capital Projects Funds are adopted on a basis consistent with generally accepted accounting principles.

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

(F) ENCUMBRANCES:

Encumbrance accounting, under which purchase orders, contracts, or other commitments for the expenditures of funds are recorded in order to restrict that portion of the applicable appropriation, is employed in the governmental funds. Open encumbrances are reported as restricted, since the commitments will be honored through subsequent years' budget appropriations. Encumbrances do not constitute expenditures or liabilities. Restrictions of fund equities at June 30, 2014 are as follows: General Fund $633,361; Special Revenue Funds $1,007,601; Capital Projects Funds $15,531,647; Enterprise Funds $1,407,958; and Debt Service $1,787,413.

(G) CASH:

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

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

(Continued)

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

(G) CASH (Continued)

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

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

	Equity Pooled In Cash Account	Other Cash Accounts	Combined Cash Total
General Fund	$ 2,947,428	$ 1,200	$ 2,948,628
Special Revenue Funds:			
State Street Aid Fund	395,244	-	395,244
Education Fund	774,146	-	774,146
Cafeteria Fund	432,270	-	432,270
Extended Day Program Fund	111,096	-	111,096
Federal Projects Fund	113,458	-	113,458
Drug Control Fund	44,901	-	44,901
Commercial Vehicle Fines Fund	8,876	-	8,876
Total Special Revenue Funds	1,879,991	-	1,879,991
Debt Service Fund	1,309,293	-	1,309,293
Capital Projects Funds:			
Capital Projects Fund	74,760	-	74,760
Alcoa High School Construction Fund	985,138	13,448,267	14,433,405
2001 Special Projects Fund	41,774	303,199	344,973
Equipment Replacement Fund	341,375	-	341,375
General Obligation Public Works	2,254,361	-	2,254,361
Landscaping Fund	134,687	-	134,687
Home Grant Fund	743	-	743
Special Projects	93,639	-	93,639
Total Capital Projects Funds	3,926,477	13,751,466	17,677,943
Internal Service Funds:			
Employees' Insurance Fund	-	352,265	352,265
Flexible Spending Fund	12,628	-	12,628
Service Center	55,648	-	55,648
City OPEB Fund	280,000	-	280,000
School OPEB Fund	359,000	-	359,000
Total Internal Service Funds	707,276	352,265	1,059,541
Total Governmental Funds	10,770,465	14,104,931	24,875,396

(Continued)

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

(G) CASH (Continued):

	Equity Pooled In Cash Account	Other Cash Account	Combined Cash Total
Proprietary Funds:			
Water and Sewer Utility Fund	6,391,840	-	6,391,840
Electric Utility Fund	-	10,848,865	10,848,865
Landfill Fund	-	2,151,997	2,151,997
Stormwater Utility Fund	714,126	-	714,126
Total Proprietary Funds	7,105,966	13,000,862	20,106,828
TOTAL GOVERNMENT	**$ 17,876,431**	**$ 27,105,793**	**$ 44,982,224**

(H) RECEIVABLES AND UNBILLED REVENUE:

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

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

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

The Utilities' approximate unbilled revenues at June 30, 2014 are as follows:

Electric Utility Fund	$ 3,603,535
Water and Sewer Utility Fund	795,576
Total	**$ 4,399,111**

(I) CASH AND INVESTMENTS:

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

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

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

(Continued)

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

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

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

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

Interfund receivables/payables (due to/from) at June 30, 2014, are as follows:

Fund	Amount	Fund	Amount
INTERFUND RECEIVABLES:		INTERFUND PAYABLES:	
General Fund	$ 1,310	Education Fund	$ 480,000
Education Fund	385,564	Cafeteria Fund	385,564
Debt Service	478,120	General Fund	453,120
School Construction and Improvement Fund	480,000	Landfill Fund	26,310
	$1,344,994 (1)		**$ 1,344,994 (1)**

(1) The above balances resulted from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur and payments between funds are made.

(K) INTEREST RECEIVABLE:

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

(L) INVENTORIES AND PREPAID ITEMS:

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

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

(Continued)

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

(M) OTHER ASSETS:

Other assets held are recorded and accounted for at cost.

(N) RESTRICTED ASSETS:

The Electric Utility Fund, based on certain Tennessee Valley Authority requirements for bond and administrative 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. Restricted assets at June 30, 2014 amount to $3,328,369 in compliance with bond covenants.

State and federal laws and regulations require the Landfill Fund to restrict cash and investments for closure and postclosure costs of the Landfill. Restricted at June 30, 2014 is $7,748,577.

(O) USE OF ESTIMATES:

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

(P) COMPENSATED ABSENCES:

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

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

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

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

(Continued)

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

(P) COMPENSATED ABSENCES (Continued):

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

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

(Q) CAPITAL ASSETS

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

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

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

(R) LONG-TERM OBLIGATIONS:

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

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

(Continued)

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

(R) LONG-TERM OBLIGATIONS (Continued):

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

(S) COMPARATIVE TOTAL DATA:

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the City's financial position and operations. Certain comparative data for the prior year was reclassified to be comparable with June 30, 2014 accounts in the government wide and fund financial statements. However, comparative data (i.e., presentation of prior year's totals by fund type) have not been presented in each of the statements, since their inclusion would make the statements unduly complex and difficult to read.

(T) IMPLEMENTATION OF NEW ACCOUNTING STANDARDS:

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

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

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

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

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

(Continued)

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

(U) RECLASSIFICATIONS/NET POSITION RESTATED:

Certain prior year assets, liabilities, equity, revenues and expenditures of the General Fund, Special Revenue Funds, Fiduciary Fund and Enterprise Funds have been reclassified to facilitate comparison with June 30, 2014 amounts. The reclassification causes no effect on the "excess of revenues and other sources over expenditures and other uses" or on beginning fund equities.

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

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

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

Balance Sheet/Statement of Net Position

	Total Governmental Funds	Long-term Assets, Liabilities (1)	Internal Service Funds (2)	Reclassifications and Eliminations	Statement of Net Position
Assets					
Cash on hand/equity in pooled Cash/certificates of deposit	$ 10,064,389	$ -	$ 1,059,541	$ -	$ 11,123,930
Investments	13,448,267	-	-	303,199	13,751,466
Tennessee Local Government Investment Pool	303,199	-	-	(303,199)	-
Receivables:					
Property Taxes, net	10,299,429	-	-	-	10,299,429
Accounts, net	811,373	-	89,054	2,247	902,674
Note	1,982	-	-	(1,982)	-
Credit Union	265	-	-	(265)	-
Internal balances	1,344,994	-	65,000	(1,409,994)	-
Due from other governments	2,310,471	-	-	-	2,310,471
Capital Assets, Net	-	66,114,763	-	-	66,114,763
Capital lease property	-	10,198,992	-	-	10,198,992
Total Assets	38,584,369	76,313,755	1,213,595	(1,409,994)	114,701,725
Deferred Outflows of Resources	-	-	-	-	-
Liabilities					
Accounts payable	4,101,485	-	318,785	537,977	4,958,247
Accrued payroll	182,521	-	-	-	182,521
Accrued liabilities	-	-	-	-	-
Unapplied grant funds	80,773	-	-	(80,773)	-
Unearned revenue	1,479,254	-	-	80,773	1,560,027
Long-term debt	-	81,556,202	-	-	81,556,202
Due to state in Tennessee/ Blount County	564,287	-	-	(564,287)	-
Internal balances	1,318,684	-	65,000	(1,383,684)	-
Unfunded pension obligation	-	1,151,457	-	-	1,151,457
Unfunded OPEB obligation	-	506,173	-	-	506,173
Total Liabilities	7,727,004	83,213,832	383,785	(1,409,994)	89,914,627
Deferred Inflow of Resources	8,757,435	-	-	-	8,757,435
Net Position	**$ 22,099,930**	**$ (6,900,077)**	**$ 829,810**	**$ -**	**$ 16,029,663**

(Continued)

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

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

Cost of Capital Assets/Lease Property	$ 117,302,393
Accumulated depreciation	(40,988,638)
	$ 76,313,755

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

	Current	Non-Current	Total
Compensated absences	$ 38,617	$ 1,165,191	$ 1,203,808
Bonds, capital improvement notes, loans	2,545,000	68,005,000	70,550,000
Capital lease obligations	146,266	9,656,128	9,802,394
	$2,729,883	**$ 78,826,319**	**$ 81,556,202**

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

Cash	$ 1,059,541
Accounts receivable	89,054
Accounts payable	(318,785)
Net Position	$ 829,810

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

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

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

Revenues	Total Governmental Funds	Capital-Related Items (4)	Long-term Debt Transactions (5)	Internal Service Funds	Reclass-ifications	Statement of Activities
Taxes	$ 24,149,030	$ -	$ -	$ -	$ (11,425,889)	$ 12,723,141
Sales taxes	-	-	-	-	12,824,908	12,824,908
State income & excise tax	-	-	-	-	87,636	87,636
Licenses, permits and fees	527,213	-	-	-	(363,260)	163,953
Business taxes	-	-	-	-	738,705	738,705
Intergovernmental	15,992,077	-	-	-	(15,992,077)	-
Intergovernmental:						
State sales taxes		-	-	-	1,431,688	1,431,688
Federal grants	-	-	-	-	1,073,278	1,073,278
USDA revenues	-	-	-	-	478,346	478,346
Other state revenues	-	-	-	-	7,405,703	7,405,703
Other local revenues	18,726	-	-	-	-	18,726
Capital grants/contributions	-	-	-	-	3,016,185	3,016,185
Charges for services	1,025,789	-	-	129,971	568,848	1,724,608
Fines, forfeitures, and costs	507,920	-	-	-	-	507,920
Investment income	17,032	-	-	-	-	17,032
Miscellaneous taxes	36,008	-	-	-		36,008
Property rentals	143,547	-	-	-	-	143,547
Gain (loss) on sale/deletion of capital assets	76,073	-	-	-	-	76,073
In-lieu of taxes	-	-	-	-	155,929	155,929
Total Revenues	42,493,415	-	-	129,971	-	42,623,386

(Continued)

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

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

	Total Governmental Funds	Capital-Related Items (4)	Long-term Debt Transactions (5)	Internal Service Funds	Reclass-ifications	Statement of Activities
Expenditures/Expenses						
Current:						
General government	1,726,638	436,560	-		-	2,163,198
Public safety – Police/Fire	8,691,747	426,594	-	-	-	9,118,341
Public works - Streets	5,167,334	760,295	-	-	(1,344,036)	4,583,593
Recreation and Culture	747,727	256,022	-	-	-	1,003,749
Community development	713,405	-	-	-	-	713,405
Education	18,869,100	1,421,432	-	-	-	20,290,532
Debt service - principal retirement	4,157,023	-	(4,157,023)	-	-	-
Debt service - interest and fiscal fees	3,433,555	-	(2,243,914)	-	-	1,189,641
Capital Outlay	20,274,934	(20,274,934)	-	-	-	-
Total Expenditures	63,781,463	(16,974,031)	(6,400,937)	-	(1,344,036)	39,062,459
Other Financing Sources (Uses)/ Changes in Net Position						
Transfers (Out)	(4,598,500)	-	4,598,500	-	-	-
Transfers In	9,053,871	-	(9,053,871)	-	-	-
Bond proceeds	20,850,000	-	(20,850,000)	-	-	-
In lieu of tax payments	1,686,883	-	-	-	-	1,686,883
Total Other Financing Sources (Uses)/Changes In Net Position	26,992,254	-	(25,305,371)	-	-	1,686,883
Net Change for the Year	**$ 5,704,206**	**$ 16,974,031**	**$(18,904,434)**	**$ 129,971**	**$ 1,344,036**	**$ 5,247,810**

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

Accrual for compensated absences	**$ 1,203,808**

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

Capital expenditures	$ 19,856,144
Depreciation	(2,882,113)
Net Change	**$ 16,974,031**

(Continued)

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

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

Principal payments made	**$ 4,157,023**

NOTE 3 – CASH AND INVESTMENTS:

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

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

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

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

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

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

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

Investments are shown at fair value; except that investments that have a remaining maturity at the time of purchase of one year or less are shown at amortized cost (none at June 30, 2014). Fair value is based on quoted market prices.

(Continued)

NOTE 3 – CASH AND INVESTMENTS (Continued):

Presented below is a summary of Combined Cash, Certificates of Deposit and Investments by Fund as of June 30, 2014:

SUMMARY OF CASH AND INVESTMENTS BY FUNDS:	
Fiduciary Funds – Pension Trust	**$ 23,329,406**
Statement of Net Position:	
Capital Projects Funds – Investments and Local Government Investment Pool	$ 13,751,466
Enterprise Funds – Restricted Assets	11,723,815
Enterprise Funds - Non-restricted Assets	16,777,432
Total Governmental and Enterprise Funds	42,252,713
SUMMARY OF CHECKING ACCOUNTS BY FUNDS:	
General Fund (includes cash on hand of $1,200)	2,948,628
Special Revenue Funds	1,879,991
Debt Service Fund	1,309,293
Capital Projects Funds	3,926,477
Internal Service Funds	1,059,541
Total Checking Accounts By Funds	11,123,930
Total Checking/ Certificates of Deposit/Investments/Restricted Cash – Statement of Net Position	**$ 53,376,643**

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

	Governmental Activities	Business-Type Activities	Total
Investments	$ 13,751,466	$ -	$ 13,751,466
Cash and Certificates of Deposit	11,123,930	11,723,815	22,847,745
Restricted Cash/Certificates of Deposit	-	16,777,432	16,777,432
Totals	**$ 24,875,396**	**$ 28,501,247**	53,376,643
Fiduciary Funds – Investments, at fair values (Employees Retirement System)			23,329,406
Total Cash and Investments			**$ 76,706,049**

As of June 30, 2014 the City had the following investments and maturities:

	Fair Value	Less Than 1 Year	1 – 5 Years	6 – 10 Years	More Than 10 Years
Investments	$13,448,267	$13,448,267	$ -	$ -	$ -
State of Tennessee Local Government Investment Pool	303,199	303,199	-	-	-
Total Investment and Maturities	$13,751,466	$13,751,466	$ -	$ -	$ -

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

(Continued)

NOTE 3 – CASH AND INVESTMENTS (Continued):

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

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

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

The Employees' Retirement System Fund is additionally authorized to invest in U.S. Government Securities and corporate equity securities. Investments and non-cash equivalents in this Fiduciary Fund at June 30, 2014, are described below:

	Carrying Amount	Fair Value
Government Bonds	$ 3,538,433	$ 3,538,433
Savings Certificates	890,505	890,505
Corporate Securities	16,654,427	16,654,427
Accrued interest	129,752	129,752
Municipal Obligations	2,116,289	2,116,289
Total Retirement System	**$ 23,329,406**	**$ 23,329,406**

Credit Risk – Employees' Retirement System Fund

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

Interest Rate Risk

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

Concentrations of Credit Risk

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

NOTE 4 – PROPERTY TAX:

The City's property tax is levied each September 1st on the assessed value as listed by the County Assessor and is payable by each October 1st. Property taxes are delinquent after October 1st, and are recorded as such on June 30th. The assessed values are established by the County Assessment Board. The City's tax rate for the years ended June 30, 2011 through 2014 was 1.96 per $100.00 of assessed value.

Property taxes levied for 2013 are recorded as receivables, net of estimated uncollectibles. The taxes collected during the fiscal year 2013-14 and expected to be collected in the subsequent sixty (60) days are recognized as revenues in the fiscal year ended June 30, 2014.

Property taxes for 2014 are recorded (estimated at $8,757,435) as receivables, since the enforceable legal claim to the asset (2014 taxes) is effective as of January 1, 2014 (lien date) in accordance with the "Codification of Governmental Accounting and Financial Reporting Standards – Section No. 50.114."

NOTE 5 – CAPITAL ASSETS:

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

	Balance July 1, 2013	Additions	Retirements	Transfer In (Out)	Balance June 30, 2014
Non-depreciable assets:					
Land	$ 1,999,450	$ -	$ -	$ -	$ 1,999,450
Depreciable assets:					
Parks & Greenway	3,640,849	-	-	-	3,640,849
Accumulated depreciation	(876,665)	(138,197)	-	-	(1,014,862)
	2,764,184	(138,197)	-	-	2,625,987
Buildings	29,672,905	-	-	-	29,672,905
Accumulated depreciation	(10,411,376)	(575,358)	-	-	(10,986,734)
	19,261,529	(575,358)	-	-	18,686,171
Swimming Pools	991,178	-	-	-	991,178
Accumulated depreciation	(545,148)	(49,559)	-	-	(594,707)
	446,030	(49,559)	-	-	396,471
Improvements other than buildings	39,412,563	154,405	-	-	39,566,968
Accumulated depreciation	(21,181,607)	(1,530,254)	-	-	(22,711,861)
	18,230,956	(1,375,849)	-	-	16,855,107
Equipment	7,652,940	466,392	(509,757)	(15,525)	7,594,050
Accumulated depreciation	(5,360,403)	(408,189)	551,333	(5,039)	(5,222,298)
	2,292,537	58,203	41,576	(20,564)	2,371,752
Construction in progress	4,047,349	19,235,317	(102,841)	-	23,179,825
Capital Lease Property:					
Civic Center	9,142,400	-	-	-	9,142,400
Communications Center	751,750	-	-	-	751,750
Other Capital leases	763,018	-	-	-	763,018
Accumulated depreciation	(277,620)	(180,556)	-	-	(458,176)
	10,379,548	(180,556)	-	-	10,198,992
Capital Assets, net of Accumulated depreciation	**$ 59,421,583**	**$ 16,974,001**	**$ (61,265)**	**$ (20,564)**	**$ 76,313,755**

(Continued)

NOTE 5 – CAPITAL ASSETS (Continued):

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

CAPITAL ASSETS:

		Non-Depreciable Land, Land Rights and Easements	Electric Distribution and Buildings	Electric Station Equipment and Improvements Other than Buildings	Equipment	Construction in Progress	Totals
ELECTRIC	Balance 7-1-13	$ 336,481	$ 48,638,944	$11,468,383	$ 11,841,500	$ 982,846	$ 73,268,154
	Additions	-	1,980,643	-	277,056	2,767,228	5,024,927
	Retirements	-	(244,839)	-	(48,184)	-	(293,023)
	Other reclassify	-	(75,692)	-	-	-	(75,692)
	Balance 6-30-14	336,481	50,299,056	11,468,383	12,070,372	3,750,074	77,924,366
WATER	Balance 7-1-13	1,020,097	19,219,761	22,705,777	16,041,574	-	58,987,209
	Additions	-	-	874,184	121,692	-	995,876
	Retirements	-	-	(221,255)	(21,322)	-	(242,577)
	Balance 6-30-14	1,020,097	19,219,761	23,358,706	16,141,944	-	59,740,508
SEWER	Balance 7-1-13	174,138	4,366,481	15,995,757	878,033	53,828	21,468,237
	Additions	-	361,654	991,574	-	306,805	1,660,033
	Retirements	-	-	-	-	(53,828)	(53,828)
	Balance 6-30-143	174,138	4,728,135	16,987,331	878,033	306,805	23,074,442
LANDFILL	Balance 7-1-13	640,851	10,979,123	-	2,489,743	-	14,109,717
	Additions	32,796	-	-	402,979	-	435,775
	Retirements	-	-	-	(308,195)	-	(308,195)
	Balance 6-30-143	673,647	10,979,123	-	2,584,527	-	14,237,297
STORMWATER	Balance 7-1-13	-	-	-	594,749	-	594,749
	Additions	-	-	-	55,493	-	55,493
	Retirements	-	-	-	-	-	-
	Balance 6-30-143	-	-	-	650,242	-	650,242
	TOTALS	**$ 2,204,363**	**$ 85,226,075**	**$ 51,814,420**	**$ 32,325,118**	**$ 4,056,879**	**$ 175,626,855**

(Continued)

NOTE 5 – CAPITAL ASSETS (Continued):

ACCUMULATED DEPRECIATION:

		Land, Land Rights and Easements	Electric Distribution and Buildings	Electric Station Equipment and Improvements Other than Buildings	Equipment	Construction in Progress	Totals
ELECTRIC	Balance 7-1-13	$ -	$ 18,090,111	$ 6,332,614	$ 4,012,103	$ -	$ 28,434,828
	Additions	-	1,704,112	345,129	373,505	-	2,422,746
	Retirements	-	(244,837)	-	(48,184)	-	(293,021)
	Removal Costs	-	1,682	-	6,400	-	8,082
	Other reclassify	-	(6,825)	-	-	-	(6,825)
	Balance 6-30-14	-	19,544,243	6,677,743	4,343,824	-	30,565,810
WATER	Balance 7-1-13	-	2,778,519	5,328,495	6,118,165	-	14,225,179
	Additions	-	423,416	477,426	857,766	-	1,758,608
	Retirements	-	-	-	(21,323)	-	(21,323)
	Balance 6-30-14	-	3,201,935	5,805,921	6,954,608	-	15,962,464
SEWER	Balance 7-1-13	-	1,407,917	4,464,836	690,951	-	6,563,704
	Additions	-	116,331	349,851	34,086	-	500,268
	Retirements	-	-	-	-	-	-
	Balance 6-30-14	-	1,524,248	4,814,687	725,037	-	7,063,972
LANDFILL	Balance 7-1-13	-	5,509,118	-	2,021,359	-	7,530,477
	Additions	-	527,749	-	188,361	-	716,110
	Retirements	-	-	-	(308,195)	-	(308,195)
	Balance 6-30-14	-	6,036,867	-	1,901,525	-	7,938,392
STORMWATER	Balance 7-1-13	-	-	-	139,393	-	139,393
	Additions	-	-	-	92,733	-	92,733
-	Retirements	-	-	-	-	-	-
	Balance 6-30-14	-	-	-	232,126	-	232,126
	TOTALS	-	30,307,293	17,298,351	14,157,120	-	61,762,764
NET CAPITAL ASSETS		**$ 2,204,363**	**$ 54,918,782**	**$ 34,516,069**	**$ 18,167,998**	**$ 4,056,879**	**$ 113,864,091**

(Continued)

NOTE 5 – CAPITAL ASSETS (Continued):

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

Governmental activities:	
General Government	$ 221,274
Police	274,068
Fire	152,526
Recreation	256,022
Public works/streets	760,295
Solid waste	73,046
Education	1,002,643
Service center	142,240
Total depreciation expense – governmental activities	**$ 2,882,114**
Business – type activities:	
Water and sewer	$ 2,258,876
Electric	2,422,746
Landfill	716,110
Stormwater	92,733
Total depreciation expense – business-type activities	**$ 5,490,465**

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

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

NOTE 6 – LONG-TERM LIABILITIES:

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

	Balance July 1, 2013	Additions	Retired Deletions	Total Balance June 30, 2014	Non-Current Balance June 30, 2014	Current Balance June 30, 2014
Governmental Activities:						
General Obligation Bonds/ Revenue Bonds	$ 52,975,000	$20,850,000	$ (3,275,000)	$ 70,550,000	$ 68,005,000	$ 2,545,000
Compensated Absences	1,032,466	243,570	(72,228)	1,203,808	1,165,191	38,617
Capital Leases Payable	10,072,979	-	(270,585)	9,802,394	9,656,128	146,266
Totals-Governmental Activities	$ 64,080,445	$21,093,570	$ (3,617,813)	$ 81,556,202	$ 78,826,319	$ 2,729,883
Business-type Activities:						
General Obligation Bonds/ Revenue Bonds	$ 73,640,824	$ 1,150,000	$ (1,957,023)	$ 72,833,801	$ 70,333,837	$ 2,499,964
Compensated absences	1,008,943	1,250,891	(1,008,943)	1,250,891	434,006	816,885
Capital leases	130,285	-	(102,338)	27,947	-	27,947
Estimated liability for closure/ Post-closure care cost	7,748,577	499,785	-	8,248,362	8,248,362	-
Totals-Business Type Activities	$ 82,528,629	$ 2,900,676	$ (3,068,304)	$ 82,361,001	$ 79,016,205	$ 3,344,796
Totals-Governmental and Business-Type Activities	**$ 146,609,074**	**$23,994,246**	**$ (6,686,117)**	**$ 163,917,203**	**$ 157,842,524**	**$ 6,074,679**

(Continued)

NOTE 6 – LONG-TERM LIABILITIES (Continued):

The following is a summary of bond and capital outlay note transactions of the City for the fiscal year ended June 30, 2014.

	General Obligation Bonds	Revenue Bonds	Total
Debt payable at July 1, 2013	$ 122,725,175	$ 3,890,649	$ 126,615,824
Debt retired	(3,970,175)	(186,848)	(4,157,023)
Issued during fiscal year	22,000,000	-	22,000,000
Debt released by Maryville College	(1,075,000)	-	(1,075,000)
Debt Payable – June 30, 2014	**$ 139,680,000**	**$ 3,703,801**	**$ 143,383,801**

Bonds payable at June 30, 2014, are comprised of the following individual issues:

General Obligation Bonds:	Total	Long-term Amount Outstanding	Current Amount Outstanding
\$2,000,000 – 2006 Public Improvement Bonds due in annual installments of \$100,000 to \$200,000 through June 2021, variable interest	$ 1,195,000	$ 1,050,000	$ 145,000
\$10,750,000 – General Obligation Bonds Series 2006 (taxable), due in annual installments of \$225,000 to \$900,000 through June 2026, variable interest	7,900,000	7,425,000	475,000
\$5,200,000 – 2008 Water and Sewer General Obligation Bonds, due in installments of \$50,000 (6-1-2014) to \$1,000,000 (6-1-2042), average interest at 4.74%	5,150,000	5,100,000	50,000
\$2,400,000 – 2008 General Obligation Bonds, due in installments of \$50,000 (6-1-2011) to \$400,000 (6-1-2036) average interest at 4.68%	2,200,000	2,150,000	50,000
\$3,000,000 – 2008 Local Government Public Improvement Bonds Series B-17-A due in installments of \$100,000 to \$230,000 through June 2028 variable interest	2,375,000	2,255,000	120,000
\$10,365,000 – 2008 Local Government Improvement Bonds, Series E-3-E, due in annual installments of \$155,000 to \$1,065,000 through June 2017, interest at 5%	3,445,000	1,780,000	1,665,000
\$77,370,000 – 2008 Local Government Improvement Bonds, Series E-5-B, due in annual installments of \$100,000 to \$2,090,000 through June 2042, variable interest	73,260,000	72,130,000	1,130,000
\$9,925,000 – 2010 Industrial Development Board of Blount County, TN, Civic Arts Center, due in annual installments of \$250,000 to \$565,000 through June 2036, interest at 4.5%	6,800,000	6,800,000	-

(Continued)

NOTE 6 – LONG-TERM LIABILITIES (Continued):

	Total	Long-term Amount Outstanding	Current Amount Outstanding
General Obligation Bonds (Continued)			
$6,075,000 – 2009 Landfill General Obligation Bonds due in annual installments of $300,000 to $815,000 through June 2022, variable interest	4,995,000	4,745,000	250,000
$1,390,000 – General Obligation Refunding Bonds, Series 2011, due in annual installments of $270,000 to $300,000 through June 2016, interest at 3%	585,000	300,000	285,000
$10,000,000 – 2012 General Obligation Bonds – due in annual installments of $225,000 to $650,000 through June 2043, variable interest	9,775,000	9,550,000	225,000
$10,000,000 – 2013A General Obligation Bonds due in annual installments of $25,000 to $700,000 through June 2043	10,000,000	9,975,000	25,000
$2,000,000 – 2013B General Obligation Bonds due in annual installments of $400,000 through June 2019	2,000,000	1,600,000	400,000
$10,000,000 – 2014 General Obligation Bonds due in annual installments of $75,000 to $750,000 through June 2043	10,000,000	9,925,000	75,000
Revenue Bonds:			
$4,064,166 – 2011 State Revolving Funds – due in annual installments of $35,642 to $207,313 through March 2033, interest at 3.4%	3,703,801	3,553,837	149,964
Total Bonds Outstanding	**$ 143,383,801**	**$ 138,338,837**	**$ 5,044,964**

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

Proprietary Fund Types	$ 72,833,801
Governmental Activities	70,550,000
Total Bonds Outstanding	**$ 143,383,801**

The annual requirements to amortize all Bonds and Capital Outlay Notes outstanding as of June 30, 2014, including interest payments, are $232,053,613 as follows:

Fiscal Year Ending June 30th	Principal	Interest	Total
2015	$ 5,044,964	$ 6,175,415	$ 11,220,379
2016	5,300,136	5,954,179	11,254,315
2017	5,290,500	5,720,115	11,010,615
2018	5,496,032	5,486,959	10,982,991
2019	5,751,768	5,239,359	10,991,127
Subtotal	26,883,400	28,576,027	55,459,427

(Continued)

NOTE 6 – LONG-TERM LIABILITIES (Continued):

Fiscal Year Ending June 30th	Principal	Interest	Total
2020	5,612,708	4,974,819	10,587,527
2021	6,178,840	5,013,933	11,192,773
2022	6,285,188	4,718,897	11,004,085
2023	4,881,752	4,422,231	9,303,983
2024	5,103,556	4,200,026	9,303,582
Subtotal	28,062,044	23,329,906	51,391,950
2025	5,295,576	3,965,907	9,261,483
2026	5,532,848	3,720,585	9,253,433
2027	5,105,372	3,464,411	8,569,783
2028	5,283,160	3,235,673	8,518,833
2029	5,626,212	2,997,259	8,623,471
Subtotal	26,843,168	17,383,835	44,227,003
2030	5,929,540	2,745,270	8,674,810
2031	5,198,156	2,478,465	7,676,621
2032	4,342,072	2,247,961	6,590,033
2033	4,307,265	2,062,926	6,370,191
2034	4,543,156	1,871,663	6,414,819
Subtotal	24,320,189	11,406,285	35,726,474
2035	4,685,000	1,671,244	6,356,244
2036	4,940,000	1,463,581	6,403,581
2037	3,805,000	1,240,794	5,045,794
2038	3,935,000	1,073,044	5,008,044
2039	4,120,000	899,563	5,019,563
Subtotal	21,485,000	6,348,226	27,833,226
2040	4,365,000	713,531	5,078,531
2041	4,535,000	516,375	5,051,375
2042	4,790,000	307,876	5,097,876
2043	2,100,000	87,751	2,187,751
Subtotal	15,790,000	1,625,533	17,415,533
Totals	**$ 143,383,801**	**$ 88,669,812**	**$ 232,053,613**

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

NOTE 7 – RETIREMENT COMMITMENTS:

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

(A) Plan Description

The City of Alcoa Employees' Retirement System (the Plan) is a single-employer defined benefit pension plan that covers the employees of the City (except school employees) hired before May 18, 2000. Employees hired after May 18, 2000 can participate in the Tennessee Consolidated Retirement System (TCRS).

(Continued)

NOTE 7 – RETIREMENT COMMITMENTS (Continued):

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

(A) Plan Description (Continued)

The Plan provides retirement benefits to plan members and their beneficiaries. Membership of the Plan consisted of the following at July 1, 2014, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	166
Terminated plan members entitled to but not yet receiving benefits	22
Active plan members	62
Total	250
Number of participating employers	1

The entire cost of the Plan is funded by contributions made by the City of Alcoa, Tennessee. An actuarial determination of the financial requirements of the Plan is made every two years on July 1. For each fiscal year, the financial contribution for the Plan is included in the City's appropriation ordinance in accordance with the budgetary process. Administrative costs are financed through investment earnings. 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. A separate, audited GAAP-basis postemployment benefit plan report is not available for the defined benefit plan. An actuarial report for the financial contribution of the Plan is made every two years on July 1 and available, on request, at the City of Alcoa.

(B) Realized Gains and Losses Disclosed

Realized gains on investments for the year ended June 30, 2014, were $563. The calculation of these gains is independent of the calculation of the net appreciation (depreciation) in the fair value of Plan investments, and unrealized gains and losses on investments sold in the current year that had been held for more than one year were included in the net appreciation reported in the current year amounting to $170,110.

(C) Summary of Significant Accounting Policies

The financial statements of the Plan are prepared using the accrual basis of accounting. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

(D) Valuation of Investments

Investments are reported at fair value. Short-term investments are reported at cost, which approximates market. Securities traded on a national exchange are valued at the last reported sales price.

(E) Funded Status of the Plan

As of July 1, 2014, the most recent actuarial valuation date, the plan was 58% funded. The actuarial accrued liability for benefits was $35.8 million, and the actuarial value of assets was $20.6 million, resulting in an unfunded actuarial accrued liability (UAAL) of $15.2 million. The covered payroll (annual payroll of active employees covered by the plan) was $3.7 million, and the ratio of the UAAL to the covered payroll was 402%.

(Continued)

NOTE 7 – RETIREMENT COMMITMENTS (Continued):

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

(E) Funded Status of the Plan (Continued)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Actuarial Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2014	$ 21,358	$ 36,953	$ 15,595	58%	$ 3,747	416%
July 1, 2012	20,602	35,824	15,222	58%	3,788	402%
July 1, 2010	20,949	31,345	10,396	67%	4,224	246%
July 1, 2008	24,237	29,569	5,332	82%	4,163	128%
July 1, 2006	26,291	29,068	2,777	90%	4,163	67%
July 1, 2004	17,041	27,736	10,695	61%	4,173	256%
July 1, 2002	18,301	21,209	2,907	86%	4,247	68%
July 1, 2000	20,878	23,870	2,992	87%	4,828	62%
July 1, 1998	22,436	26,989	4,554	83%	8,220	55%
July 1, 1996	17,099	22,195	5,096	77%	7,208	71%

(F) Actuarial Methods and Assumptions

The funded status of the Plan presents multiyear trend information about whether the actuarial value of the Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The required contribution was determined as part of the July 1, 2014 actuarial valuation using the frozen entry age method. The actuarial assumptions included (a) 8% investment rate of return (net of administrative expenses), (b) projected salary increases of 2% annually to normal retirement, with adjustment for longevity and sick pay. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at July 1, 2014, was 30 years.

(G) ANNUAL PENSION COST AND NET PENSION OBLIGATION

The funding level below is calculated as the sum of the normal cost for the Plan year, plus amounts required to amortize the unfunded accrued liability as a percentage of payroll, plus an interest adjustment for payment of employer contributions into the Trust Fund approximately monthly for each Plan year. The contribution rate assumes amortization of unfunded actuarial liability over a 9-year period beginning July 1, 2012. The funding level determined by the City for the year ended June 30, 2014 is as follows:

Required contribution	$ 164,473
Amortization payment (30 years remaining)	1,228,334
Interest at the valuation rate (8%)	52,230
Annual pension cost	1,445,037
Contributions made	(1,451,647)
Increase (decrease) in net pension obligation	(6,610)
Net pension obligation beginning of year	**1,158,067**
Net pension obligation end of year	**$ 1,151,457**

The annual required contribution ($1,445,037) for the current year was determined by the City using the frozen entry age method. The amortization method used is level dollar of projected payroll on a closed basis. The actuarial assumptions include (1) Eight percent (8%) investment rate of return (net of administrative expenses), and (2) projected salary increases of two percent (2%) per year. Both (1) and (2) include an inflation component of 2.0%. The assumptions do not include any post-retirement benefit payments, which are currently funded and approved annually.

(Continued)

NOTE 7 – RETIREMENT COMMITMENTS (Continued):

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

(H) TREND INFORMATION

Eight (8) year trend information is presented below:

Fiscal Year Ended June 30,	Annual Pension Cost (APC)	Percentage of Annual Pension Cost Contributed	Net Pension Obligation
2014	$ 1,445,037	100.5%	$ 1,151,457
2013	$ 1,194,134	95.8%	$ 1,158,067
2012	$ 1,194,134	72.1%	$ 1,108,113
2010	$ 939,470	100.5%	$ 441,594
2008	$ 526,193	95.1%	$ 25,746
2006	$ 526,193	43.8%	$ 2,777,435
2004	$ 1,393,860	58.7%	$ 10,694,723
2002	$ 969,731	48.7%	$ 2,907,449

(2) TENNESSEE CONSOLIDATED RETIREMENT SYSTEM:

(A) PLAN DESCRIPTION

Employees of the City of Alcoa are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as the City of Alcoa participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 15th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230 or can be accessed at http://www.tn.gov/treasury/tcrs/PS/.

(B) FUNDING POLICY

The City of Alcoa has adopted a noncontributory retirement plan for its employees by assuming employee contributions up to 5.0 percent of annual covered payroll.

The City of Alcoa is required to contribute at an actuarially determined rate; the rate for the fiscal year ended June 30, 2014 was 15.94% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the City of Alcoa is established and may be amended by the TCRS Board of Trustees.

(Continued)

NOTE 7 – RETIREMENT COMMITMENTS (Continued):

(2) TENNESSEE CONSOLIDATED RETIREMENT SYSTEM (Continued):

(C) ANNUAL PENSION COST

For the year ended June 30, 2014, the City of Alcoa's annual pension cost of $1,770,618 to TCRS was equal to the City of Alcoa's required and actual contributions. The required contribution was determined as part of the July 1, 2011 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected 3.0 percent annual rate of inflation, (c) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5 percent annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten-year period. The City of Alcoa's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2011 was 8 years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

TREND INFORMATION

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage Of APC Contributed	Net Pension Obligation
June 30, 2014	$ 1,770,618	100.00%	0.00
June 30, 2012	$ 1,771,632	100.00%	0.00
June 30, 2011	$ 1,651,396	100.00%	0.00

(D) FUNDED STATUS AND FUNDING PROGRESS

As of July 1, 2013, the most recent actuarial valuation date, the plan was 86.88 percent funded. The actuarial accrued liability for benefits was $29.45 million, and the actuarial value of assets was $25.59 million, resulting in an unfunded actuarial accrued liability (UAAL) of $3.86 million. The covered payroll (annual payroll of active employees covered by the plan) was $10.8 million, and the ratio of the UAAL to the covered payroll was 35.76 percent.

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

(Continued)

NOTE 7 – RETIREMENT COMMITMENTS (Continued):

(2) TENNESSEE CONSOLIDATED RETIREMENT SYSTEM (Continued):

(D) FUNDED STATUS AND FUNDING PROGRESS (Continued)

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/01/13	$ 25,586	$ 29,448	$ 3,862	86.88%	$ 10,801	35,76%
7/01/11	$ 20,882	$ 25,366	$ 4,484	82.32%	$ 9,796	45.77%
7/01/09	$ 15,353	$ 15,412	$ 59	99.62%	$ 9,692	0.61%

(3) ALCOA CITY SCHOOLS – DEFINED BENEFOT PLAN

(A) Plan Description

The Alcoa City Schools contribute to the State Employees, Teachers, and Higher Education Employees' Pension Plan (SETHEEPP), a cost-sharing multiple employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan on or after July 1, 1979 are vested after five years of service. Members joining prior to July 1, 1979 are vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34 - 37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Cost of living adjustments (COLA) are provided to retirees each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year. No COLA is granted if the CPI increases less than one-half percent. The annual COLA is capped at three percent.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the SETHEEPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230, or can be accessed at www.tn.gov/treasury/tcrs/Schools.

(B) FUNDING POLICY

Most teachers are required by state statute to contribute 5.0% of salary to the plan. The employer contribution rate for Alcoa City Schools is established at an actuarially determined rate. The employer rate for the fiscal year ending June 30, 2014 was 8.88% of annual covered payroll. The employer contribution requirement for Alcoa City Schools is established and may be amended by the TCRS Board of Trustees. The employer's contributions to TCRS for the years ended June 30, 2014, 2013, and 2012 were $773,044, $754,044, and $756,771, respectively, equal to the required contributions for each year.

(Continued)

NOTE 7 – RETIREMENT COMMITMENTS (Continued):

(4) DEFERRED COMPENSATION PLAN:

The City of Alcoa, Tennessee offers its employees a deferred compensation plan known as the City of Alcoa Thrift Plan. The Plan, available to all city employees, permits them to defer a portion of their salary until future years. Contributions to the plan are optional. The deferred compensation is not available to employees until termination, retirement, or death. Investments in the plan are managed by SEI Private Trust Company through Wachovia Bank as sub-custodian.

The City of Alcoa Thrift Plan qualifies under Internal Revenue Section 457(g). The assets of the deferred compensation plan are held in trust (not available to the creditors of the City) and the City does not act as a fiduciary or administrator of the trust. The Plan administrator provides an annual valuation report to the City. The Plan assets totaled $15,816,218 and $14,864,619 as of June 30, 2014 and 2013, respectively.

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

Asset balance at July 1, 2013..................	$ 14,864,619
Deferrals of compensation........................	996,599
Loan repayments/rollovers	191,563
Investment appreciation/depreciation.......	2,266,340
Withdrawals...	(356,373)
Asset balance at June 30, 2014................	$ 17,962,748

(5) OTHER POST-EMPLOYMENT BENEFITS:

In addition to the pension benefits described above, the City of Alcoa provides post-retirement health care benefits to all employees who retire from the City. Currently 39 City retirees and 25 Education retirees meet the eligibility requirements.

CITY OF ALCOA – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS

(A) BACKGROUND

On July 1, 2008, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pension.* This standard addresses how local governments should account for and report their costs related to post-employment health care and other non-pension benefits, such as the City's retiree health benefits. Historically, the City's post retirement benefits were funded on a pay-as-you-go basis, but GASB 45 requires that the City accrue the cost of the retiree health subsidy and any other post-employment benefits during the period of the employees' active employment, while the benefits are being earned, and disclose the unfunded actuarial accrued liability in order to accurately account for the total future cost of post-employment benefits and the financial impact on the City. The funding methodology mirrors the funding approach used for pension benefits.

(Continued)

NOTE 7 – RETIREMENT COMMITMENTS (Continued):

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

CITY OF ALCOA - POST RETIREMENT BENEFITS OTHER THAN PENSIONS (Continued):

(B) PLAN DESCRIPTION

The City established a policy that provides medical insurance benefits to eligible retirees and their spouses. In order to participate, retirees must have reached the age of 55 or be on disability retirement and must have health benefit coverage in the self-insured plan provided by the City. The retiree can remain on the City plan from age 55 through age 65 by paying half of the coverage premium to the City.

At July 1, 2014 the date of the actuarial valuation, membership included:

	Primary Government
Retirees and beneficiaries receiving benefits	30
Terminated employees entitled to, but not yet receiving benefits..	0
Active employees	272

(C) FUNDING POLICY

GASB Statement No. 45 requires recognition of the current expense of OPEB based on the City's annual required contribution, but does not require the funding of the related liability. The City has established an internal service fund where assets are set aside for payment of OPEB.

The City's annual OPEB cost (expense) is calculated based on the annual required contribution of the City (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize and unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

(D) ANNUAL OPEB COST AND NET OPEB OBLIGATION

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB asset is as follows for June 30:

	2014	2013	2012
Annual required contribution (ARC) for June 30			
Normal Cost	$ 149,775	$ 147,947	$ 147,947
Interest on Net OPEB Obligation......................	7,272	6,781	6,781
Amortization of unfunded accrued liability	217,446	194,462	194,462
Annual OPEB Costs	374,493	349,190	349,190
Annual employer contributions...........................	(391,998)	(93,075)	(224,157)
Percentage of annual postemployment benefit Cost contributed	104.68%	26.65%	64.19%
Increase (decrease) in net OPEB obligation.........	(17,505)	256,115	125,033
Net OPEB obligation – beginning of year............	175,858	(80,257)	(205,290)
Net OPEB obligation – end of year......................	**$ 158,353**	**$ 175,858**	**$ (80,257)**

(Continued)

NOTE 7 – RETIREMENT COMMITMENTS (Continued):

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

CITY OF ALCOA - POST RETIREMENT BENEFITS OTHER THAN PENSIONS (Continued):

(D) ANNUAL OPEB COST AND NET OPEB OBLIGATION (Continued)

Actuarial valuations of an ongoing plan involve estimates of the value of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employers are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

For the year ended June, 2014 (based on an actuarial as of July 1, 2014), the City's OPEB funding progress is as follows:

Actuarial Valuation Date*	Actuarial Value of Assets	Actuarial Accrued Liability Entry Age	Unfunded AAL(UAAL) (Funding Excess)	Funded Ratio	Covered Payroll	UAAL (Funding Excess as a Percentage of Covered Payroll
7/01/10	$ -	4,187,184	4,187,184	0%	13,540,995	30.9%
7/01/11	$ -	4,231,148	4,231,148	0%	13,540,995	31.2%
7/01/12	$ -	5,424,471	5,424,471	0%	12,441,103	43.6%
7/01/13	$ -	5,561,497	5,561,497	0%	12,441,103	44.7%
7/01/14	$ -	5,655,719	5,655,719	0%	13,076,017	43.3%

* Information for the 2010-2011 fiscal years is based on results from an actuarial valuation that was performed as of July 1, 2010, information for the 2012 and 2013 fiscal years is based on an actuarial valuation as of July 1, 2012, and information for the 2014 fiscal year is based on an actuarial valuation as of July 1, 2014.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of evaluation. The actuarial method and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

(Continued)

NOTE 7 – RETIREMENT COMMITMENTS (Continued):

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

CITY OF ALCOA - POST RETIREMENT BENEFITS OTHER THAN PENSIONS (Continued):

(E) ACTUARIAL METHOD AND ASSUMPTION

The ARC for fiscal year ended June 30, 2014 was determined as part of the July 1, 2012, actuarial valuation using the entry age normal method – a method under which the Actuarial Present Value of the Projected Benefits is allocated on a level basis over the earnings or service of the individual between entry age and assumed exit ages.

Funding Investment Rate	4%
Medical Trend Rate	10% graded down to 6% after 8 years, and 6% thereafter
Inflation Rate Assumption	3%
Ultimate Trend Rate	5%
Actuarial Cost Method	Entry Age Normal
Annual Payroll Growth Rate	4.00%
Remaining amortization period at June 30, 2014	26 years

(6) ALCOA CITY SCHOOLS – POST RETIREMENT BENEFITS OTHER THAN PENSIONS (OPEB)

(A) BACKGROUND

On July 1, 2008, the Alcoa Schools adopted the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pension.* This standard addresses how local governments should account for and report their costs related to post-employment health care and other non-pension benefits, such as the School's retiree health benefit subsidy. Historically, the School's subsidy was funded on a pay-as-you-go basis, but GASB 45 requires that the Schools accrue the cost of the retiree health subsidy and any other post-employment benefits during the period of the employees' active employment, while the benefits are being earned, and disclose the unfunded actuarial accrued liability in order to accurately account for the total future cost of post-employment benefits and the financial impact on the Schools. The funding methodology mirrors the funding approach used for pension benefits.

(B) PLAN DESCRIPTION

The Schools maintain a policy that provides medical insurance benefits to eligible retirees and their spouses. In order to participate, retirees must have reached the age of 55 or be on disability retirement and must have health benefit coverage in the self-insured plan provided by the Schools.

(Continued)

NOTE 7 – RETIREMENT COMMITMENTS (Continued):

(6) ALCOA CITY SCHOOLS – POST RETIREMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

(C) FUNDING POLICY

At July 1, 2014 the date of the actuarial valuation, membership included:

	Alcoa City Schools
Retirees and beneficiaries receiving benefits	28
Terminated employees entitled to, but not yet receiving benefits..	0
Active employees	171

GASB Statement No. 45 requires recognition of the current expense of OPEB based on the School's annual required contribution, but does not require the funding of the related liability.

The School's annual OPEB cost (expense) is calculated based on the annual required contribution of the School (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize and unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

(D) ANNUAL OPEB COST AND NET OPEB OBLIGATION

The School's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB asset is as follows for June 30:

	2014	2013	2012
Annual required contribution (ARC) for June 30, 2014..	$ 223,969	$ 182,546	$ 182,546
Interest on net OPEB obligation	10,097	2,239	2,239
Adjustment on annual required contribution....	(10,144)	(2,249)	(2,249)
Annual OPEB Costs.....................................	223,922	182,536	182,536
Annual employer contributions...........................	(128,525)	(68,500)	(100,123)
Percentage of annual postemployement Benefit cost contributed	57.4%	37.53%	54.85%
Increase (decrease) in net OPEB obligation........	95,397	114,036	82,413
Net OPEB obligation – beginning of year	252,423	138,387	55,974
Net OPEB obligation – end of year....................	**$ 347,820**	**$ 252,423**	**$ 138,387**

Actuarial valuations of an ongoing plan involve estimates of the value of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employers are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

(Continued)

NOTE 7 – RETIREMENT COMMITMENTS (Continued):

(6) ALCOA CITY SCHOOLS – POST RETIREMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

(D) ANNUAL OPEB COST AND NET OPEB OBLIGATION (Continued)

For the year ended June, 2014, the School's OPEB funding progress is as follows:

Actuarial Valuation Date*	Actuarial Value of Assets	Actuarial Accrued Liability Entry Age	Unfunded AAL(UAAL) (Funding Excess)	Funded Ratio	Covered Payroll	UAAL (Funding Excess as a Percentage of Covered Payroll
7/01/09	$ -	$ 3,543,694	$ 3,543,694	0%	$ 8,128,471	43.6%
7/01/10	$ -	$ 1,786,267	$ 1,786,267	0%	$ 8,396,138	21.3%
7/01/11	$ -	$ 1,846,396	$ 1,846,396	0%	$ 8,396,138	22.0%
7/01/12	$ -	$ 1,799,973	$ 1,799,973	0%	$ 8,519,194	21.1%
7/01/13	$ -	$ 1,849,957	$ 1,849,957	0%	$ 8,519,194	21.1%
7/01/14	$ -	$ 2,291,375	$ 2,291,375	0%	$ 8,507,101	27%

* Information for the 2009 fiscal year is based on results from an actuarial valuation that was performed as of July 1, 2010 and information for the 2010-2011 fiscal years is based on an actuarial performed as of July 1, 2010. Information for the 2012 and 2013 fiscal years is based on an actuarial valuation performed as of July 1, 2012. Information for the 2014 fiscal year is based on an actuarial valuation performed as of July 1, 2014.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of evaluation. The actuarial method and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

(E) ACTUARIAL METHOD AND ASSUMPTION

The ARC for fiscal year ended June 30, 2014 was determined as part of the July 1, 2012 actuarial valuation using the entry age normal method – a method under which the Actuarial Present Value of the Projected Benefits is allocated on a level basis over the earnings or service of the individual between entry age and assumed exit ages.

Significant assumptions used in the actuarial valuation include:

Investment Return Rate	4%
Medical Trend Rate	10% graded down to 6% over 8 years, and 6% thereafter
Inflation Assumption	3%
Ultimate Trend Rate..............................	5%
Actuarial Cost Method..........................	Entry Age Normal
Annual Payroll Growth Rate.................	3.00%
Remaining amortization period at June 30, 2014	27 years

The actuarial value of the OPEB assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. Any excess of these assets over actuarial accrued liability is amortized as a level percentage of projected payroll over an open 30 year period. The remaining amortization period is thirty years.

(Continued)

NOTE 8 – EMPLOYEE HEALTH INSURANCE, INTERNAL SERVICE FUND:

The City of Alcoa, Tennessee has chosen to establish the Employees' Insurance Trust Fund for risks associated with the employee's health insurance plan. The Employees Insurance Trust is accounted for as an internal service fund where assets are set aside for claim settlements. The City retains the risk of loss to a limit of $60,000 per specific loss. The City has obtained a stop/loss commercial insurance policy to cover claims beyond the $60,000 per specific loss. The maximum liability approximates $29.6 million for the year (based on 493 employees at a maximum of $60,000 per employee).

All full-time employees of the primary government are eligible to participate. A premium charge is allocated to each fund that accounts for full-time employees. This premium charge is based on actuarial estimates of the amounts needed to pay prior and current-year claims and to establish a reserve for catastrophe losses. Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The Employees' Insurance Trust Fund establishes claims liabilities based on estimates of the ultimate cost of claims that have been incurred but not reported. The process used to compute claims liabilities does not necessarily result in an exact amount.

Changes in the balance of claims liabilities during the past three fiscal years are as follows:

Year Ended June 30,	Beginning of Fiscal Year Liability	Current Year Claims	Liability Balance at Fiscal Year End
2012	$ 67,086	$ 3,423,382	$ 153,647
2013	153,647	3,613,331	241,663
2014	241,663	3,311,882	306,223

The City of Alcoa carries commercial insurance for all other risks of loss, including general liability, property and casualty, workers' compensation and environmental. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 9 – CONTRACTS WITH THE TENNESSEE VALLEY AUTHORITY (TVA):

The Electric Utility has a power contract with TVA whereby the Utility purchases all its electric power from TVA subject to certain restrictions and conditions. The restrictions and conditions include prohibitions against diverting Utility assets to other operations of the Municipality, securing indebtedness of other operations, or paying more than the Utility's equitable share of tax equivalents.

The Utility participates in TVA's Home Energy Conservation Program. TVA advances the funds from which the Utility disburses for approved customer home insulation and heat pumps. In event of customer default, the Utility does not have loss exposure.

(Continued)

NOTE 10 – JOINT VENTURES:

In order to pool resources and share the costs, risks and rewards of providing services for the benefit of the general public, the City of Alcoa, Tennessee, participates (has an ongoing financial interest and financial responsibility) in the following joint ventures:

INDUSTRIAL DEVELOPMENT BOARD OF BLOUNT COUNTY AND THE CITIES OF ALCOA AND MARYVILLE, TENNESSEE

The Industrial Development Board of Blount County and the Cities of Alcoa and Maryville, Tennessee was organized pursuant to a resolution of the Blount County Quarterly Court in a special called session on September 30, 1969. A certificate of incorporation was received from the Secretary of State of the State of Tennessee dated October 1, 1969. The Industrial Development Board is governed by seven (7) directors. The purpose of the Industrial Development Board is to promote industrial development, provide additional job opportunities in Blount County, Tennessee and surrounding areas, and to exercise the authority and pursue the objectives of an industrial development corporation as provided for in Title 7, Chapter 53, of the Tennessee Code Annotated.

For the fiscal year ended June 30, 2014, the City of Alcoa contributed $407,252 to the Industrial Development Board of Blount County.

Summary financial information, as required by accounting principles generally accepted in the United States of America, for the fiscal year ended June 30, 2014 is presented below:

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

Revenues	$ 5,056,511
Expenditures	(5,474,112)
Excess (deficit) of Expenditures Over Revenues	(417,601)
Net Position – July 1, 2013	46,664,586
Net Position – June 30, 2014	$ 46,246,985
Total Assets	$ 74,728,232
Total Liabilities	$ 28,481,247
Net Position	$ 46,246,985

The Industrial Development Board of Blount County and the Cities of Alcoa and Maryville, Tennessee issues a publicly available report. A copy may be obtained by writing to Industrial Development Board of Blount County and the Cities of Alcoa and Maryville, Tennessee, 201 S. Washington Street, Maryville, Tennessee 37804.

(Continued)

NOTE 10 – JOINT VENTURES (Continued):

BLOUNT COUNTY PUBLIC LIBRARY:

The Blount County Public Library (a special revenue fund of Blount County, Tennessee) is funded jointly by Blount County, the City of Maryville, Tennessee, and the City of Alcoa, Tennessee, pursuant to an agreement entered into on effective date January 1, 1969, and continuing until any party shall furnish a six (6) months written notice to terminate its participation. Effective July 1, 1989, Blount County, Tennessee became the fiscal agent for the Library, a component unit of Blount County, Tennessee. Financial statements for the Blount County Public Library can be obtained by writing to Blount County Courthouse, 341 Court Street, Maryville, TN 37801.

For the fiscal year ended June 30, 2014, the City of Alcoa contributed $183,910 to the Library. A summary of the Library's financial information as required by accounting principles generally accepted in the United States of America for the fiscal year ended June 30, 2014, is presented below:

Revenues	$ 1,130,741
Other Sources – Operating Transfers	899,520
Expenditures	(2,040,851)
Excess of Revenues and Other Sources Over Expenditures	(10,590)
Fund Balance – July 1, 2013	1,222,043
Fund Balance – June 30, 2014	$ 1,211,453
Total Assets	$ 1,253,587
Total Liabilities	$ 42,134
Total Fund Balance	$ 1,211,453

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

Pursuant to agreement dated August 28, 1984, between Blount County, Tennessee, the City of Maryville, Tennessee, and the City of Alcoa, Tennessee, a Communications Center was established for the purpose of handling emergency calls for all three governmental units. The intergovernmental cooperative was known as the Blount County Communications Center, which has now merged with the Blount County Emergency Communications District, a component unit of Blount County, Tennessee. The District's Board is composed of nine directors, whom are appointed by the Blount County Board of County Commissioners. The City of Alcoa has control over budget and financing of the joint venture only to the extent of representation by the committee members and is responsible for funding 25% of operations. The City of Alcoa contributed $151,064 to the District during the fiscal year ended June 30, 2014. Summary financial information as required by accounting principles generally accepted in the United States of America for the fiscal year ended June 30, 2014, is presented at the top of the next page:

(Continued)

NOTE 11 – JOINT VENTURES (Continued):

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

Operating Revenues	$ 1,396,414
Operating Expenses	(2,139,799)
Operating Income (loss)	(743,385)
Non-Operating Revenues	703,341
Change in Net Position	(40,044)
Net Position – July 1, 2013	3,338,809
Net Position – June 30, 2014	$ 3,298,765
Total Assets	$ 5,049,754
Total Liabilities	$ 1,750,989
Total Net Position	$ 3,298,765

The Emergency Communications District of Blount County issues a publicly available financial report. The financial statements can be obtained by writing the Emergency Communications District of Blount County at P. O. Box 4609, Maryville, TN 37802.

BLOUNT COUNTY CABLE TELEVISION AUTHORITY:

Blount County, the City of Maryville, and the City of Alcoa jointly regulate the operation of cable television through the Blount County Cable Television Authority. The Authority is composed of nine members, three of whom are appointed by the City of Alcoa Commission. The remaining six members are appointed by the County and the City of Maryville. The City of Alcoa has control over budget and financing of the joint venture only to the extent of representation by the three board members appointed. The Authority funds its budget through the collection of cable television franchise fees from companies under its jurisdiction. After payment of the Authority's expenses, the residual of those collections is remitted to the county and the two cities based on point of collection.

Alcoa's share for the year ended June 30, 2014, amounted to $83,521. Summary financial information required by accounting principles generally accepted in the United States of America for the fiscal year ended June 30, 2014, is presented below:

Revenues	$ 962,765
Expenditures	(25,151)
Excess of Revenues Over Expenditures Before Franchise Fee Distributions	937,614
Franchise Fee Distributions to County and Cities	(937,654)
Excess (Deficiency) of Revenues Over Expenditures	(40)
Fund Balance – July 1, 2013	18,482
Fund Balance – June 30, 2014	$ 18,442
Total Assets	$ 249,165
Total Liabilities	$ 230,723
Total Fund Balance	$ 18,442

(Continued)

NOTE 10 – JOINT VENTURES (Continued):

BLOUNT COUNTY CABLE TELEVISION AUTHORITY (Continued)

No joint venture debt was reported on the financial statements of the Cable Television Authority as of June 30, 2014. Publically available financial statements can be obtained by writing to the Blount County Cable Television Authority, P. O. Box 4338, Maryville, TN 37802.

RECREATION AND PARKS COMMISSION:

Blount County, the City of Maryville, and the City of Alcoa jointly operate a recreation and parks system through a joint Recreation and Parks Commission. The Commission is composed of seven members, two of whom are appointed by the City of Alcoa Commission. Two members each are appointed by the County and the City of Maryville and one member is appointed by the joint commission. The City of Alcoa has control over budget and financing of the Commission only to the extent of representation by the two board members appointed. Contributions toward operations are provided annually by the county and the cities based on a per capita cost sharing formula. The City of Alcoa contributed $462,150 to the operations of the Commission during the fiscal year ended June 30, 2014, and expended an additional $32,479 for recreation and parks improvements. For the year ended June 30, 2013, the City contributed $452,268 for Commission operations and $67,325 for park improvements.

Summary financial information required by accounting principles generally accepted in the United States of America for the fiscal year ended June 30, 2014, is presented below.

Revenues	$ 2,702,279
Expenditures	2,659,362
Excess of Revenues Over Expenditures	42,917
Fund Balance – July 1, 2013	1,275,496
Fund Balance – June 30, 2014	$ 1,318,413
Total Assets	$ 1,579,508
Total Liabilities	$ 261,095
Total Fund Balance	$ 1,318,413

Complete publically available financial statements are available by writing the office of the Recreation and Parks Commission at 316 Everett High School Road, Maryville, TN 37801.

(Continued)

NOTE 10 – JOINT VENTURES (Continued):

RECREATION AND PARKS COMMISSION (Continued)

Bonds issued by Blount County, Tennessee on behalf of the Recreation and Parks Commission for the construction of a new Senior Citizen Center totaled $1,325,000. The City of Alcoa's share (10%) is as follows:

Year Ending June 30,	Principal	Interest	Total
2014	$ 10,000	$ 2,750	$ 12,750
2015	10,500	2,250	12,750
2016	11,000	1,725	12,725
2017	11,500	1,175	12,675
2018	12,000	600	12,600
Total	**$ 55,000**	**$ 8,500**	**$ 63,500**

JOINT DEVELOPMENT OF INDUSTRIAL PARKS:

PARTNERSHIP PARK NORTH – PARTNERSHIP PARK SOUTH:

Pursuant to an Intergovernmental Agreement dated December 16, 1997, between the City of Maryville, Tennessee, the City of Alcoa, Tennessee, Blount County, Tennessee, and the Industrial Development Board of Blount County, Tennessee, the two (2) cities and Blount County agreed to provide financial assistance to the Industrial Development Board and Blount County, Tennessee in connection with the purchase of certain property and the development and operation of such property as two (2) industrial parks. Such financial assistance is to be provided as follows: Blount County – forty percent (40%); City of Maryville – thirty percent (30%); and City of Alcoa – thirty percent (30%).

Bonds issued by the Industrial Board and Blount County, Tennessee for the projects total $7,915,000. The City of Alcoa's share is as follows:

Year Ending June 30,	Principal	Interest	Total
2014	**$ 81,000**	**$ 5,000**	**$ 86,000**

Under the terms of the Agreement, a Joint Operating Committee, composed of one (1) representative from each of the parties to the agreement, shall have overall control of the two (2) industrial parks – the Partnership Park South (Herron property) and the Partnership Park North (Burkhart property). Such overall control shall include the right to approve all sales of the property in the Industrial Parks; approve all budgets related to the operation of the Industrial Parks; approve all capital improvements to the Industrial Parks; and approve all design guidelines, restrictive covenants, and management policies regarding the Industrial Parks.

(Continued)

NOTE 10 – JOINT VENTURES (Continued):

JOINT DEVELOPMENT OF INDUSTRIAL PARKS (Continued):

PARTNERSHIP PARK NORTH – PARTNERSHIP PARK SOUTH (Continued):

In addition to financial assistance provided to the Industrial Development Board by the City of Maryville, the City of Alcoa, and Blount County, the Industrial Development Board is to receive the proceeds from the sale of land in the Industrial Parks together with other receipts in connection with the operation, development, and maintenance of the Industrial Parks. Also, amounts equivalent to the property taxes received with respect to any property within either of the Industrial Parks is to be contributed to the Industrial Board.

THE PELLISSIPPI RESEARCH CENTRE ON THE OAK RIDGE CORRIDOR:

Pursuant to an Intergovernmental Cooperation Agreement dated May 2006, by and among the City of Maryville, Tennessee, the City of Alcoa, Tennessee, Blount County, Tennessee, Knox County, Tennessee, and the Industrial Development Board of Blount County, Tennessee, the two (2) cities and two (2) counties agreed to provide financial assistance to the Industrial Development Board in connection with the purchase of certain property and the development and operation of such property as a research and development industrial park. Such financial assistance is to be provided as follows: Blount County – twenty-five percent (25%); Knox County – twenty-five percent (25%); City of Maryville – twenty-five percent (25%); and City of Alcoa – twenty-five percent (25%).

Under the terms of the agreement, a joint operating committee, composed of one (1) representative from each of the parties to the agreement, shall have overall control of the industrial park. Such overall control shall include the right to approve all sales of property in the Industrial park; approve all budgets related to the operation of the Industrial Park; approve all capital improvements to the Industrial Park; and approve all design guidelines, restrictive covenants, and management policies regarding the Industrial Park.

In addition to financial assistance provided to the Industrial Development Board by the City of Maryville, the City of Alcoa, Blount County and Knox County, the Industrial Development Board is to receive the proceeds from the sale of land in the Industrial Park together with other receipts in connection with the operation, development, and maintenance of the Industrial Park. Also, amounts equivalent to the property taxes received with respect to any property within the Industrial Park is to be contributed to the Industrial Board if needed for operation. Otherwise, the property taxes are remitted to the two (2) cities and two (2) counties based upon the above percentages.

The City's funding pursuant to this agreement is $5,000,000 which is complete at June 30, 2014.

An agreement between the City of Alcoa Utilities (AUB) and the City of Maryville Utilities (MUB) provides for MUB to treat wastewater from AUB. During the current year, AUB paid MUB $1,945,440 in operating costs for the year ended June 30, 2014 (June 30, 2013 amount paid $2,149,862).

(Continued)

NOTE 11 –LANDFILL OPERATIONS:

(A) SOLID WASTE AUTHORITY:

In accordance with the Solid Waste Management Act of 1989, the Solid Waste Authority was established. The Authority's eleven members, appointed by the Blount County Executive and the Mayors of Maryville and Alcoa, are comprised of the following representatives:

City of Alcoa	2
City of Maryville	2
Blount County	3
Citizens-At-Large	2
Private Hauler...................................	1
Industrial..	1

Expenditures of the Authority for management and a solid waste plan are paid by the City of Alcoa Landfill Fund and amounted to $118,628 and $101,799 for the years ended June 30, 2014 and June 30, 2013, respectively.

(B) LANDFILL CLOSURE AND POSTCLOSURE CARE:

Blount County, Tennessee and the Cities of Maryville and Alcoa are currently being served by one landfill area operated by the City of Alcoa. The existing landfill (Phase I) began operations in 1974, and was expanded in July 1986 and in April 1991. The original design and both expansions were based on a variation of an area landfill using the trench method to develop refuse filled cells.

State and Federal laws and regulations require the Landfill to place a final cover on its Phase I site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty (30) years after the closure. Although closure and postclosure care costs will be paid only near or after the date that the Landfill stops accepting waste (including Phase II in 1996 through Phase IV which will all interface with the existing Phase I Landfill), the Landfill reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The $8,403,419 reported as restricted cash and landfill closure and postclosure care liability at June 30, 2014, represents the cumulative amount reported to date based on the use of twenty-eight (28%) percent of the estimated capacity of the Landfill. The amounts are based on what it would cost to perform all closure and postclosure care in 2014. The Landfill expects to close the Landfill site in 2028. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

NOTE 12 – ECONOMIC DEPENDENCY (ALUMINUM COMPANY OF AMERICA):

The Aluminum Company of America (ALCOA) provides the City of Alcoa with substantial property tax revenues, approximately 28%. Eight additional entities provide an additional 10% in property tax revenues.

(Continued)

NOTE 13 – REFUNDING OF DEBT:

REFUNDING:

During the prior year, the City of Alcoa issued $87,735,000 of fixed rate Local Government Improvement Bonds to provide resources for the current refunding of ten (10) General Obligation and Revenue Bonds. The purpose of these transactions was to reduce the City's exposure to interest rate volatility in the insured bond market. As a result, the refunding bonds were redeemed, and the liability has been removed from the governmental activities column of the statement of net position. The reacquisition price exceeded the net carrying amount of the old debt by $701,880. This amount was netted against the new debt and amortized over the remaining life of the refunded debt. The City's financial advisors were not able to determine the cumulative savings or economic gain from the refunding transactions due to the variable rate debt instruments involved.

(A) GENERAL OBLIGATION REFUNDING BONDS – SERIES 2002:

In 2002, the City of Alcoa issued General Obligation Refunding Bonds, Series 2002 amounting to $1,545,000. The purpose of the bonds was to reduce debt service payable by the City over the term of the bonds by taking advantage favorable conditions in the municipal bond market, thereby effecting a cost savings to the public. The Refunding Bonds were issued to refund Series 1996 Bonds General Obligation Public Works Bonds of $5,610,000, exclusive of $745,000 of the Series 1996 Bonds (non-refunded) maturing on April 1, 2003 ($365,000) and April 1, 2004 ($380,000). The 2002 Refunding Bonds ($1,545,000) mature serially in amounts ranging from $10,000 on April 1, 2003 to $105,000 on April 1, 2016. Average coupon interest rate is 4.1%.

(B) WATER AND SEWER REVENUE AND TAX REFUNDING BONDS – SERIES 2002:

In 2002, the City of Alcoa issued Water and Sewer and Tax Refunding Bonds, Series 2002 amounting to $2,865,000. The purpose of the bonds was to reduce debt service payable by the City over the term of the bonds by taking advantage of favorable conditions in the municipal bond market, thereby effecting a cost savings to the public. The Refunding Bonds were issued to refund 2 bonds: (1) Series 1996 General Obligation Public Works Bonds of $5,610,000, exclusive of $745,000 of the Series 1996 Bonds (non-refunded) maturing on April 1, 2003 ($365,000) and April 1, 2004 ($380,000) and (2) Series 1993 Water and Sewer Revenue Tax Refunding Bonds of $2,570,000. The 2002 Refunding Bonds ($2,865,000) mature serially in amounts ranging from $200,000 on April 1, 2003 to $205,000 on April 1, 2016. Average coupon interest rate is 4.18%.

(C) INTEREST RATE SWAP AGREEMENTS:

In 2003, the City of Alcoa executed interest rate swap agreements with the Public Building Authorities of Blount County and Sevier County. The purpose is to swap a variable rate exposure to a fixed rate.

Under the agreements, the Public Building Authorities and the City entered into interest rate swap agreements for all of the outstanding Local Government Improvement Bonds, Series IV-B-5 and A-1-C. Based on the loan agreements and swap agreements, the City owes interest at an effective fixed rate of 4.72% and 4.70%, respectively. In return, the counterparty owes the City interest based on a variable rate that is calculated at 70% of the 3-month LIBOR (London InterBank Offered Rate). Only the net difference in interest payments is actually exchanged with the counterparty. The bond principal is not exchanged; it is used as the basis on which the interest payments are calculated.

(Continued)

NOTE 14 – FUND BALANCES:

(A) FUND BALANCES:

At June 30, 2014, fund balances are as follows:

Fund Balance Summary

	Major Governmental Funds							
	General Fund	General Purpose School Fund	Debt Service Fund	School Construction And Improvement Fund	Alcoa High School Construction Fund	Nonmajor Governmental Funds	Sub-totals	Description
NONSPENDABLE								
Prepaids	$ -	$ -	$ -	$ -	$ -	$ -	$ -	Nonspendable
RESTRICTED TO:								
General Fund	2,222	-	-	-	-	-	2,222	
Education	-	-	-	-	-	-	-	
Streets and Roads	-	-	-	-	-	389,625	389,625	
Vehicle enforcement	-	-	-	-	-	8,876	8,876	
Drug enforcement	-	-	-	-	-	44,901	44,901	
Public Works Construction	-	-	-	-	-	2,121,243	2,121,243	
Capital projects	-	-	-	-	-	74,760	74,760	Restricted
ASSIGNED TO:								
Education Construction	-	-	-	480,000	12,034,975	-	12,514,975	
General fund	631,139			-			631,139	
Education – Cafeteria	-	-	-	-	-	49,508	49,508	
Education - Extended Day	-	-	-	-	-	115,558	115,558	
Debt Service	-	-	1,787,413	-	-	-	1,787,413	
Home Grant Program	-	-	-	-	-	743	743	
2001 Special projects	-	-	-	-	-	344,295	344,295	
Equipment replacement	-	-	-	-	-	340,944	340,944	
Landscaping	-	-	-	-	-	134,687	134,687	Assigned
UNASSIGNED	3,139,908	399,133	-	-	-	-	3,539,041	Unassigned
Totals	**$ 3,773,269**	**$ 399,133**	**$1,787,413**	**$ 480,000**	**$12,034,975**	**$ 3,625,140**	**$ 22,099,930**	

(B) CHANGES IN PROPRIETARY FUNDS' NET POSITION:

	Governmental Activities	Enterprise Funds				
	Internal Service Funds	Stormwater Utility	Water and Sewer Utility	Electric Utility	Landfill	Total
Net Position – Beginning	$ 631,339	$ 1,183,448	$ 19,154,135	$ 35,635,144	$ 2,975,842	$ 58,948,569
Change in Net Position	198,471	(56,387)	314,766	887,148	(533,503)	612,024
Net Position - Ending	**$ 829,810**	**$ 1,127,061**	**$ 19,468,901**	**$ 36,522,292**	**$ 2,442,339**	**$ 59,560,593**

(Continued)

NOTE 15 – COMMITMENTS:

(A) CAPITAL LEASES:

The City has acquired equipment for which it is obligated under certain leases accounted for as capital leases. The leased assets and related obligations at June 30, 2014 are as follows:

Assets Recorded Under Capital Leases	Terms	Total Lease Amount	Total Interest/ Interest Rate	Balance of lease Obligation at June 30, 2014
GOVERNMENTAL ACTIVITIES:				
General Fund:				
Civic Center Capital Lease		$ 9,142,400 (1)		$ 9,142,400
Communication Equipment		751,750 (2)	$ 173,706/2.3%	556,079
SunTrust Equipment – Mack Truck	60 mos.	200,761	11,957/2.3%	69,499
SunTrust Equipment – Police cruisers & SUVs	36 mos.	402,528	12,448/1.88%	34,416
Subtotal		1,355,039		659,994
Total Capital Leases – Governmental Funds		**$ 10,497,439**		**$ 9,802,394**
Enterprise Funds:				
Stormwater Utility Fund:				
Stormwater Vacuum Truck	60 mos.	$ 259,222	23,827/3.41%	$ 27,947

The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease payments as of June 30, 2014:

Fiscal Year Ending June 30,	Governmental Activities	Business-Type Activities	Total
2015	$ 146,266	$ 27,947	$ 174,213
2016	101,385	-	101,385
2017	76,176	-	76,176
2018	79,200	-	79,200
2019	82,344	-	82,344
2020 - 2021	174,623	-	174,623
Minimum lease payments for all capital leases except Civic Arts Center (1)	659,994	27,947	687,941
Less: Amount representing interest at City's incremental borrowing rate of interest	(19,800)	(838)	(20,638)
Present Value of Minimum Lease Payments	**$ 640,194**	**$ 27,109**	**$ 667,303**

(1) See Note 15 – (E) (1) Civic Arts Center
(2) See Note 15 – (E) (2) Communication Equipment

(Continued)

NOTE 15 – COMMITMENTS (Continued):

(B) COMMITTED CONSTRUCTION:

As of June 30, 2014, the City of Alcoa, Tennessee, had the following commitments with respect to unfinished construction in progress:

Project Name	Total Contract or Estimated Amount	Costs Incurred through June 30, 2014	Estimated Cost to Complete
West Plant Development	$ 5,020,000	$ 174,943	$ 4,845,057
Old Knoxville Highway Improvements	5,789,324	4,801,413	987,911
Water and Sewer:			
Water lines and extensions	350,000	306,805	43,195
Electric Utility:			
Voltage and substation improvements, and line extensions	7,694,665	3,750,074	3,944,591
MLK Center Renovation	26,280	6,310	19,970
Fire Department Construction Project	250,000	60,575	189,425
New Alcoa High School	33,448,404	18,136,584	15,311,820
Totals	**$ 52,578,673**	**$ 27,236,704**	**$ 25,341,969**

(C) SPRINGBROOK CORPORATE CENTER:

In August 1993, the City foreclosed on the Springbrook Corporate Center property, under terms of a prior 1992 settlement agreement approved by the U.S. Bankruptcy Court (re: City of Alcoa vs. United Tri-Tech, Inc.). All property in the Center has been sold except for a lake and commons area, and property for joining of the Greenbelt Park with the City of Maryville.

(D) RESEARCH AND DEVELOPMENT INDUSTRIAL PARK:

Pursuant to an Intergovernmental Cooperation Agreement dated May 2006, by and among the City of Maryville, Tennessee, the City of Alcoa, Tennessee, Blount County, Tennessee, Knox County, Tennessee, and the Industrial Development Board of Blount County, Tennessee, the two (2) cities and two (2) counties agreed to provide financial assistance to the Industrial Development Board in connection with the purchase of certain property and the development and operation of such property as a research and development industrial park. Such financial assistance is to be provided as follows: Blount County – twenty-five percent (25%); Knox County – twenty-five percent (25%), City of Maryville – twenty-five percent (25%); City of Alcoa – twenty-five percent (25%).

Under the terms of the agreement, a joint operating committee, composed of one (1) representative from each of the parties to the agreement, shall have overall control of the industrial park. Such overall control shall include the right to approve all sales of property in the Industrial Park; approve all budgets related to the operation of the Industrial Park; and approve all guidelines, restrictive covenants, and management policies regarding the Industrial Park.

(Continued)

NOTE 15 – COMMITMENTS (Continued):

(D) RESEARCH AND DEVELOPMENT INDUSTRIAL PARK (Continued):

In addition to the financial assistance provided to the Industrial Development Board by the City of Maryville, the City of Alcoa, Blount County, and Knox County, the Industrial Development Board is to receive the proceeds from the sale of land in the Park. Also, amounts equivalent to the property taxes received with respect to any property within the Industrial Park is to be contributed to the Industrial Board if needed for operation. Otherwise, the property taxes are remitted to the two (2) cities and two (2) counties based upon an equal share of 25% each.

The City's funding pursuant to this agreement was $5,000,000.

(E) CAPITAL LEASE – OBLIGATION:

(1) Civic Arts Center (Note 16-(A))

In May 2006 the City Commission adopted a resolution authorizing the execution of a lease agreement with respect to a Civic Arts Center to be constructed on the campus of Maryville College; approving the issuance of bonds by the Industrial Development Board of Blount County to finance such Civic Arts Center; consenting to the assignment of the City's obligation under the lease agreement; and such other matters with respect to the Civic Arts Center.

The City approved the Industrial Board's issuance of bonds, not to exceed $33,685,000, for the construction of the Civic Arts Center. The resolution also authorized the City to levy and collect a direct annual tax sufficient with any other funds available and pledged to pay the rental payments due under the lease. The lease obligates the City to pay annually an amount not to exceed 28.57% of the rental payment due, which rental payments shall be an amount equal to a percentage of the principal and interest on the Bonds, approved under the resolution.

The Industrial Board entered into a fifty (50) year lease with Maryville College to lease the land on which the Civic Arts Center is to be constructed. At the end of the fifty year lease, the Civic Arts Center becomes the property of Maryville College.

Bonds in the amount of $32,000,000 were issued by the Industrial Board on December 14, 2006.

Maryville College has committed a total of $18,000,000 toward the debt service of the bonds. Any amounts paid will reduce the City of Alcoa's obligation under the lease. If Maryville College fulfills its commitment, the City's Lease Obligation would be reduced by $5,142,600.

Interest Rate Risk – As the bonds bear interest at a variable rate, and the lease payments are an amount equal to the total debt service, including interest, the City has risk associated with changes in interest rates. A rate of 4.5% has been used to determine the above obligations under the lease. The City has purchased insurance to protect the bond holders in the event the City defaults on its lease obligations, including defaults as a result in changes in the interest rate.

The following presents a summary of the City's Civic Arts Center Capital Lease commitment as of June 30, 2014:

Present Value of Minimum Lease Payments	Interest	Total Minimum Lease Payments
$ 9,142,400	$ 6,213,260	$ 15,355,660

(Continued)

NOTE 15 – COMMITMENTS (Continued):

(E) CAPITAL LEASE – OBLIGATIONS (Continued):

(1) Civic Arts Center (Continued)

The City has a 28.57% ownership interest in the Civic Center building for 50 years – the asset will then transfer to Maryville College. The City appropriately recognizes the long-term community benefit of its ownership interest as an asset in the government wide financial statements, and the corresponding long-term obligation of the lease payments. Without that long-term community benefit, the City would not have been authorized to issue long-term debt under State law. The asset rights expire after 50 years, but the financial obligation will be satisfied long before that.

Interest Rate Risk – As the bonds bear interest at a variable rate, and the lease payments are an amount equal to the total debt service, including interest, the City has risk associated with changes in interest rates. A rate of 4.5% has been used to determine the above obligations on the lease. The City has purchased insurance to protect the bond holders in the event the City defaults on its lease obligations, including defaults as a result in changes in the interest rate.

(2) Communications Center Equipment

On August 3, 2010, and subsequently modified on October 21, 2010, the City entered into an inter-governmental agreement with Blount County, Tennessee, and the City of Maryville, Tennessee to acquire certain emergency communications equipment. Under the terms of the agreement, Blount County, Tennessee is the Lessee of the equipment. In turn, the County subleased to the cities of Alcoa and Maryville their prorate share of the equipment. The terms of the agreement require the City to make lease payments totaling $751,750, plus interest at 3.97%. Title to the equipment will transfer to each governmental entity based upon its share of the actual equipment acquired.

Present Value of Minimum Lease Payments	Interest	Communication Equipment: Total Minimum Lease Payments
$ 556,079	**$ 101,157**	**$ 657,236**

These total minimum lease payments are payable as follows:

Year Ending June 30,	Civic Center	Communication Equipment
2015	$ 605,100	$ 70,470
2016	610,650	73,267
2017	605,525	76,176
2018	605,175	79,200
2019	604,375	82,344
Subtotal	3,030,825	381,457
2020 – 2024	3,027,100	174,622
2025– 2029	3,029,075	-
2030 – 2034	3,032,625	-
2035 – 2037	3,236,035	-
Subtotal	12,324,835	174,622
Total	**$ 15,355,660**	**$ 556,079**

(Continued)

NOTE 16 – LITIGATION:

There are several pending lawsuits in which the City is involved. Information provided by attorneys for the City indicates that potential claims against the City resulting from such litigation which are not covered by insurance would not materially affect the financial statements of the City.

NOTE 17 – RISK FINANCING ACTIVITIES:

It is the policy of the City to purchase commercial insurance for the risks of losses to which it is exposed. These risks include general liability, property and casualty, and workers compensation. Settled claims have not exceeded this commercial coverage in the last three (3) years.

The City's Electric Department has started the process for building a new electric substation to relieve the load on the Wildwood Substation. Expected completion would be December 2013 for the substation and four miles of transmission lines. Estimated cost is $3.5 million to $4.5 million.

The City maintains its funds with financial institutions which participate in the bank collateral pool administered by the Treasurer of the State of Tennessee. Participating banks determine the aggregate balance of their public funds accounts for the State of Tennessee and its political subdivisions. The amount of collateral required to secure these public deposits must be equal to at least one hundred five percent (105%) of the average daily balance of public deposits held. Collateral securities required to be pledged by the participating banks to protect their public funds accounts are pledged to the State Treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in aggregate rather than against each individual account. Under this assessment agreement, public funds accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

NOTE 18 – NEW FUND:

The Alcoa High School Construction Fund has been established as a Capital Projects Fund to account for the acquisition and construction of the new Alcoa High School and is presented as a major fund.

NOTE 19 – CALCULATION OF NET INVESTMENT IN CAPITAL ASSETS (GOVERNMENTAL FUNDS):

The following items are used in the calculation of net investment in capital assets as follows in the Statement of Net Position:

	Governmental Activities Invested In Capital Assets, Net of Related Debt
Total Capital Assets	$ 76,313,755
Long-Term Debt and Current Debt	(81,556,202)
Items in Long-Term Debt:	
Add – compensated absences	1,203,808
Debt – noncapital related pension funding	3,445,000
Civic Center debt	6,800,000
June 30, 2014	**$ 6,206,361**

(Continued)

NOTE 20 – PRIOR PERIOD ADJUSTMENT:

For the fiscal year ended June 30, 2013, the City of Alcoa implemented Statement 63 of the Governmental Accounting Standards Board, which resulted in debt issuance costs and losses on the advance refunding of debt being expensed on the government-wide financial statements in the same manner as on the governmental fund financial statements.

The government-wide financial statements for the fiscal year ended June 30, 2012, have been restated. The beginning net position of the governmental activities and the government-wide Statement of Activities for the fiscal year ended June 30, 2013, has been restated as follows:

Net Position – Beginning	$ 9,899,878
Adjustment	(1,387,795)
Adjusted Net Position – Beginning 7/01/12	$ 8,512,083

Proprietary funds recognize debt issuance costs recovered through rate charges through amortization over the life of the debt in accordance with GASB 62 and State of Tennessee regulatory requirements.

NOTE 21 – INVESTIGATIVE AUDIT BY THE TENNESSEE COMPTROLLER OF THE TREASURY

The Comptroller of the Treasury, Division of Investigations, in conjunction with the Tennessee Bureau of Investigations, performed an investigative audit of selected records of the City of Alcoa. The audit focused primarily on the period from July 1, 2007 through May 16, 2013. The investigation revealed that the former school employee misappropriated school cash of at least $344, 204. A plea agreement was filed in the Eastern District Knoxville U.S. District Court on May 20, 2014. The plea agreement included an agreement of restitution, although as of December 17, 2014 no funds were received from the former employee of the schools.

Additionally, the City of Alcoa will seek restitution through the court system and through the City's insurer, but as of December 1, 2014, no determination has been made regarding insurance reimbursement.

NOTE 22 – SUBSEQUENT EVENTS:

The City's Electric Department has started the process for building a new electric substation to relieve the load on the Wildwood Substation. Expected completion would be June 2015 for the substation and four miles of transmission lines. Estimated cost is $7.6 million with $3.75 million expended through June 30, 2014.

In July, 2014, the Board of Commissioners of the City passed a resolution authorizing the issuance of the City of Alcoa General Obligation Refunding Bonds Series 2014 (federally taxable) not to exceed nine million dollars, which were issued in September 2014.

An ordinance and taxpayer referendum vote approved a local sales tax rate increase of .25% to be used for funding the building of a new Alcoa High School expected to be completed in 2015, at a cost of $33.4 million, with $18.1 million expended through June 30, 2014.

The date to which events occurring after June 30, 2014, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosures is December 17, 2014, which is the date on which the financial statements were issued.

Copies of the complete financial statements of the City for the current Fiscal Year are available at http://www.comptroller.tn.gov/RA_MA_Financial/Default.aspx