

PRELIMINARY OFFICIAL STATEMENT

\$3,000,000*

CITY OF DUNLAP, TENNESSEE

**\$1,450,000* General Obligation Bonds, Series 2017B
(Bank Qualified)**

OFFERED FOR SALE AT
10:15 A.M. E. D. T.
Thursday, September 14, 2017

**\$1,550,000* General Obligation Bonds, Series 2017C
(Federally Taxable)**

OFFERED FOR SALE AT
10:45 A.M. E. D. T.
Thursday, September 14, 2017

Through the Facilities of ***PARITY***[®]
and at the offices of
Cumberland Securities Company, Inc.
Knoxville, Tennessee

Cumberland Securities Company, Inc.
Financial Advisor

September 8, 2017

*Preliminary, subject to change.

PRELIMINARY OFFICIAL STATEMENT DATED SEPTEMBER 8, 2017

NEW ISSUE
BOOK-ENTRY-ONLY

Rating: S&P : “AA-”
(See “MISCELLANEOUS-Ratings”)

In the opinion of Bond Counsel, based on existing law and assuming compliance with certain tax covenants of the City, as hereafter defined, interest on the Series 2017B 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 adjusted current earnings of certain corporations for purposes of the alternative minimum tax on corporations. In the opinion of the Bond Counsel, interest on the Series 2017C Bonds will be included in gross income of the owners thereof for federal income tax purposes. For an explanation of certain tax consequences under federal law which may result from the ownership of the Bonds, see the discussion under the heading “LEGAL MATTERS – Tax Matters” herein. Under existing law, the Bonds and the income therefrom will be exempt from all state, county and municipal taxation in the State of Tennessee, except Tennessee franchise and excise taxes. (See “LEGAL MATTERS -Tax Matters” herein.)

\$3,000,000*

CITY OF DUNLAP, TENNESSEE

\$1,450,000* General Obligation Bonds, Series 2017B (Bank Qualified)

\$1,550,000* General Obligation Bonds, Series 2017C (Federally Taxable)

Dated: Date of Delivery (assume October 5, 2017)

Due: March 1 (as indicated on the inside cover)

The \$1,450,000* General Obligation Bonds, Series 2017B (the “Series 2017B Bonds”) and the \$1,550,000* General Obligation Bonds, Series 2017C (Federally Taxable) (the “Series 2017C Bonds”) (the Series 2017B Bonds and Series 2017C Bonds are collectively referred to as the “Bonds”) shall be issued by the City of Dunlap, Tennessee (the “City” or “Issuer”) 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 March 1, 2018 and thereafter on each March 1 and September 1 by check or draft mailed to the owners thereof as shown on the books and records of the Registration Agent. In the event of discontinuation of the book-entry system, principal of and interest on the Bonds are payable at the designated corporate trust office of Regions Bank, Nashville, Tennessee, the registration and paying agent (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. That portion of the principal amount of the Bonds that financed improvements to the City’s water and sewer system (the “System”) are additionally payable from, but not secured by, the income and revenues derived from the operation of the System.

Bonds maturing March 1, 2024 and thereafter are subject to optional redemption prior to maturity on or after March 1, 2023.

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

The Bonds are offered when, as and if issued by the City, subject to the approving legal opinion of Bass, Berry & Sims PLC, Knoxville, Tennessee, bond counsel, whose opinion will be delivered with the Bonds. Certain legal matters in connection with the Bonds will be passed upon from Stephen T. Greer, Esq., counsel to the City. It is expected that the Bonds, in book entry only form, will be available for delivery through the facilities of DTC, New York, New York, on or about October __, 2017.

Cumberland Securities Company, Inc.

Financial Advisor

September __, 2017

*Preliminary, subject to change.

**General Obligation Bonds
Series 2017B (Bank Qualified)**

<u>Due (March 1)</u>	<u>2017B Amount*</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP**</u>	<u>Due (March 1)</u>	<u>2017B Amount*</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP**</u>
2020	\$ 65,000				2029	\$ 85,000			
2021	70,000				2030	90,000			
2022	70,000				2031	100,000			
2023	70,000				2032	100,000			
2024	75,000				2033	100,000			
2025	75,000				2034	100,000			
2026	80,000				2035	100,000			
2027	85,000				2036	100,000			
2028	85,000								

**General Obligation Bonds
Series 2017C (Federally Taxable)**

<u>Due (March 1)</u>	<u>2017C Amount*</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP**</u>	<u>Due (March 1)</u>	<u>2017C Amount*</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP**</u>
2020	\$ 65,000				2029	\$ 95,000			
2021	70,000				2030	95,000			
2022	70,000				2031	100,000			
2023	75,000				2032	100,000			
2024	75,000				2033	110,000			
2025	75,000				2034	110,000			
2026	85,000				2035	120,000			
2027	85,000				2036	130,000			
2028	90,000								

** 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.

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

This Preliminary Official Statement may contain forecasts, projections, and estimates that are based on current expectations but are not intended as representations of fact or guarantees of results. If and when included in this Preliminary 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 Preliminary Official Statement. The Issuer disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Issuer's expectations with regard thereto or any change in events, conditions, or circumstances on which any such statement is based.

This Preliminary Official Statement and the Appendices hereto contain brief descriptions of, among other matters, the Issuer, the Bonds, the Resolution, the Disclosure Certificate, 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, (as defined herein) 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 Bond Resolution.

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

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

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

CITY OF DUNLAP, TENNESSEE

BOARD OF MAYOR AND COMMISSIONERS

Dwain Land, Mayor
Jeff Johnson, Vice Mayor
Jeff Harmon
Allen Jones
Judy Layne

CITY OFFICIALS

Norman Hatfield
City Recorder/Treasurer

Stephen T. Greer
City Attorney

REGISTRATION AND PAYING AGENT

Regions Bank
Knoxville, Tennessee

BOND COUNSEL

Bass, Berry & Sims PLC
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 *Preliminary Official Statement*. This Summary Statement shall not be reproduced, distributed or otherwise used except in conjunction with the remainder of this *Preliminary Official Statement*.

Issuer.....	City of Dunlap, Tennessee (the “City” or “Issuer”). See APPENDIX B contained herein.
The Bonds.....	\$1,450,000* General Obligation Bonds, Series 2017B (Bank Qualified) (the “Series 2017B Bonds”) and \$1,550,000* General Obligation Bonds, Series 2017C (Federally Taxable) (the “Series 2017C Bonds”) (collectively, the “Bonds”) of the City, dated the date of issuance (assume October 5, 2017). The Series 2017B Bonds mature each March 1 beginning March 1, 2020 through March 1, 2036, inclusive. The Series 2017C Bonds mature each March 1 beginning March 1, 2020 through March 1, 2036, inclusive. See the section entitled “SECURITIES OFFERED” herein for additional information.
Security	The Bonds shall be payable from unlimited ad valorem taxes to be levied on all taxable property within the Municipality. For the prompt payment of the principal of, premium, if any, and interest on the Bonds, the full faith and credit of the Municipality are irrevocably pledged. As to the portion of the Bonds that finance improvements to the System (defined below), as determined by the Municipality, that portion of the Bonds shall be additionally payable from but not secured by the revenues to be derived from the operation of the System.
Purpose	<p>The Series 2017B Bonds are being issued for the purpose of providing funds for (i) the construction, renovation, extension and equipping of public buildings and facilities and street lights, included but not limited to the installation of LED lighting and roof replacements; (ii) improvements to the Municipality's water and sewer system (the "System"), including but not limited to, the installation of new water meters and supporting infrastructure; (iii) reimbursement to the City for funds previously expended for any of the foregoing (collective, the "2017B Projects"); and (iv) the payment of legal, fiscal, administrative costs incident to the indebtedness described herein.</p> <p>The Series 2017C Bonds are being issued for the purpose of providing funds for (i) the construction and installation of solar panels for public buildings and facilities used for the System in order to reduce energy costs for such buildings and facilities; (ii) reimbursement to the City for funds previously expended for any of the foregoing (collective, the "2017C Projects"); and (iii) the payment of legal, fiscal, administrative costs incident to the indebtedness described herein.</p>
Optional Redemption	The Bonds maturing on or after March 1, 2024 are subject to optional redemption prior to maturity on or after March 1, 2023, 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 Series 2017B 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 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.

*Preliminary, subject to change.

In the opinion of Bond Counsel, interest on the Series 2017C Bonds will be included in gross income for federal income tax purposes.

Under existing law, the Bonds and the income therefrom will be exempt from all state, county and municipal taxation in the State of Tennessee, except Tennessee franchise and excise taxes. (See “LEGAL MATTERS” herein.)

Bank Qualification	The Series 2017B Bonds have been designated as “qualified tax-exempt obligations” within the meaning of Section 265 of the Internal Revenue Code of 1986, as amended. See the section entitled “LEGAL MATTERS - Tax Matters” for additional information.
Rating.....	S&P : “AA-”. See the section entitled “MISCELLANEOUS - Rating” for more information.
Registration & Paying Agent	Regions Bank, Nashville, Tennessee (the “Registration Agent”).
Bond Counsel	Bass, Berry & Sims PLC, Knoxville, Tennessee.
Financial Advisor	Cumberland Securities Company, Inc., Knoxville, Tennessee. See the section entitled “MISCELLANEOUS - Financial Advisor; Related Parties; Others”, herein.
Underwriter.....	_____.
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, <i>Tennessee Code Annotated</i> , 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 promulgated under the Securities Exchange Act of 1934 as amended, the City will provide the Municipal Securities Rulemaking Board (the “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 PRELIMINARY OFFICIAL STATEMENT is deemed “final” within the meaning of Rule 15c2-12 the Securities Exchange Act of 1934 as of the date which appears on the cover hereof except for the omission of certain pricing and other information. For more information concerning the City, or the PRELIMINARY OFFICIAL STATEMENT, contact Mr. Dwain Land, City Mayor, 15595 Rankin Avenue, Dunlap, Tennessee 37327, Telephone: 423-949-2115; or the City's Financial Advisor, Cumberland Securities Company, Inc., Telephone: (865) 988-2663. Additional information regarding BiDCOMP™/PARITY® may be obtained from PARITY® , 1359 Broadway - 2 nd Floor, New York, NY 10018, Telephone: 800.850.7422.

GENERAL FUND BALANCES
Summary of Changes In Fund Balances
(Fiscal Years Ending June 30)

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Beginning Fund Balance	\$1,435,351	\$1,147,034	\$980,271	\$957,923	\$856,307
Revenues	2,513,202	2,562,543	3,133,460	3,300,898	3,450,054
Expenditures	2,802,719	2,554,306	2,995,808	3,212,514	3,129,686
Excess (Deficiency) of Revenues Over Expenditures	(289,517)	8,237	137,652	88,384	320,368
Transfers In	151,200	0	0	0	
Transfers Out	(150,000)	(175,000)	(160,000)	(190,000)	228,515
Ending Fund Balance	<u>\$1,147,034</u>	<u>\$980,271</u>	<u>\$957,923</u>	<u>\$856,307</u>	<u>\$948,160</u>

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

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SUMMARY NOTICE OF SALE

\$3,000,000*

CITY OF DUNLAP, TENNESSEE

\$1,450,000* General Obligation Bonds, Series 2017B (Bank Qualified)

\$1,550,000* General Obligation Bonds, Series 2017C (Federally Taxable)

NOTICE IS HEREBY GIVEN that the City of Dunlap, Tennessee (the “City”) will receive electronic or written bids until **10:15 a.m. E.D.T. on Thursday, September 14, 2017** for the purchase of all, but not less than all, of the City's \$1,450,000* General Obligation Bonds, Series 2017B (Bank Qualified) (the “Series 2017B Bonds”). Electronic bids must be submitted through **PARITY®** as described in the “Detailed Notice of Sale”. In case of written bids, bids will be received by the City’s Financial Advisor, Cumberland Securities Company, Inc., via facsimile at 865-988-1863. Prior to accepting bids, the City reserves the right to adjust the principal amount and maturity amounts of the Series 2017B Bonds being offered as set forth in the Detailed Notice of Sale, to postpone the sale to a later date, or to cancel the sale based upon market conditions via Bloomberg News Service and/or the **PARITY®** System not later than 10:00 a.m., Eastern Daylight Time, on the day of the bid opening. Such notice will specify the revised principal amounts, if any, and any later date selected for the sale, which may be postponed or cancelled in the same manner. If the sale is postponed, a later public sale may be held at the hour and place and on such date as communicated upon at least forty-eight hours notice via Bloomberg News Service and/or the **PARITY®** System.

NOTICE IS HEREBY GIVEN that the City of Dunlap, Tennessee (the “City”) will receive electronic or written bids until **10:45 a.m. E.D.T. on Thursday, September 14, 2017** for the purchase of all, but not less than all, of the City's \$1,550,000* General Obligation Bonds, Series 2017C (Federally Taxable) (the “Series 2017C Bonds”). Electronic bids must be submitted through **PARITY®** as described in the “Detailed Notice of Sale”. In case of written bids, bids will be received by the City’s Financial Advisor, Cumberland Securities Company, Inc., via facsimile at 865-988-1863. Prior to accepting bids, the City reserves the right to adjust the principal amount and maturity amounts of the Series 2017C Bonds being offered as set forth in the Detailed Notice of Sale, to postpone the sale to a later date, or to cancel the sale based upon market conditions via Bloomberg News Service and/or the **PARITY®** System not later than 10:00 a.m., Eastern Daylight Time, on the day of the bid opening. Such notice will specify the revised principal amounts, if any, and any later date selected for the sale, which may be postponed or cancelled in the same manner. If the sale is postponed, a later public sale may be held at the hour and place and on such date as communicated upon at least forty-eight hours notice via Bloomberg News Service and/or the **PARITY®** System.

Electronic bids must be submitted through **PARITY®** via the BiDComp Competitive Bidding Service as described in the Detailed Notice of Sale and no other provider of electronic bidding services will be accepted. For the purposes of the bidding process, both written and electronic, the time maintained by **PARITY®** shall constitute the official time with respect to all bids. To the extent any instructions or directions set forth in **PARITY®** conflict with the terms of the Detailed Notice of Sale and this Summary Notice of Sale, the Detailed Notice of Sale and this Summary Notice of Sale shall prevail.

The Series 2017B Bonds will be issued in book-entry-only form (except as otherwise described in the Detailed Notice of Sale) and dated the date of issuance (assume October 5, 2017). The Series 2017B Bonds will mature on March 1 in the years 2020 through 2036, inclusive, with term bonds optional, with interest payable on March 1 and September 1 of each year, commencing March 1, 2018, and will be subject to optional redemption prior to maturity on or after March 1, 2023 at par plus accrued interest. Bidders must bid not less than ninety-

*Preliminary, subject to change.

eight and three-quarter percent (98.75%) of par or more than one hundred and twenty-five percent (125%) of par for the Series 2017B Bonds. The approving opinion for the Series 2017B Bonds will be furnished at the expense of the City by Bass, Berry & Sims PLC, Bond Counsel, Knoxville, Tennessee. No rate or rates bid for the Series 2017B Bonds shall exceed five percent (5.00%) per annum.

The Series 2017C Bonds will be issued in book-entry-only form (except as otherwise described in the Detailed Notice of Sale) and dated the date of issuance (assume October 5, 2017). The Series 2017C Bonds will mature on March 1 in the years 2020 through 2036, inclusive, with term bonds optional, with interest payable on March 1 and September 1 of each year, commencing March 1, 2018, and will be subject to optional redemption prior to maturity on or after March 1, 2023 at par plus accrued interest. Bidders must bid not less than ninety-eight and three-quarter percent (98.75%) of par or more than one hundred and twenty-five percent (125%) of par for the Series 2017C Bonds. The approving opinion for the Series 2017C Bonds will be furnished at the expense of the City by Bass, Berry & Sims PLC, Bond Counsel, Knoxville, Tennessee. No rate or rates bid for the Series 2017C Bonds shall exceed six percent (6.00%) per annum.

Unless bids for any series are rejected, the Series 2017B Bonds and Series 2017C Bonds will be awarded by the Mayor of the City on the sale date to the bidders whose bids results in the lowest true interest rate on the Series 2017B Bonds and Series 2017C Bonds, respectively.

In the event that the competitive sale requirements of applicable Treasury Regulations are not met, the City will not require bidders to comply with the “hold-the-offering-price rule” for purposes of determining the issue price of the Bonds. Bids will not be subject to cancellation in the event that the competitive sale requirements of applicable Treasury Regulations are not satisfied.

Additional information, including the PRELIMINARY OFFICIAL STATEMENT in near final form and the Detailed Notice of Sale, may be obtained through www.prospectushub.com or from the City’s Financial Advisor, Cumberland Securities Company, Inc., Telephone (865) 988-2663. Further information regarding **PARITY**® may be obtained from i-Deal LLC, 1359 Broadway, 2nd Floor, New York, New York 10018, Telephone: 212-849-5000.

CITY OF DUNLAP, TENNESSEE

By: Dwain Land, City Mayor

DETAILED NOTICE OF SALE

\$3,000,000*

CITY OF DUNLAP, TENNESSEE

\$1,450,000* General Obligation Bonds, Series 2017B (Bank Qualified)

\$1,550,000* General Obligation Bonds, Series 2017C (Federally Taxable)

NOTICE IS HEREBY GIVEN that the City of Dunlap, Tennessee (the “City”) will receive electronic or written bids until **10:15 a.m. E.D.T. on Thursday, September 14, 2017** for the purchase of all, but not less than all, of the City's \$1,450,000* General Obligation Bonds, Series 2017B (Bank Qualified) (the “Series 2017B Bonds”). Electronic bids must be submitted through **PARITY®** as described in the “Detailed Notice of Sale”. In case of written bids, bids will be received by the City’s Financial Advisor, Cumberland Securities Company, Inc., via facsimile at 865-988-1863. Prior to accepting bids, the City reserves the right to adjust the principal amount and maturity amounts of the Series 2017B Bonds being offered as set forth in the Detailed Notice of Sale, to postpone the sale to a later date, or to cancel the sale based upon market conditions via Bloomberg News Service and/or the **PARITY®** System not later than 10:00 a.m., Eastern Daylight Time, on the day of the bid opening. Such notice will specify the revised principal amounts, if any, and any later date selected for the sale, which may be postponed or cancelled in the same manner. If the sale is postponed, a later public sale may be held at the hour and place and on such date as communicated upon at least forty-eight hours notice via Bloomberg News Service and/or the **PARITY®** System.

NOTICE IS HEREBY GIVEN that the City of Dunlap, Tennessee (the “City”) will receive electronic or written bids until **10:45 a.m. E.D.T. on Thursday, September 14, 2017** for the purchase of all, but not less than all, of the City's \$1,550,000* General Obligation Bonds, Series 2017C (Federally Taxable) (the “Series 2017C Bonds”). Electronic bids must be submitted through **PARITY®** as described in the “Detailed Notice of Sale”. In case of written bids, bids will be received by the City’s Financial Advisor, Cumberland Securities Company, Inc., via facsimile at 865-988-1863. Prior to accepting bids, the City reserves the right to adjust the principal amount and maturity amounts of the Series 2017C Bonds being offered as set forth in the Detailed Notice of Sale, to postpone the sale to a later date, or to cancel the sale based upon market conditions via Bloomberg News Service and/or the **PARITY®** System not later than 10:00 a.m., Eastern Daylight Time, on the day of the bid opening. Such notice will specify the revised principal amounts, if any, and any later date selected for the sale, which may be postponed or cancelled in the same manner. If the sale is postponed, a later public sale may be held at the hour and place and on such date as communicated upon at least forty-eight hours notice via Bloomberg News Service and/or the **PARITY®** System.

Description of the Bonds. The Bonds will be issued in fully registered book-entry-only form (except as otherwise described herein) without coupons, be dated the date of issuance, bear interest payable each March 1 and September 1, commencing March 1, 2018, be issued, or reissued upon transfer, in \$5,000 denominations or multiples thereof, as shall be requested by the purchaser or registered owner thereof, as applicable.

The Series 2017B Bonds will mature and be payable on March 1 of each year as on the following page:

*Preliminary, subject to change.

SERIES 2017B (Bank Qualified)

YEAR (March 1)	AMOUNT*	YEAR (March 1)	AMOUNT*
2020	\$ 65,000	2029	\$ 85,000
2021	70,000	2030	90,000
2022	70,000	2031	100,000
2023	70,000	2032	100,000
2024	75,000	2033	100,000
2025	75,000	2034	100,000
2026	80,000	2035	100,000
2027	85,000	2036	100,000
2028	85,000		

The Series 2017C Bonds will mature and be payable on March 1 of each year as follows:

SERIES 2017C (Federally Taxable)

YEAR (March 1)	AMOUNT*	YEAR (March 1)	AMOUNT*
2020	\$ 65,000	2029	\$ 95,000
2021	70,000	2030	95,000
2022	70,000	2031	100,000
2023	75,000	2032	100,000
2024	75,000	2033	110,000
2025	75,000	2034	110,000
2026	85,000	2035	120,000
2027	85,000	2036	130,000
2028	90,000		

*Preliminary, subject to change.

Bank Qualification. The Series 2017B Bonds have been designated as “qualified tax-exempt obligations” within the meaning of Section 265 of the Internal Revenue Code of 1986, as amended.

Registration and Depository Participation. The Bonds, when issued, will be registered in the name of Cede & Co., DTC’s partnership nominee. When the Bonds are issued, ownership interests will be available to purchasers only through a book-entry only system maintained by DTC (the “Book-Entry-Only System”). One fully-registered bond certificate will be issued for each maturity, in the entire aggregate principal amount of the Bonds and will be deposited with DTC. The Book-Entry-Only System will evidence beneficial ownership interests of the Bonds in the principal amount of \$5,000 for the Bonds and any integral multiple of \$5,000, with transfers of beneficial ownership interest effected on the records of DTC participants and, if necessary, in turn by DTC pursuant to rules and procedures established by DTC and its participants. The successful bidder, as a condition to delivery of the Bonds, shall be required to deposit the bond certificates with DTC, registered in the name of Cede & Co., nominee of DTC. The Bonds will be payable, at maturity or upon earlier redemption to DTC or its nominee as registered owner of the Bonds. Transfer of principal and interest payments to participants of DTC will be the responsibility of DTC, and transfer of principal and interest payments (as applicable) to beneficial owners of the Bonds by Participants of DTC, will be the responsibility of such participants and of the nominees of beneficial owners. The City will not be responsible or liable for such transfer of payments or for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through

such participants. Notwithstanding the foregoing, if the winning bidder certifies that it intends to hold the Bonds for its own account and has no present intent to re-offer the Bonds, the use of the Book-Entry Only System is not required.

In the event that the Book-Entry Only System for the Bonds is discontinued and a successor securities depository is not appointed by the City, Bond Certificates in fully registered form will be delivered to, and registered in the names of, the DTC Participants or such other persons as such DTC participants may specify (which may be the indirect participants or beneficial owners), in authorized denominations of \$5,000 for the Bonds or integral multiples thereof. The ownership of Bonds so delivered shall be registered in registration books to be kept by the Registration Agent (named herein) at its principal corporate trust office, and the City and the Registration Agent shall be entitled to treat the registered owners of the Bonds, as their names appear in such registration books as of the appropriate dates, as the owners thereof for all purposes described herein and in the Resolution authorizing the Bonds.

Security Pledged. The Bonds shall be payable from unlimited ad valorem taxes to be levied on all taxable property within the Municipality. For the prompt payment of the principal of, premium, if any, and interest on the Bonds, the full faith and credit of the Municipality are irrevocably pledged. The Bonds shall be payable from unlimited ad valorem taxes to be levied on all taxable property within the Municipality. As to the portion of the Bonds that finance improvements to the System (defined below), as determined by the Municipality, that portion of the Bonds shall be additionally payable from but not secured by the revenues to be derived from the operation of the System.

Purpose. The Series 2017B Bonds are being issued for the purpose of providing funds for for (i) the construction, renovation, extension and equipping of public buildings and facilities and street lights, included but not limited to the installation of LED lighting and roof replacements; (ii) improvements to the Municipality's water and sewer system (the "System"), including but not limited to, the installation of new water meters and supporting infrastructure; (iii) reimbursement to the City for funds previously expended for any of the foregoing (collective, the "2017B Projects"); and (iv) the payment of legal, fiscal, administrative costs incident to the indebtedness described herein.

The Series 2017C Bonds are being issued for the purpose of providing funds for (i) the construction and installation of solar panels for public buildings and facilities used for the System in order to reduce energy costs for such buildings and facilities; (ii) reimbursement to the City for funds previously expended for any of the foregoing (collective, the "2017C Projects"); and (iii) the payment of legal, fiscal, administrative costs incident to the indebtedness described herein.

Optional Redemption. The Bonds maturing on and after March 1, 2024 will be subject to optional redemption prior to maturity at the option of the City on and after March 1, 2023 at the redemption price of par plus accrued interest as provided herein.

Term Bond Option; Mandatory Redemption. Bidders shall have the option to designate certain consecutive serial maturities of the Bonds as one or more term bonds ("Term Bonds") bearing a single interest rate. If the successful bidder for the Bonds designates certain consecutive serial maturities of such series of Bonds to be combined as one or more Term Bonds as allowed herein, then each Term Bond shall be subject to mandatory sinking fund redemption by the City at a redemption price equal to one hundred percent (100%) of the principal amount thereof, together with accrued interest to the date fixed for redemption at the rate stated in the Term Bonds to be redeemed. Each such mandatory sinking fund redemption shall be made on the date on which a consecutive maturity included as part of a Term Bond is payable in accordance with the proposal of the successful bidder for the Bonds and in the amount of the maturing principal installment for the Bonds listed herein for such principal payment date. Term Bonds to be redeemed within a single maturity shall be selected in the same manner as above for optional redemption of Bonds within a single maturity.

Bidding Instructions. The City will receive electronic or written bids for the purchase of all, but not less than all, of the Bonds. Bidders for the Bonds are requested to name the interest rate or rates the Bonds are to bear in multiples of one-eighth of one percent and/or one-hundredth of one percent (.01%) or one (1) basis point, but no rate specified shall be in excess of five percent (5.00%) per annum. There will be no limitation on the number of rates of interest that may be specified in a single bid for the Bonds but a single rate shall apply to each single maturity of the Bonds. Bidders must bid not less than ninety-eight and three-quarter percent (98.75%) of par or no more than one hundred and twenty-five percent (125%) of par.

Bidders may designate consecutive serial maturities of the Bonds as one or more Term Bond Maturities equal in aggregate principal amount to, and with mandatory redemption requirements corresponding to such designated serial maturities.

Electronic bids must be submitted through **PARITY**® via BiDCOMP Competitive Bidding System and no other provider of electronic bidding services will be accepted. Subscription to the i-Deal LLC Dalcomp Division's BiDCOMP Competitive Bidding System is required in order to submit an electronic bid. The City will not confirm any subscription nor be responsible for the failure of any prospective bidder to subscribe. For the purposes of the bidding process, the time as maintained by **PARITY**® shall constitute the official time with respect to all bids whether in electronic or written form. To the extent any instructions or directions set forth in **PARITY**® conflict with the terms of the Detailed Notice of Sale, this Detailed Notice of Sale shall prevail. An electronic bid made through the facilities of **PARITY**® shall be deemed an offer to purchase in response to the Detailed Notice of Sale and shall be binding upon the bidder as if made by a signed, written bid delivered to the City. The City shall not be responsible for any malfunction or mistake made by or as a result of the use of the electronic bidding facilities provided and maintained by **PARITY**®. The use of **PARITY**® facilities are at the sole risk of the prospective bidders.

For further information regarding **PARITY**®, potential bidders may contact i-Deal LLC at 1359 Broadway, 2nd Floor, New York, NY 10018, Telephone: 212-849-5000.

In the event of a system malfunction in the electronic bidding process only, bidders may submit bid prior to the established date and time by FACSIMILE transmission sent to the City's Financial Advisor, Cumberland Securities Company, Inc., at 865-988-1863. Any facsimile submission is made at the sole risk of the prospective bidder. The City and the Financial Advisor shall not be responsible for confirming receipt of any facsimile bid or for any malfunction relating to the transmission and receipt of such bids.

Separate written bids should be submitted by facsimile to the City's Financial Advisor, at 865-988-1863. Written bids must be submitted on the Bid Forms included with the PRELIMINARY OFFICIAL STATEMENT.

The City reserves the right to reject all bids for the Bonds and to waive any informalities in the bids accepted.

Acceptance or rejection of "Bids for Bonds" for the Bonds will not obligate the City to accept or reject "Bids for Bonds".

Unless all bids for the Bonds are rejected, the Bonds will be awarded by the Mayor of the City to the bidder whose bid complies with this notice and results in the lowest true interest rate on the Bonds to be calculated as that rate that, when used in computing the present worth of all payments of principal and interest on the Bonds (compounded semi-annually from the date of the Bonds), produces an amount equal to the purchase price of the Bonds exclusive of accrued interest. For purposes of calculating the true interest cost, the principal amount of Term Bonds scheduled for mandatory sinking fund redemption as part of the Term Bond shall be treated as a serial maturity in such year. In the event that two or more bidders offer to purchase the Bonds at the same lowest true

interest rate, the Mayor of the City shall determine in its sole discretion which of the bidders shall be awarded the Bonds.

Adjustment and/or Revision. While it is the City's intention to sell and issue the approximate par amounts of the Bonds as offered herein, there is no guarantee that adjustment and/or revision may not be necessary in order to properly size the Bonds. Accordingly, the City Mayor reserves the right, in his sole discretion, to adjust down the original par amount of the Bonds by up to \$400,000, per series. The primary factor to be considered in such adjustment is the amount of premium that is bid. Among other factors the Mayor may (but shall be under no obligation to) consider in sizing the par amounts and individual maturities of the Bonds is providing for level debt service, the size of individual maturities or sinking fund installments and/or other preferences of the City. Additionally, the Mayor reserves the right to change the dated date of the Bonds. The maximum revision will occur only if the winning bidder bids the maximum price (including premium).

In the event of any such adjustment and/or revision with respect to the Bonds, no rebidding will be permitted, and the portion of such premium or discount (as may have been bid for the Bonds) shall be adjusted in the same proportion as the amount of such revision in par amount of the Bonds bears to the original par amount of such Bonds offered for sale.

The successful bidder for the Bonds will be tentatively notified by not later than 5:00 p.m. (Eastern Daylight Time), on the sale date of the exact revisions and/or adjustments required, if any.

Good Faith Deposit. No good faith check will be required to accompany any bid submitted. The successful bidder shall be required to deliver to the City's Financial Advisor (wire transfer or certified check) the amount of two percent (2%) of the aggregate principal amount of the Bonds offered for sale which will secure the faithful performance of the terms of the bid. A certified check or wire transfer must be received by the City's Financial Advisor no later than the close of business on the day following the competitive sale. A wire transfer may be sent to First Tennessee Bank, ABA Number: 084-000-026 First Tenn Mem, FAO Cumberland Securities Company, Inc., Account No. 183302631, for further credit to Good Faith Trust Account.

The good faith deposit shall be applied (without interest) to the purchase price of the Bonds. If the successful bidder should fail to accept or pay for the Bonds when tendered for delivery and payment, the good faith deposit will be retained by the City as liquidated damages.

In the event of the failure of the City to deliver the Bonds to the purchaser in accordance with the terms of this Notice within forty-five (45) days after the date of the sale, the good-faith deposit will be promptly returned to the purchaser unless the purchaser directs otherwise.

Establishment of Issue Price – Series 2017B Bonds

General. The winning bidder shall assist the City in establishing the issue price of the Series 2017B Bonds and shall execute and deliver to the City at Closing an "issue price" or similar certificate setting forth the reasonably expected initial offering price to the public or the sales price or prices of the Series 2017B Bonds, together with the supporting pricing wires or equivalent communications. All actions to be taken by the City under this Notice of Sale to establish the issue price of the Series 2017B Bonds may be taken on behalf of the City by the City's financial advisor identified herein and any notice or report to be provided to the City may be provided to the City's financial advisor.

Anticipated Compliance with Competitive Sale Requirements. The City anticipates that the provisions of Treasury Regulation Section 1.148-1(f)(3)(i) (defining "competitive sale" for purposes of establishing the issue

price of the Series 2017B Bonds) will apply to the initial sale of the Series 2017B Bonds (the “competitive sale requirements”) because:

- the City shall disseminate this Notice of Sale to potential underwriters in a manner that is reasonably designed to reach potential underwriters;
- all bidders shall have an equal opportunity to bid;
- the City expects to receive bids from at least three underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds; and
- the City anticipates awarding the sale of the Series 2017B Bonds to the bidder who submits a firm offer to purchase the Series 2017B Bonds at the highest price (or lowest interest cost), as set forth in this Notice of Sale.

Any bid submitted pursuant to this Notice of Sale shall be considered a firm offer for the purchase of the Series 2017B Bonds, as specified in the bid.

In the event that the competitive sale requirements are not satisfied, the Issuer shall so advise the winning bidder. The Issuer shall treat the first price at which 10% of a maturity of the Series 2017B Bonds (the “10% test”) is sold to the public as the issue price of that maturity, applied on a maturity-by-maturity basis (and if different interest rates apply within a maturity, to each separate CUSIP number within that maturity). The winning bidder shall advise the Issuer if any maturity of the Series 2017B Bonds satisfies the 10% test as of the date and time of the award of the Series 2017B Bonds. The Issuer will not require bidders to comply with the “hold-the-offering-price rule” and therefore does not intend to use the initial offering price to the public as of the sale date of any maturity of the Series 2017B Bonds as the issue price of that maturity. Bids will not be subject to cancellation in the event that the competitive sale requirements are not satisfied. Bidders should prepare their bids on the assumption that all of the maturities of the Series 2017B Bonds will be subject to the 10% test in order to establish the issue price of the Series 2017B Bonds.

If the competitive sale requirements are not satisfied, then until the 10% test has been satisfied as to each maturity of the Series 2017B Bonds, the winning bidder agrees to promptly report to the Issuer the prices at which the unsold Series 2017B Bonds of that maturity have been sold to the public. That reporting obligation shall continue, whether or not the Closing Date has occurred, until the 10% test has been satisfied as to the Series 2017B Bonds of that maturity or until all Series 2017B Bonds of that maturity have been sold.

By submitting a bid, each bidder confirms that: (i) any agreement among underwriters, any selling group agreement and each retail distribution agreement (to which the bidder is a party) relating to the initial sale of the Series 2017B Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter, each dealer who is a member of the selling group, and each broker-dealer that is a party to such retail distribution agreement, as applicable, to report the prices at which it sells to the public the unsold Series 2017B Bonds of each maturity allotted to it until it is notified by the winning bidder that either the 10% test has been satisfied as to the Series 2017B Bonds of that maturity or all Series 2017B Bonds of that maturity have been sold to the public, if and for so long as directed by the winning bidder and as set forth in the related pricing wires, and (ii) any agreement among underwriters relating to the initial sale of the Series 2017B Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter that is a party to a retail distribution agreement to be employed in connection with the initial sale of the Series 2017B Bonds to the public to require each broker-dealer that is a party to such retail distribution agreement to report the prices at which it sells to the public the unsold Series 2017B Bonds of each maturity allotted to it until it is notified by the winning bidder or such underwriter that either the 10% test has been satisfied as to the Series 2017B Bonds of that maturity or all Series 2017B Bonds of that maturity have been sold to the public, if and for so long as directed by the winning bidder or such underwriter and as set forth in the related pricing wires.

Sales of any Series 2017B Bonds to any person that is a related party to an underwriter shall not constitute sales to the public for purposes of this Notice of Sale. Further, for purposes of this Notice of Sale:

- “public” means any person other than an underwriter or a related party,
- “underwriter” means (A) any person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Series 2017B Bonds to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Series 2017B Bonds to the public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Series 2017B Bonds to the public),
- a purchaser of any of the Series 2017B Bonds is a “related party” to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (i) at least 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other), and
- “sale date” means the date that the Series 2017B Bonds are awarded by the Issuer to the winning bidder.

Issue Price Certificate. The winning bidder will be required to provide the City, at closing, with an issue price certificate consistent with the foregoing. A form of the issue price certificate is attached to this Detailed Notice of Sale as Exhibit A.

Reoffering Prices; Other Information. The successful bidder must furnish the following information to the City to complete the *Official Statement* in final form within two (2) hours after receipt and award of the bid for the Bonds:

1. The offering prices or yields for the Bonds (expressed as a price or yield per maturity, exclusive of any accrued interest, if applicable);
2. Selling compensation (aggregate total anticipated compensation to the underwriter expressed in dollars, based on the expectation that all Bonds are sold at the prices or yields as provided above);
3. The identity of the underwriters if the successful bidder is part of a group or syndicate; and
4. Any other material information necessary to complete the *Official Statement* in final form but not known to the City.

As a condition to the delivery of the Bonds, the successful bidder will be required to deliver a certificate to the City as is described above relating to reoffering price.

Legal Opinion. The approving opinions of Bass, Berry & Sims PLC, Knoxville, Tennessee, Bond Counsel along with other certificates including, but not limited to, a tax certificate and a continuing disclosure certificate dated as of the date of delivery of the Bonds will be furnished to the purchaser at the expense of the City. As set forth in the *Preliminary Official Statement*, Bond Counsel's opinion with respect to the Series 2017B Bonds will state that interest on the Series 2017B Bonds will be excluded from gross income for federal income tax purposes; is not an item of tax preference for purposes of the federal law alternative minimum tax imposed on individuals and corporations; and is taken into account in determining adjusted current earnings of certain corporations for purposes of the alternative minimum tax on corporations. As set forth in the *Preliminary Official*

Statement, the owners of the Bonds, however, may be subject to certain additional taxes or tax consequences arising with respect to ownership of the Bonds. Reference is hereby made to the *Preliminary Official Statement* and the form of the opinions contained in Appendix A.

Continuing Disclosure. At the time the Bonds are delivered, the City will execute a Continuing Disclosure Certificate in which it will covenant for the benefit of holders and beneficial owners of the Bonds to provide certain financial information relating to the City by not later than twelve months after each of the City's fiscal years, (the "Annual Report"), and to provide notice of the occurrence of certain enumerated events if determined by the City to be material under applicable federal securities laws. The Annual Report (and audited financial statements, if filed separately) will be filed with the Municipal Securities Rulemaking Board (the "MSRB") through the operation of the Electronic Municipal Market Access system (the "EMMA") and any State Information Depository established in the State of Tennessee (the "SID"). If the City is unable to provide the Annual Report to the MSRB and the SID by the date required, notice of each failure will be sent to the MSRB and the SID on or before such date. The notices of material events will be filed by the City either with the MSRB and the SID. The specific nature of the information to be contained in the Annual Report or the notices of material events will be summarized in the City's *Official Statement* to be prepared and distributed in connection with the sale of the Bonds.

Delivery of Bonds. Delivery of the Bonds is expected within forty-five (45) days. At least five (5) days' notice will be given the successful bidder. Delivery will be made in book-entry form through the facilities of The Depository Trust Company, New York, New York. Payment for the Bonds must be made in *Federal Funds* or other immediately available funds. Delivery is currently expected on or about October 5, 2017.

CUSIP Numbers. CUSIP numbers will be assigned to the Bonds at the expense of the City. The City will assume no obligation for assignment of such numbers or the correctness of such numbers and neither failure to record such numbers on Bonds nor any error with respect thereto shall constitute cause for failure or refusal by the purchaser thereof to accept delivery of and make payment for the Bonds.

Official Statements; Other. The City has deemed the PRELIMINARY OFFICIAL STATEMENT to be final as of its date within the meaning of Rule 15c2-12 of the U.S. Securities and Exchange Commission (the "SEC") except for the omission of certain pricing and other information. The City will furnish the successful bidder at the expense of the City a reasonable number of copies of the *Official Statement* in final form, containing the pricing and other information to be supplied by the successful bidder and to be dated the date of the sale, to be delivered by the successful bidder(s) to the persons to whom such bidder and members of its bidding group initially sell the Bonds. Acceptance of the bid will constitute a contract between the City and the successful bidder for the provision of such copies within seven business days of the sale date.

Further Information. Additional information, including the *Preliminary Official Statement*, the Detailed Notice of Sale and the Official Bid Form, may be obtained from the City's Financial Advisor, Cumberland Securities Company, Inc., Knoxville, Tennessee, Telephone: 865-988-2663. Further information regarding **PARITY®** may be obtained from i-Deal LLC, 1359 Broadway, 2nd Floor, New York, New York 10018, Telephone: 212-849-5000.

CITY OF DUNLAP, TENNESSEE

By: Dwain Land
City Mayor

Exhibit A to Detailed Notice of Sale

CITY OF DUNLAP, TENNESSEE
\$ _____ GENERAL OBLIGATION BONDS, SERIES 2017B (BANK QUALIFIED)

ISSUE PRICE CERTIFICATE

The undersigned, on behalf of [NAME OF UNDERWRITER] (the "Underwriter"), hereby certifies as set forth below with respect to the sale of the above-captioned obligation (the "Bonds").

[Assuming the Qualified Competitive Sale Requirements are Satisfied]

1. *Reasonably Expected Initial Offering Price.*

(a) As of the Sale Date, the reasonably expected initial offering prices of the Bonds to the Public by the Underwriter are the prices listed below (the "Expected Offering Prices"). The Expected Offering Prices are the prices for the Maturities of the Bonds used by the Underwriter in formulating its bid to purchase the Bonds. Attached as Exhibit A is a true and correct copy of the bid provided by the Underwriter to purchase the Bonds, including the Expected Offering Price submitted on the Sale Date following the bid.

(b) The Underwriter was not given the opportunity to review other bids prior to submitting its bid.

(c) The bid submitted by the Underwriter constituted a firm offer to purchase the Bonds.

[End]

**[Assuming the Qualified Competitive Sale Requirements Are Not Satisfied
and the 10% Test Applies]**

1. *Sale of the 10% of Each Maturity of the Bonds.*

(a) As of the date of this Certificate, the first price at which at least 10% of the following maturities was sold to the Public is the respective price listed below.

<u>Maturity</u>	<u>Par Amount</u>	<u>Interest Rate</u>	<u>Price (% of Par)</u>

(b) As of the date of this certificate, less than 10% of the following maturities of the Bonds (the "Undersold Maturities") has been sold to the Public. For each maturity of the Undersold Maturities, the Issuer will treat the first price at which 10% of such Undersold Maturity is sold to the Public as the issue price of that Maturity. Pursuant to the terms of the Detailed Notice of Sale for the Bonds, the Underwriter has agreed to promptly report to the Issuer and to the Issuer's municipal advisor the prices at which it sells Bonds of such Undersold Maturities to the Public. That reporting obligation shall continue until 10% test of each of the Undersold Maturities has been sold to the Public.

<u>Maturity</u>	<u>Par Amount</u>	<u>Interest Rate</u>

[End]

2. ***Defined Terms.***

(a) *Maturity* means Bonds with the same credit and payment terms. Bonds with different maturity dates, or Bonds with the same maturity date but different stated interest rates, are treated as separate Maturities.

(b) *Issuer* means the City of Dunlap, Tennessee.

(c) *Public* means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a related party to an Underwriter. The term "related party" for purposes of this Certificate generally means any two or more persons who have greater than 50 percent common ownership, directly or indirectly.

(d) *Sale Date* means the first day on which there is a binding contract in writing for the sale or exchange the Bonds. The Sale Date of the Bonds is September 14, 2017.

(e) *Underwriter* means (i) any person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale of the Bonds to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public).

The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents the Underwriter's interpretation of any laws, including specifically Sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in its Federal Tax Certificate and Agreement to be delivered in connection with the issuance of the Bonds and with respect to compliance with the federal income tax rules affecting the Bonds, and by Bass, Berry & Sims PLC in connection with rendering its opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Bonds.

Dated: [Issue Date]

[UNDERWRITER], as Underwriter

By: _____

Name: _____

SERIES 2017B BONDS (BANK QUALIFIED) BID FORM

Dwain Land, City Mayor
15595 Rankin Avenue
Dunlap, Tennessee 37327

September 14, 2017

Dear Mr. Land:

For your legally issued, properly executed \$1,450,000* General Obligation Bonds, Series 2017B (Bank Qualified) (the "Series 2017B Bonds") of City of Dunlap, Tennessee, in all respects as more fully outlined in your Notice of Sale, which by reference are made a part hereof, we will pay you a sum of _____ (\$_____).

The Series 2017B Bonds shall be dated the date of issuance (assume October 5, 2017) and shall be callable in accordance with the DETAILED NOTICE OF SALE. The Series 2017B Bonds shall mature on March 1 and bear interest at the following rates:

<u>Maturity (March 1)</u>	<u>Amount*</u>	<u>Rate</u>	<u>Maturity (March 1)</u>	<u>Amount*</u>	<u>Rate</u>
2020	\$ 65,000	—	2029	\$ 85,000	—
2021	70,000	—	2030	90,000	—
2022	70,000	—	2031	100,000	—
2023	70,000	—	2032	100,000	—
2024	75,000	—	2033	100,000	—
2025	75,000	—	2034	100,000	—
2026	80,000	—	2035	100,000	—
2027	85,000	—	2036	100,000	—
2028	85,000	—			

We have the option to designate two or more consecutive serial maturities as term bond maturities as indicated:

Term Bond 1: Maturities from March 1, 20_____ through March 1, 20_____ @ _____%.

Term Bond 2: Maturities from March 1, 20_____ through March 1, 20_____ @ _____%.

Term Bond 3: Maturities from March 1, 20_____ through March 1, 20_____ @ _____%.

Term Bond 4: Maturities from March 1, 20_____ through March 1, 20_____ @ _____%.

Term Bond 5: Maturities from March 1, 20_____ through March 1, 20_____ @ _____%.

Term Bond 6: Maturities from March 1, 20_____ through March 1, 20_____ @ _____%.

It is our understanding that the Series 2017B Bonds are offered for sale as "qualified tax exempt obligations" subject to the final approving opinion of Bass, Berry & Sims PLC, Bond Counsel, Knoxville, Tennessee, whose opinion together with the executed Series 2017B Bonds, will be furnished by the City without cost to us.

If our bid is accepted, we agree to provide a good faith deposit for up to 2% of the Series 2017B Bonds on which we have bid by the close of business on the date following the competitive public sale as outlined in the *Detailed Notice of Sale*. Should for any reason we fail to comply with the terms of this bid, this good faith deposit shall be forfeited by us as full liquidated damages. Otherwise, this good faith deposit shall be applied to the purchase price of the Series 2017B Bonds on which we have bid. This bid is a firm offer for the purchase of the Bonds identified in the Notice of Sale, on the terms set forth in this bid form and the Notice of Sale, and is not subject to any conditions, except as permitted by the Notice of Sale. By submitting this bid, we confirm that we have an established industry reputation for underwriting new issuances of municipal bonds. [If the bidder cannot confirm an established industry reputation for underwriting new issuances of municipal bonds, the preceding sentence should be crossed out.] [Add the following language in the event that the bidder does not intend to offer the Bonds to the public]: We will not participate in the initial sale of the Bonds to the public.

Accepted for and on behalf of the
City of Dunlap, Tennessee, this
14th day of September, 2017.

Dwain Land, Mayor

Respectfully submitted,

Total interest cost from
October 5, 2017 to final maturity \$ _____
Less: Premium /plus discount, if any \$ _____
Net Interest Cost \$ _____
True Interest Rate _____%

The computations of net interest cost and true interest rate are for comparison purposes only and are not to be considered as part of this proposal.

*Preliminary, subject to change.

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SERIES 2017C BONDS (FEDERALLY TAXABLE) BID FORM

Dwain Land, City Mayor
15595 Rankin Avenue
Dunlap, Tennessee 37327

September 14, 2017

Dear Mr. Land:

For your legally issued, properly executed \$1,550,000* General Obligation Bonds, Series 2017C (Federally Taxable) (the "Series 2017C Bonds") of City of Dunlap, Tennessee, in all respects as more fully outlined in your Notice of Sale, which by reference are made a part hereof, we will pay you a sum of _____ (\$ _____).

The Series 2017C Bonds shall be dated the date of issuance (assume October 5, 2017) and shall be callable in accordance with the DETAILED NOTICE OF SALE. The Series 2017C Bonds shall mature on March 1 and bear interest at the following rates:

<u>Maturity</u> <u>(March 1)</u>	<u>Amount*</u>	<u>Rate</u>	<u>Maturity</u> <u>(March 1)</u>	<u>Amount*</u>	<u>Rate</u>
2020	\$ 65,000	—	2029	\$ 95,000	—
2021	70,000	—	2030	95,000	—
2022	70,000	—	2031	100,000	—
2023	75,000	—	2032	100,000	—
2024	75,000	—	2033	110,000	—
2025	75,000	—	2034	110,000	—
2026	85,000	—	2035	120,000	—
2027	85,000	—	2036	130,000	—
2028	90,000	—			

We have the option to designate two or more consecutive serial maturities as term bond maturities as indicated:

Term Bond 1: Maturities from March 1, 20_____ through March 1, 20_____ @ _____%.

Term Bond 2: Maturities from March 1, 20_____ through March 1, 20_____ @ _____%.

Term Bond 3: Maturities from March 1, 20_____ through March 1, 20_____ @ _____%.

Term Bond 4: Maturities from March 1, 20_____ through March 1, 20_____ @ _____%.

Term Bond 5: Maturities from March 1, 20_____ through March 1, 20_____ @ _____%.

Term Bond 6: Maturities from March 1, 20_____ through March 1, 20_____ @ _____%.

Term Bond 7: Maturities from March 1, 20_____ through March 1, 20_____ @ _____%.

It is our understanding that the Series 2017C Bonds are offered for sale to the final approving opinion of Bass, Berry & Sims PLC, Bond Counsel, Knoxville, Tennessee, whose opinion together with the executed Series 2017C Bonds, will be furnished by the City without cost to us.

If our bid is accepted, we agree to provide a good faith deposit for up to 2% of the Series 2017C Bonds on which we have bid by the close of business on the date following the competitive public sale as outlined in the *Detailed Notice of Sale*. Should for any reason we fail to comply with the terms of this bid, this good faith deposit shall be forfeited by us as full liquidated damages. Otherwise, this good faith deposit shall be applied to the purchase price of the Series 2017C Bonds on which we have bid.

Accepted for and on behalf of the
City of Dunlap, Tennessee, this
14th day of September, 2017.

Dwain Land, Mayor

Respectfully submitted,

Total interest cost from
October 5, 2017 to final maturity \$ _____
Less: Premium /plus discount, if any \$ _____
Net Interest Cost \$ _____
True Interest Rate _____%

The computations of net interest cost and true interest rate are for comparison purposes only and are not to be considered as part of this proposal.

*Preliminary, subject to change.

\$3,000,000*
CITY OF DUNLAP, TENNESSEE
\$1,450,000* General Obligation Bonds, Series 2017B (Bank Qualified)
\$1,550,000* General Obligation Bonds, Series 2017C (Federally Taxable)

SECURITIES OFFERED

AUTHORITY AND PURPOSE

This PRELIMINARY OFFICIAL STATEMENT which includes the Summary Statement hereof and appendices hereto is furnished in connection with the offering by the City of Dunlap, Tennessee (the “City”, “” or “Issuer”) of its \$1,450,000* General Obligation Bonds, Series 2017B (Bank Qualified) (the “Series 2017B Bonds”) and \$1,550,000* General Obligation Bonds, Series 2017C (Federally Taxable) (the “Series 2017C Bonds”) (collectively, 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 adopted by the Board of Mayor and Commissioners of the City (the “Board”). The detailed bond resolution (the “Resolution”) was adopted by the Board on September 7, 2017.

The Series 2017B Bonds are being issued for the purpose of providing funds for for (i) the construction, renovation, extension and equipping of public buildings and facilities and street lights, included but not limited to the installation of LED lighting and roof replacements; (ii) improvements to the Municipality's water and sewer system (the "System"), including but not limited to, the installation of new water meters and supporting infrastructure; (iii) reimbursement to the City for funds previously expended for any of the foregoing (collective, the "2017B Projects"); and (iv) the payment of legal, fiscal, administrative costs incident to the indebtedness described herein.

The Series 2017C Bonds are being issued for the purpose of providing funds for (i) the construction and installation of solar panels for public buildings and facilities used for the System in order to reduce energy costs for such buildings and facilities; (ii) reimbursement to the City for funds previously expended for any of the foregoing (collective, the "2017C Projects"); and (iii) the payment of legal, fiscal, administrative costs incident to the indebtedness described herein.

DESCRIPTION OF THE BONDS

The Bonds will be initially dated and bear interest from the date of issuance (assume October 5, 2017). Interest on the Bonds will be payable semi-annually on March 1 and September 1, commencing March 1, 2018. The Bonds are issuable in registered book-entry only form and in \$5,000 denominations or integral multiples thereof as shall be requested by each respective registered owner.

*Preliminary, subject to change.

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 Municipality. For the prompt payment of the principal of, premium, if any, and interest on the Bonds, the full faith and credit of the Municipality are irrevocably pledged. The Bonds shall be payable from unlimited ad valorem taxes to be levied on all taxable property within the Municipality. As to the portion of the Bonds that finance improvements to the System, as determined by the Municipality, that portion of the Bonds shall be additionally payable from but not secured by the revenues to be derived from the operation of the System.

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 taxes may be reduced to the extent of direct appropriations from any direct appropriations from the General Fund of the City or other funds of the City to the payment of debt service on the Bonds including revenues of the System.

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

SERIES 2017B BONDS AS 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 Series 2017B Bonds, Bond Counsel has determined that the Series 2017B Bonds upon issuance will be "qualified tax-exempt obligations" within the meaning of the Code.

OPTIONAL REDEMPTION

Bonds maturing March 1, 2024, and thereafter, shall be subject to optional redemption prior to maturity at the option of the City on March 1, 2023 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 the City, 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 Only 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 Only System by DTC, or a successor Depository, the Bonds within the maturity to be redeemed shall be selected by the Registration Agent by lot or such other random manner as the Registration Agent in its discretion shall determine.

MANDATORY REDEMPTION

The bidders have the option of creating term bonds pursuant to the Detailed Notice of Sale. If term bonds are created, then the following provisions will apply. Subject to the credit hereinafter provided, the City shall redeem Bonds maturing March 1, 20__, and March 1, 20__ on the redemption dates set forth below opposite the maturity date, in aggregate principal amounts equal to the respective dollar amounts set forth below opposite the respective redemption dates at a price of par plus accrued interest thereon to the date of redemption. The Bonds to be so redeemed shall be selected by lot or in such other random manner as the Registration Agent in its discretion may designate.

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

<u>Maturity</u>	<u>Redemption Date</u>	<u>Principal Amount of Bonds Redeemed</u>
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*Final Maturity

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

to such payment and confirm that funds for the balance of the next succeeding prescribed payment will be paid on or before the next succeeding payment date.

NOTICE OF REDEMPTION

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

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BASIC DOCUMENTATION

REGISTRATION AGENT

The Registration Agent, Regions Bank, Nashville, Tennessee, its successor or the City will make all interest payments with respect to the Bonds on each interest payment date directly to Cede & Co., as nominee of DTC, the registered owner as shown on the Bond registration records maintained by the Registration Agent, except as described below. However, if the winning bidder certifies to the City that it intends to hold the Bonds for its own account and has no present intent to reoffer the Bonds, then the use of the Book-Entry Only System described below is not required.

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

BOOK-ENTRY-ONLY SYSTEM

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

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

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

DTC and its Participants. DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-

U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a 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 representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

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

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

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

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

DISCONTINUANCE OF BOOK-ENTRY-ONLY SYSTEM

In the event that (i) DTC determines not to continue to act as securities depository for the Bonds or (ii) to the extent permitted by the rules of DTC, the City determines to discontinue the Book-Entry-Only System, the Book-Entry-Only System shall be discontinued. Upon the

occurrence of the event described above, the City will attempt to locate another qualified securities depository, and if no qualified securities depository is available, Bond certificates will be printed and delivered to beneficial owners.

No Assurance Regarding DTC Practices. The foregoing information in this section concerning DTC and DTC's book-entry only 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) **Series 2017B Bonds** - 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 Series 2017B Construction Fund (the "Series 2017B Construction Fund") to be kept separate and apart from all other funds of the City. The City shall disburse funds in the Series 2017B Construction Fund to pay costs of issuance of the Series 2017B Bonds, including necessary legal, accounting and fiscal expenses, printing, engraving, advertising and similar expenses, administrative and clerical costs, Registration Agent fees, bond insurance premiums, if any, and other necessary miscellaneous expenses incurred in connection with the issuance and sale of the Series 2017B Bonds. The remaining funds in the Series 2017B 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 Series 2017B Construction Fund. Money in the Series 2017B Construction Fund shall be expended only for the purposes authorized by the Resolution. Any funds remaining in the Series 2017B 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 Series 2017B Construction Fund shall be invested at the direction of the City in such investments as shall be permitted by applicable law. Earnings from such investments in the Series 2017B Construction Fund shall be deposited in the City's debt service fund.

- (b) **Series 2017C Bonds** - 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 Series 2017C Construction Fund (the "Series 2017C Construction Fund") to be kept separate and apart from all other funds of the City. The City shall disburse funds in the Series 2017C Construction Fund to pay costs of issuance of the Series 2017C Bonds, including necessary legal, accounting and fiscal expenses, printing, engraving, advertising and similar expenses, administrative and clerical costs, Registration Agent fees, bond insurance premiums, if any, and other necessary miscellaneous expenses incurred in connection with the issuance and sale of the Series 2017C Bonds. The remaining funds in the Series 2017C 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 Series 2017C Construction Fund. Money in the Series 2017C Construction Fund shall be expended only for the purposes authorized by the Resolution. Any funds remaining in the Series 2017C 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 Series 2017C Construction Fund shall be invested at the direction of the City in such investments as shall be permitted by applicable law. Earnings from such investments in the Series 2017C Construction Fund shall be deposited in the City's debt service fund.

DISCHARGE AND SATISFACTION OF BONDS

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

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

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

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

REMEDIES OF BONDHOLDERS

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

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

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

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LEGAL MATTERS

LITIGATION

There are no claims against the City, including claims in litigation, which, in the opinion of the City, would have 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 – SERIES 2017B BONDS

Federal

General. Bass, Berry & Sims PLC, Knoxville, Tennessee, is Bond Counsel for the Series 2017B 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 Series 2017B 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 Series 2017B Bonds that the City must continue to meet after the Series 2017B 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 Series 2017B 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 Series 2017B 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 Series 2017B Bonds or affect the market price of the Series 2017B Bonds. See also section below "CHANGES IN FEDERAL AND STATE TAX LAW".

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 Series 2017B Bonds, or under State, local or foreign tax law.

Bond Premium. If a bondholder purchases a Series 2017B Bond for a price that is more than the principal amount, generally the excess is "bond premium" on that Series 2017B 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 Series 2017B Bond will be reduced. The holder of a Series 2017B 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 Series 2017B Bonds. A bondholder in certain circumstances may realize a taxable gain upon the sale of a Series 2017B Bond with bond premium, even though the Series 2017B Bond is sold for an amount less than or equal to the owner's original cost. If a bondholder owns any Series 2017B Bonds with bond premium, it should consult its tax advisor regarding the tax accounting treatment of bond premium.

Original Issue Discount. A Series 2017B 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 Series 2017B Bond. Bond Counsel's opinion is that any original issue discount on these Series 2017B 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 Series 2017B Bonds will be increased. If a bondholder owns one of these Series 2017B Bonds, it should consult its tax advisor regarding the tax treatment of original issue discount.

Series 2017B - 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 Series 2017B Bonds, Bond Counsel has determined that the Series 2017B 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 Series 2017B 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 Series 2017B 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 Series 2017B 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 Series 2017B Bonds and the income therefrom are exempt from all present state, county and municipal taxes in Tennessee except (a) Tennessee excise taxes on interest on the Series 2017B Bonds during the period the Series 2017B Bonds are held or beneficially owned by any organization or entity, or other than a sole proprietorship or general partnership doing business in the State of Tennessee, and (b) Tennessee franchise taxes by reason of the inclusion of the book value of the Series 2017B 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.

FEDERAL TAX MATTERS – SERIES 2017C BONDS

Disclaimer. Any discussion of the tax issues relating to the Series 2017C Bonds in this Official Statement was written to support the promotion or marketing of the Series 2017C Bonds. Such discussion was not intended or written to be used, and it cannot be used, by any person for the purpose of avoiding any tax penalties that may be imposed on such person. Each investor should seek advice with respect to the Series 2017C Bonds based on its particular circumstances from an independent tax advisor.

General. The following is a summary of certain anticipated United States federal income tax consequences of the purchase, ownership and disposition of the Series 2017C Bonds. The summary is based upon the provisions of the Code, the regulations promulgated thereunder and the judicial and administrative rulings and decisions now in effect, all of which are subject to change. The summary generally addresses Series 2017C Bonds held as capital assets and does not purport to address all aspects of federal income taxation that may affect particular investors in light of their individual circumstances or certain types of investors subject to special treatment under the federal income tax laws, including but not limited to financial institutions, insurance companies, dealers in securities or currencies, persons holding such Series 2017C Bonds as a hedge against currency risks or as a position in a "straddle" for tax purposes, or persons whose functional currency is not the United States dollar. Potential purchasers of the Series 2017C Bonds should consult their own tax advisors in determining the federal, state or local tax consequences to them of the purchase, ownership and disposition of the Series 2017C Bonds.

Interest on the Series 2017C Bonds is included from gross income for federal income tax purposes and so will be fully subject to federal income taxation. Purchasers other than those who purchase Series 2017C Bonds in the initial offering at their stated principal amounts will be subject to federal income tax accounting rules affecting the timing and/or characterization of payments received with respect to such Series 2017C Bonds. In general, interest paid on the Series 2017C Bonds and accrual of original issue discount and market discount, if any, will be treated as ordinary income to an owner of Series 2017C Bonds and, after adjustment for the foregoing, principal payments will be treated as a return of capital.

Original Issue Discount. The following summary is a general discussion of certain federal income tax consequences of the purchase, ownership and disposition of Series 2017C Bonds issued with original issue discount (“Discount Series 2017C Bonds”). A Series 2017C Bond will be treated as having original issue discount if the excess of its “stated redemption price at maturity” (defined below) over its issue price (defined as the initial offering price at which a substantial amount of the Series 2017C Bonds of the same maturity have first been sold to the public, excluding Bond houses and brokers) equals or exceeds one quarter of one percent of such Series 2017C Bond’s stated redemption price at maturity multiplied by the number of complete years to its maturity.

A Discount Series 2017C Bond’s “stated redemption price at maturity” is the total of all payments provided by the Discount Series 2017C Bond that are not payments of “qualified stated interest.” Generally, the term “qualified stated interest” includes stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually at a single fixed rate.

In general, the amount of original issue discount includible in income by the initial holder of a Discount Series 2017C Bond is the sum of the “daily portions” of original issue discount with respect to such Discount Series 2017C Bond for each day during the taxable year in which such holder held such Discount Series 2017C Bond. The daily portion of original issue discount on any Discount Series 2017C Bond is determined by allocating to each day in any “accrual period” a ratable portion of the original issue discount allocable to that accrual period.

An accrual period may be of any length, and may vary in length over the term of a Discount Series 2017C Bond, provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs at the end of an accrual period. The amount of original issue discount allocable to each accrual period is equal to the difference between (i) the product of the Discount Series 2017C Bond’s adjusted issue price at the beginning of such accrual period and its yield to maturity (determined on the basis of compounding at the close of each accrual period and appropriately adjusted to take into account the length of the particular accrual period) and (ii) the amount of any qualified stated interest payments allocable to such accrual period. The “adjusted issue price” of a Discount Series 2017C Bond at the beginning of any accrual period is the sum of the issue price of the Discount Series 2017C Bond plus the amount of original issue discount allocable to all prior accrual periods minus the amount of any prior payments on the Discount Series 2017C Bond that were not qualified stated interest payments. Under these rules, holders will have to include in income increasingly greater amounts of original issue discount in successive accrual periods.

Holders utilizing the accrual method of accounting may generally, upon election, include all interest (including stated interest, acquisition discount, original issue discount, de minimis original issue discount, market discount, de minimis market discount, and unstated interest, as adjusted by any amortizable Bond premium or acquisition premium) on the Discount Series 2017C Bond by using the constant yield method applicable to original issue discount, subject to certain limitations and exceptions.

Market Discount. Any owner who purchases a Series 2017C Bond at a price which includes market discount in excess of a prescribed de minimis amount (i.e., at a purchase price that is less than its adjusted issue price in the hands of an original owner) will be required to recharacterize all or a portion of the gain as ordinary income upon receipt of each scheduled or unscheduled principal payment or upon other disposition. In particular, such owner will generally be required either (a) to allocate each such principal payment to accrued market discount not previously included in income and to recognize ordinary income to that extent and to treat any gain upon sale or other disposition of such a Series 2017C Bond as ordinary income to the extent of any remaining accrued market discount (under this caption) or (b) to elect to include such market discount in income currently as it accrues on all market discount instruments acquired by such owner on or after the first day of the taxable year to which such election applies.

The Code authorizes the Treasury Department to issue regulations providing for the method for accruing market discount on debt instruments the principal of which is payable in more than one installment. Until such time as regulations are issued by the Treasury Department, certain rules described in the legislative history of the Tax Reform Act of 1986 will apply. Under those rules, market discount will be included in income either (a) on a constant interest basis or (b) in proportion to the accrual of stated interest.

An owner who acquires a Series 2017C Bond at a market discount also may be required to defer, until the maturity date of such Series 2017C Bonds or the earlier disposition in a taxable transaction, the deduction of a portion of the amount of interest that the owner paid or accrued during the taxable year on indebtedness incurred or maintained to purchase or carry a Bond in excess of the aggregate amount of interest (including original issue discount) includable in such owner's gross income for the taxable year with respect to such Series 2017C Bond. The amount of such net interest expense deferred in a taxable year may not exceed the amount of market discount accrued on the Series 2017C Bond for the days during the taxable year on which the owner held the Series 2017C Bond and, in general, would be deductible when such market discount is includable in income. The amount of any remaining deferred deduction is to be taken into account in the taxable year in which the Series 2017C Bond matures or is disposed of in a taxable transaction. In the case of a disposition in which gain or loss is not recognized in whole or in part, any remaining deferred deduction will be allowed to the extent gain is recognized on the disposition. This deferral rule does not apply if the bondowner elects to include such market discount in income currently as described above.

Bond Premium. A purchaser who purchases a Series 2017C Bond at a cost greater than its then principal amount (or, in the case of a Series 2017C Bond issued with original issue premium, at a price in excess of its adjusted issue price) will have amortizable Series 2017C Bond premium. If the holder elects to amortize the premium under Section 171 of the Code

(which election will apply to all Series 2017C Bonds held by the holder on the first day of the taxable year to which the election applies, and to all Series 2017C Bonds thereafter acquired by the holder), such a purchaser must amortize the premium using constant yield principles based on the purchaser's yield to maturity. Amortizable Series 2017C Bond premium is generally treated as an offset to interest income, and a reduction in basis is required for amortizable Bond premium that is applied to reduce interest payments. Purchasers of any Series 2017C Bonds who acquire such Series 2017C Bonds at a premium (or with acquisition premium) should consult with their own tax advisors with respect to the determination and treatment of such premium for federal income tax purposes and with respect to state and local tax consequences of owning such Series 2017C Bonds.

Sale or Redemption of Series 2017C Bonds. A Bondowner's tax basis for a Series 2017C Bond is the price such owner pays for the Bond plus the amount of any original issue discount and market discount previously included in income, reduced on account of any payments received (other than "qualified stated interest" payments) and any amortized Series 2017C Bond premium. Gain or loss recognized on a sale, exchange or redemption of a Series 2017C Bond, measured by the difference between the amount realized and the basis of the Series 2017C Bond as so adjusted, will generally give rise to capital gain or loss if the Series 2017C Bond is held as a capital asset (except as discussed above under "Market Discount"). The legal defeasance of Series 2017C Bonds may result in a deemed sale or exchange of such Series 2017C Bonds under certain circumstances; owners of such Series 2017C Bonds should consult their tax advisors as to the Federal income tax consequences of such an event.

Backup Withholding. A Bondowner may, under certain circumstances, be subject to "backup withholding" (currently the rate of this withholding obligation is 28%, but the rate may change in the future) with respect to interest or original issue discount on the Series 2017C Bonds. This withholding generally applies if the owner of a Series 2017C Bond (a) fails to furnish the Trustee or other payor with its taxpayer identification number, (b) furnishes the Trustee or other payor an incorrect taxpayer identification number, (c) fails to report properly interest, dividends or other "reportable payments" as defined in the Code; or (d) under certain circumstances, fails to provide the Trustee or other payor with a certified statement, signed under penalty of perjury, that the taxpayer identification number provided is its correct number and that the holder is not subject to backup withholding. Backup withholding will not apply, however, with respect to certain payments made to bondowners, including payments to certain exempt recipients (such as certain exempt organizations) and to certain Nonresidents (as defined below). Owners of the Series 2017C Bonds should consult their tax advisors as to their qualification for exemption from backup withholding and the procedure for obtaining the exemption.

Backup withholding is not an additional tax. Any amount paid as backup withholding would be credited against the Bondholder's U.S. federal income tax liability, provided that the requisite information is timely provided to the IRS. The amount of "reportable payments" for each calendar year and the amount of tax withheld, if any, with respect to payments on the Series 2017C Bonds will be reported to the Bondowners and to the Internal Revenue Service.

Nonresident Borrowers. Under the Code, interest and original issue discount income with respect to Series 2017C Bonds held by nonresident alien individuals, foreign corporations or other non-United States persons ("Nonresidents") generally will not be subject to the United

States withholding tax (or backup withholding) if the City (or other person who would otherwise be required to withhold tax from such payments) is provided with an appropriate statement that the beneficial owner of the Series 2017C Bond is a Nonresident. Notwithstanding the foregoing, if any such payments are effectively connected with a United States trade or business conducted by a Nonresident Bondowner, they will be subject to regular United States income tax, but will ordinarily be exempt from United States withholding tax.

ERISA. The Employees Retirement Income Security Act of 1974, as amended (“ERISA”), and the Code generally prohibit certain transactions between a qualified employee benefit plan under ERISA or tax-qualified retirement plans and individual retirement accounts under the Code (collectively, the “Plans”) and persons who, with respect to a Plan, are fiduciaries or other “parties in interest” within the meaning of ERISA or “disqualified persons” within the meaning of the Code. All fiduciaries of Plans, in consultation with their advisors, should carefully consider the impact of ERISA and the Code on an investment in any Series 2017C Bonds.

The opinions of Bond Counsel are not intended or written by Bond Counsel to be used and cannot be used by an owner of the Series 2017C Bonds for the purpose of avoiding penalties that may be imposed on the owner of the Series 2017C Bonds. The opinions of Bond Counsel are provided to support the promotion or marketing of the Series 2017C Bonds. In all events, all investors should consult their own tax advisors in determining the Federal, state, local and other tax consequences to them of the purchase, ownership and disposition of the Series 2017C Bonds.

Prospective Bondholders should consult their own tax advisors regarding the foregoing matters.

State Taxes

Under existing law, the Series 2017C Bonds and the income therefrom are exempt from all present state, county and municipal taxes in Tennessee except (a) Tennessee excise taxes on interest on the Series 2017C Bonds during the period the Series 2017C Bonds are held or beneficially owned by any organization or entity, or other than a sole proprietorship or general partnership doing business in the State of Tennessee, and (b) Tennessee franchise taxes by reason of the inclusion of the book value of the Series 2017C 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 Series 2017B 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 amendment 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 an incumbency certificate, signed by the Mayor and City Recorder acting in their official capacity 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 Bass, Berry & Sims PLC, 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 under the caption 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 opinion is included in “APPENDIX A-Form of Legal Opinion”.

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MISCELLANEOUS

RATING

S&P Global Ratings (“S&P”) has given the Bonds the rating of “AA-”. Such rating reflects only the views of such organization and explanations of the significance of such rating should be obtained from such agency.

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

Any explanation of the significance of the rating may be obtained only from S&P.

COMPETITIVE PUBLIC SALE

The Bonds will be offered for sale at competitive public bidding on September 14, 2017. Details concerning the public sale were provided to potential bidders and others in the *Preliminary Official Statement* that was dated September 8, 2017.

The successful bidder for the Series 2017B Bonds was an account led by _____, _____, _____ (the “Underwriters”) who contracted with the City, subject to the conditions set forth in the Official Notice of Sale and Bid Form to purchase the Series 2017B Bonds at a purchase price of \$_____ (consisting of the par amount of the Series 2017B Bonds, less an underwriter’s discount of \$_____ and less an original issue discount of \$_____) or ____% of par.

The successful bidder for the Series 2017C Bonds was an account led by _____, _____, _____ (the “Underwriters”) who contracted with the City, subject to the conditions set forth in the Official Notice of Sale and Bid Form to purchase the Series 2017C Bonds at a purchase price of \$_____ (consisting of the par amount of the Series 2017C Bonds, less an underwriter’s discount of \$_____ and less an original issue discount of \$_____) or ____% of par.

FINANCIAL ADVISOR; RELATED PARTIES; OTHER

Financial Advisor. Cumberland Securities Company, Inc., Knoxville, Tennessee has 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 Preliminary Official Statement nor any sale made hereunder shall under any circumstances create an implication that there has been no change in the affairs of the Issuer, or the other matters described herein since the date hereof or the earlier dates set forth herein as of which certain information contained herein is given.

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

Bond Counsel. From time to time, Bass, Berry & Sims PLC has represented the Bank on legal matters unrelated to the City and may do so again in the future.

Other. Among other services, Cumberland Securities Company, Inc. and the Bank 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.

ADDITIONAL DEBT

The City has not authorized any additional debt. However, the City has various capital projects which may or may not be funded in future years.

CONTINUING DISCLOSURE

The City will at the time the Bonds are delivered execute a Continuing Disclosure Certificate under which it will covenant for the benefit of holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the City by not later than twelve months after the end of each fiscal year commencing with the fiscal year ending June 30, 2017 (the "Annual Report"), and to provide notice of the occurrence of certain significant events not later than ten business days after the occurrence of the events and notice of failure to provide any required financial information of the City. The Annual Report (and audited financial statements if filed separately) and notices described above will be filed by the City with the Municipal Securities Rulemaking Board ("MSRB") at www.emma.msrb.org and with any State Information Depository which may be established in Tennessee (the "SID"). The specific nature of the information to be contained in the Annual Report or the notices of events is summarized below. These covenants have been made in order to assist the Underwriters in complying with U.S. Securities and Exchange Commission Rule 15c2-12(b), as it may be amended from time to time (the "Rule").

Five-Year History of Filing. While it is believed that all appropriate filings were made with respect to the ratings of 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 transactions were made or made in a timely manner as required by SEC Rule 15c2-2. Because any such filings were not material as they related to widely disseminated public information, 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 accounting principles, 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.

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 the Trustee or 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.

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ADDITIONAL INFORMATION

Use of the words "shall," "must," or "will" in this Preliminary 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 this Preliminary 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 this Preliminary Official Statement nor any statement which may have been made orally or in writing is to be construed as a contract with the owners of the Bonds.

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

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

The City has deemed this PRELIMINARY OFFICIAL STATEMENT as "final" as of its date within the meaning of Rule 15c2-12(b) of the U.S. Securities and Exchange Commission except for the omission of certain pricing information allowed to be omitted pursuant to Rule 15c2-12(b).

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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/

City Mayor

ATTEST:

/s/

City Recorder

APPENDIX A

FORM OF LEGAL OPINIONS

**LAW OFFICES OF
BASS, BERRY & SIMS PLC
900 SOUTH GAY STREET, SUITE 1700
KNOXVILLE, TENNESSEE 37902**

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the City of Dunlap, Tennessee (the "Issuer") of its \$_____ General Obligation Bonds, Series 2017B (the "Series 2017A Bonds") and its \$_____ General Obligation Bonds, Series 2017C (Federally Taxable (the "Series 2017B Bonds," and together with the Series 2017B Bonds, the "Bonds") dated _____, 2017. 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 furnished to us without undertaking to verify such facts by independent investigation.

Based on our examination, 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 constitute valid and binding obligations of the Issuer.

2. The resolution of the Board of Mayor and 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 territorial limits of the Issuer. The Bonds shall be payable from unlimited ad valorem taxes to be levied on all taxable property within the Issuer. As to the portion of the Bonds that finance improvements to the water and sewer system of the Issuer (the "System"), as determined by the Issuer, that portion of the Bonds shall be additionally payable from, but not secured by, the revenues to be derived from the operation of the System.

4. Interest on the Series 2017B 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, for purposes of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining adjusted current earnings. 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 Series 2017B Bonds in

order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. Failure to comply with certain of such requirements could cause interest on the Series 2017B Bonds to be so included in gross income retroactive to the date of issuance of the Series 2017B Bonds. The Issuer has covenanted to comply with all such requirements. Except as set forth in this Paragraph 4 and Paragraph 6 below, we express no opinion regarding other federal tax consequences arising with respect to the Series 2017B Bonds. Interest on the 2017C Bonds will not be excluded from gross income for federal income tax purposes.

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

6. The Series 2017B 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 resolutions authorizing the Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and that their enforcement may be subject to the exercise of judicial discretion in accordance with general principles of 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 any changes in law that may hereafter occur.

Yours truly,

APPENDIX B

SUPPLEMENTAL INFORMATION STATEMENT

GENERAL INFORMATION

LOCATION

The City of Dunlap (the “City”) is the County Seat of Sequatchie County (the “County”), which is located in the southeastern portion of the State. The County is bordered on the north by Bledsoe County, east by Hamilton County, south by Marion County, and on the west by Grundy County and Van Buren County. Chattanooga is approximately 35 miles southeast of the County.

GENERAL

The County, the youngest and smallest of the three counties comprising Sequatchie Valley, has an area of two hundred fifty square miles. The valley was named for the Cherokee Chief, Sequachee, who signed a treaty with the colonial government of South Carolina. The Sequatchie Valley is unique in that it was formed by giant shears as the plateau split apart giving the valley its shape. The valley never exceeds five miles in width. The valley includes plentiful farms, forests, mountains and the Sequatchie River that winds southward through it. Historically, Sequatchie County was developed in the late 1800's as a coal mining area, with mines on Fredonia Mountain above Dunlap. A large portion of the County is made up of farmland.

The County is part of the Chattanooga, TN-GA Metropolitan Statistical Area (the “MSA”) that had a population of 523,954 according to the 2010 US Census. The MSA includes Hamilton County, Marion County, Sequatchie County and a portion of northern Georgia.

The County is also part of the Chattanooga-Cleveland-Athens, TN-GA Combined Statistical Area (the “CSA”) of southeast Tennessee and northeast Georgia. According to the 2010 Census, the CSA had a population of 698,157. The CSA includes Hamilton, Marion and Sequatchie Counties in Tennessee. The City of Chattanooga is the largest city in the CSA with a population of 167,674 according to the 2010 Census.

According to the 2010 U.S. Census, the population of the County is 14,112. The City of Dunlap has a 2010 US Census population of 4,815.

TRANSPORTATION

The County is served by U. S. 127 and State routes 8, 28, 111, 283 and 399. Interstates I-29, I-59 and I-75 are only 28 miles away. Rail service is provided by the Sequatchie Valley Railroad. The nearest port is located 31 miles away in Chattanooga. Local air service is provided by the Marion County Airport in nearby Jasper, Tennessee. It has a 3,500-foot asphalt runway. The nearest commercial airport is the Chattanooga Metro Airport.

EDUCATION

The *Sequatchie County School System* consists of three schools; Griffith Elementary, grades K-4, which also includes pre-school and project child program; Sequatchie County Middle School,

grades 5-8 and Sequatchie County High School, grades 9-12. The School System also shares a vocational school with Bledsoe County available for grades 9-12. The fall 2015 enrollment was 2,314 students with 155 teachers.

Source: Tennessee Department of Education.

Chattanooga State Technical Community College (the “CSTCC”) is located in Chattanooga, Tennessee. It was founded in 1965. The fall 2016 enrollment was 8,632 students over 4 campuses: Downtown Chattanooga, East Chattanooga, Dayton, Kimball and Sequatchie Bledsoe. Chattanooga State provides comprehensive one and two-year occupational, college parallel, continuing education, and community service programs as well as quality technical and scientific occupational programs. The College serves Chattanooga and Hamilton, Bradley, Rhea, Sequatchie, Marion, Bledsoe, and Grundy counties.

Since 2007 CSTCC has invested more than \$2.3 million in technology curriculum updates and expansions to relate directly to automotive industry and suppliers, as well as energy and nuclear industries moving to the area. Volkswagen has completed construction on a \$1 billion plant in nearby Chattanooga that employs about 2,000 people. The large work force needed has the opportunity to be trained for Volkswagen in addition to the suppliers. Chemical operator and mechanical and electrical/instrumentation apprentices will work one to two days a week at the plant in addition to their class work.

Source: Chattanooga State Technical Community College.

The Tennessee Technology Center Division of Chattanooga State. The Tennessee Technology Center at Chattanooga State 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 Chattanooga is a unit of Chattanooga State Technical Community College and serves the southeastern region of the state including Hamilton, Sequatchie, Bledsoe, Marion, and Grundy Counties or in nearby north Georgia and Alabama. The Technology Center at Chattanooga began operations in 1969, and the 90 acre main campus is located in Hamilton County. Fall 2014 enrollment was 1,915 students.

Source: Tennessee Technology Center at Chattanooga.

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MANUFACTURING AND COMMERCE

The Sequatchie Valley Industrial Park is located one mile from town and contains approximately 40 acres with utilities available. It is owned by the City and the County.

Major Employers located in Sequatchie County

<u>Company</u>	<u>Product/Service</u>	<u>Employment</u>
SE TN HR Agency	Public Service	225
Sequatchie County School System	Education	225
Citizens Tri-County Bank	Bank	200
Wal-Mart	Retail	175
Mann + Hummel	Automotive Filters	150
Sequatchie County Government	Government	150
NHC Health Care	Hospital	99

Source: Southeast Industrial Development Association - 2016.

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EMPLOYMENT

The unemployment rate for the County as of February 2017 was 6.4% representing 5,660 persons employed out of a labor force of 6,050.

As of February 2017, the unemployment rate in the Chattanooga, TN-GA MSA stood at 4.9%, representing 250,870 persons employed out of a workforce of 263,790. As of February 2017, the unemployment rate in the Chattanooga-Cleveland-Athens CSA stood at 5.3%, representing 422,570 persons employed out of a workforce of 446,160.

	Unemployment				
	Annual Average	Annual Average	Annual Average	Annual Average	Annual Average
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
National	8.1%	7.4%	6.2%	5.3%	4.9%
Tennessee	8.0%	8.2%	6.7%	5.8%	4.8%
Sequatchie County	7.8%	8.8%	7.4%	6.7%	5.9%
Index vs. National	96	119	119	126	120
Index vs. State	98	107	110	116	123
Chattanooga, TN-GA MSA	7.6%	7.8%	6.5%	5.6%	4.9%
Index vs. National	94	105	105	106	100
Index vs. State	95	95	97	97	102
Chattanooga-Cleveland-Athens CSA	7.6%	7.7%	6.7%	6.3%	5.0%
Index vs. National	94	104	108	119	102
Index vs. State	95	94	100	109	104

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

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ECONOMIC DATA

Per Capita Personal Income

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
National	\$42,453	\$44,267	\$44,462	\$46,414	\$48,112
Tennessee	\$37,452	\$38,771	\$38,806	\$40,233	\$42,094
Sequatchie County	\$30,072	\$31,794	\$31,705	\$32,424	\$33,653
Index vs. National	71	72	71	70	70
Index vs. State	80	82	82	81	80
Chattanooga, TN-GA MSA	\$37,203	\$39,103	\$38,604	\$39,770	\$41,225
Index vs. National	88	88	87	86	86
Index vs. State	99	101	99	99	98
Chattanooga-Cleveland-Athens CSA	\$33,900	\$35,446	\$35,483	\$36,686	\$37,985
Index vs. National	80	80	80	79	79
Index vs. State	91	91	91	91	90

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

Social and Economic Characteristics

	<u>National</u>	<u>Tennessee</u>	<u>Sequatchie County</u>
Median Value Owner Occupied Housing	\$178,600	\$142,100	\$135,700
% High School Graduates or Higher Persons 25 Years Old and Older	86.70%	85.50%	82.0%
% Persons with Income Below Poverty Level	13.50%	16.70%	18.7%
Median Household Income	\$53,889	\$45,219	\$45,408

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

TOURISM

Cumberland Trail State Park. The Cumberland Trail is the state's only linear park. It opened in 1998 and upon completion will be 300 miles long, cutting through 11 Tennessee counties from the Cumberland Gap National Historic Park on the Tennessee-Virginia-Kentucky border, to the Signal Point near Chattanooga. Currently about 65 percent of the Trail is open and ready for exploration. In 2017, a private landowner donated a 1,034-acre, \$8.27 million parcel

that gives access to Soak Creek (that seasonally includes Class III and IV rapids) and adds 5 miles to the trail. The trail is divided into 15 segments. It can be accessed in Sequatchie County through North Chickamauga Creek Pocket Wilderness Area. The Cumberland Trail wanders among the remnants of the Cumberland Mountains that once rose as high as the Rockies. The trail represented a barrier to all who dared push through storied gaps westward onto and over the Cumberland Plateau. It now provides a linkage north to south, forming natural connections and opportunities for scenic vistas and curious geological formations.

Source: Tennessee State Parks.

North Chickamauga Creek Pocket Wilderness Area. North Chickamauga Creek is a 7,093-acre natural area located in Hamilton and Sequatchie Counties. It is an outstanding deep gorge cut into the sandstone plateau of Walden's Ridge on the Cumberland Plateau. The gorge is approximately ten miles long with steep slopes, sandstone bluffs, and rich coves. A high diversity of plant and animal habitat exists in the gorge including several federally threatened or endangered plants. The area is a popular spot for kayaking and hiking. The Cumberland Trail State Park, the state's only linear park, can be accessed from North Chickamauga Creek.

Source: Tennessee Division of Natural Areas.

RECENT DEVELOPMENTS

Volkswagen. Announced in 2014, Volkswagen invested an additional \$600 million to the \$1 billion plant already operational in the nearby City of Chattanooga. This expansion is to produce a new sport utility vehicle called the CrossBlue and will create an additional 2,000 new jobs for the plant. It is expected to be in production by 2017. The plant's work force was 2,700 at the middle of 2014. Also, Volkswagen will build a new research and development center near the automotive plant that will employ 200. This large expansion comes a year after Volkswagen laid off 500 workers in 2013 due to slower than expected sales growth. In 2012 Volkswagen hired an additional 800 employees for the production of the Passat sedan.

In 2011 the German automaker completed the \$1 billion plant in the Enterprise South industrial park located about 10 miles from East Ridge in Chattanooga. This \$1 billion plant is the largest single manufacturing investment ever for the City of Chattanooga. This is the first U.S. assembly plant for VW. A study by the University of Tennessee's Center for Business and Economic Research estimated the plant and suppliers will create new tax revenue of nearly \$1.4 billion and create 11,477 jobs. The Chattanooga plant is a key part of the carmaker's long-term plan to nearly quadruple its U.S. sales to about 800,000 annually by 2018. In addition to the plant, the City built a \$40 million Volkswagen Training Center in the City.

In 2012 construction was completed on the largest solar park in the state. The \$30 million, 9.5 megawatts park supplies power to the Volkswagen plant. The park provides up to 12.5 percent of the VW plant's power. The solar park is privately run by two companies, Phoenix Solar and Silicon Ranch Corp headquartered in Germany and Nashville, TN respectively.

Source: Chattanooga Times Free Press, Sequatchie County-Dunlap Chamber of Commerce, Knoxville News Sentinel and WRCBtv.com.

CITY OF DUNLAP, TENNESSEE
SUMMARY OF BONDED INDEBTEDNESS

PURPOSE	DUE DATE	INTEREST RATE(S)	OUTSTANDING (1) As of 6/30/2017
\$40,769 General Obligation Landfill Closure Note	(2) 2032	0%	\$ 35,971
\$1,214,018 General Obligation TMBF Loan, Series 2002	(2) 5/25/2019	Variable	291,018
\$770,000 Water and Sewer System Revenue and Tax Refunding Bonds, Series 2007B	(3) 2019	Fixed	160,000
\$490,644 Water and Sewer Revenue and Tax Bonds, Series 2009	(3) 2047	Fixed	473,421
\$5,055,000 General Obligation Refunding Bonds, Series 2014	(3) 6/1/2039	Fixed	4,550,000
\$3,200,000 General Obligation Bonds, Series 2017	(4) 3/1/2039	Fixed	3,200,000
TOTAL BONDED DEBT			\$8,710,410
\$1,450,000 General Obligation Bonds, Series 2017B	(5) 3/1/2036	Fixed	\$ 1,450,000
\$1,550,000 General Obligation Bonds, Series 2017C (Federally Taxable)	(6) 3/1/2036	Fixed	1,550,000
Less: Revenue Supported Debt			(7,968,421)
Less: Bonds Being Refunded			0
NET BONDED DEBT			\$ 3,741,989

NOTES:

- (1) The above figures do not include short-term notes or leases outstanding, if any. For more information, see the notes to the Financial Statements in
- (2) Debt supported by the revenues of the City's governmental funds
- (3) Debt supported by the revenues of the City's Water & Sewer System.
- (4) \$1,350,000 Debt supported by the revenues of the City's Gas System.
- (5) \$515,000 Debt supported by the revenues of the City's Water and Sewer System.

CITY OF DUNLAP, TENNESSEE
Indebtedness and Debt Ratios

INTRODUCTION

The indebtedness information set forth in the following table is based upon information derived in part from the CAFR and the table should be read in conjunction with those statements. Property tax information is derived the City. The table does not include future funding plans whether disclosed or not in this document.

	For Fiscal Year Ended June 30			Unaudited 2017	After Issuance 2017
	2013	2014	2015		
INDEBTEDNESS					
TAX SUPPORTED					
General Obligation Bonds & Notes	\$1,072,050	\$888,731	\$698,872	\$2,176,989	\$3,741,989
TOTAL TAX SUPPORTED	1,072,050	888,731	698,872	2,176,989	3,741,989
REVENUE SUPPORTED					
Water & Sewer System	7,966,158	6,136,008	5,801,309	5,183,421	6,103,421
Gas System	1,945,000	1,815,000	1,738,000	1,350,000	1,350,000
TOTAL REVENUE SUPPORTED	9,911,158	7,951,008	7,539,309	6,533,421	7,453,421
TOTAL DEBT	\$10,983,208	\$8,839,739	\$8,238,181	\$8,710,410	\$11,195,410
Less: Revenue Supported Debt	(9,911,158)	(7,951,008)	(7,539,309)	(6,533,421)	(7,453,421)
NET DIRECT DEBT	\$1,072,050	\$888,731	\$698,872	\$2,176,989	\$3,741,989
OVERLAPPING DEBT (1)	1,628,154	1,373,085	1,346,401	1,333,792	1,333,792
NET DIRECT & OVERLAPPING DEBT	\$2,700,204	\$2,261,816	\$2,045,273	\$3,510,781	\$5,075,781

PROPERTY TAX BASE

Estimated Actual Value	\$ 277,803,862	\$ 283,531,074	\$ 285,618,593	\$ 296,530,924	\$ 294,803,245
Appraised Value	\$ 277,803,862	\$ 283,531,074	\$ 278,763,747	\$ 289,414,182	\$ 288,111,211
Assessed Value	\$ 85,274,762	\$ 86,945,123	\$ 85,881,590	\$ 88,865,840	\$ 88,373,322

(1) OVERLAPPING DEBT includes the City's share of Sequatchie County's debt.

DEBT RATIOS	For Fiscal Year Ended June 30				Unaudited 2017	After Issuance 2017
	2013	2014	2015	2016		
TOTAL DEBT to Estimated Actual Value	3.95%	3.12%	2.88%	2.54%	2.95%	3.80%
TOTAL DEBT to Appraised Value	3.95%	3.12%	2.96%	2.61%	3.02%	3.89%
TOTAL DEBT to Assessed Value	12.88%	10.17%	9.59%	8.49%	9.86%	12.67%
NET DIRECT DEBT to Estimated Actual Value	0.39%	0.31%	0.24%	0.17%	0.74%	1.27%
NET DIRECT DEBT to Appraised Value	0.39%	0.31%	0.25%	0.17%	0.76%	1.30%
NET DIRECT DEBT to Assessed Value	1.26%	1.02%	0.81%	0.57%	2.46%	4.23%
OVERLAPPING DEBT to Estimated Actual Value	0.59%	0.48%	0.47%	0.44%	0.45%	0.45%
OVERLAPPING DEBT to Appraised value	0.59%	0.48%	0.48%	0.45%	0.46%	0.46%
OVERLAPPING DEBT to Assessed Value	1.91%	1.58%	1.57%	1.47%	1.51%	1.51%
NET DIRECT & OVERLAPPING DEBT to Estimated Actual Value	0.97%	0.80%	0.72%	0.61%	1.19%	1.72%
NET DIRECT & OVERLAPPING DEBT to Appraised Value	0.97%	0.80%	0.73%	0.62%	1.22%	1.76%
NET DIRECT & OVERLAPPING DEBT to Assessed Value	3.17%	2.60%	2.38%	2.04%	3.97%	5.74%
PER CAPITA RATIOS						
POPULATION (1)	5,053	5,053	5,108	5,108	5,108	5,108
PER CAPITA PERSONAL INCOME	\$31,705	\$32,424	\$33,653	\$33,653	\$33,653	\$33,653
Estimated Actual Value to POPULATION	54,978	56,111	55,916	58,052	57,714	57,714
Assessed Value to POPULATION	16,876	17,207	16,813	17,397	17,301	17,301
Total Debt to POPULATION	2,174	1,749	1,613	1,477	1,705	2,192
Net Direct Debt to POPULATION	212	176	137	98	426	733
Overlapping Debt to POPULATION	322	272	264	256	261	261
Net Direct & Overlapping Debt to POPULATION	534	448	400	354	687	994
Total Debt Per Capita as a percent of PER CAPITA PERSONAL INCOME	6.86%	5.40%	4.79%	4.39%	5.07%	6.51%
Net Direct Debt Per Capita as a percent of PER CAPITA PERSONAL INCOME	0.67%	0.54%	0.41%	0.29%	1.27%	2.18%
Overlapping Debt Per Capita as a % of PER CAPITA PERSONAL INCOME	1.02%	0.84%	0.78%	0.76%	0.78%	0.78%
Net Direct & Overlapping Debt Per Capita as a % of PER CAPITA PERSONAL INCOME	1.69%	1.38%	1.19%	1.05%	2.04%	2.95%

(1) Per Capita computations are based upon POPULATION data according to the U.S. Census .

CITY OF DUNLAP, TENNESSEE
Bonded Debt Service Requirements - General Obligation

F.Y. Ended	Existing Debt			General Obligation Bonds, Series 2017B			% 2017B			General Obligation Bonds, Series 2017C (Federally Taxable)			% 2017C			Total Bonded Debt Service Requirements (1)			% All Principal Repaid
	Principal	Interest	TOTAL	Principal	Interest (2)	TOTAL	Principal	Repaid		Principal	Interest (3)	TOTAL	Principal	Repaid		Principal	Interest	TOTAL	
6/30																			
2018	\$ 172,399	\$ 47,665	\$ 220,064	\$ -	\$ 11,376	\$ 11,376	\$ -	0.00%	\$ -	\$ 9,170	\$ 9,170	\$ 9,170	\$ 172,399	0.00%	\$ -	\$ 68,211	\$ 240,610	4.61%	
2019	123,417	62,122	185,539	-	28,050	28,050	-		-	25,200	25,200	25,200	123,417		-	115,372	238,789		
2020	72,399	58,794	131,193	40,000	28,050	68,050	25,000		25,000	25,200	50,200	50,200	137,399		25,000	112,044	249,443		
2021	72,399	55,994	128,393	45,000	26,850	71,850	30,000	13.90%	30,000	24,200	54,200	54,200	147,399		30,000	107,044	254,443		
2022	77,399	53,194	130,593	45,000	25,500	70,500	30,000		30,000	23,000	53,000	53,000	152,399	13.49%	30,000	101,694	254,093	19.59%	
2023	77,399	50,194	127,593	45,000	24,150	69,150	30,000		30,000	21,800	51,800	51,800	152,399		30,000	96,144	248,543		
2024	82,399	47,194	129,593	50,000	22,800	72,800	30,000		30,000	20,600	50,600	50,600	162,399		30,000	90,594	252,993		
2025	82,399	45,594	127,993	50,000	21,300	71,300	30,000		30,000	19,400	49,400	49,400	162,399		30,000	86,294	248,693		
2026	82,399	43,994	126,393	50,000	19,800	69,800	35,000		35,000	18,200	53,200	53,200	167,399		35,000	81,994	249,393		
2027	87,399	42,094	129,493	55,000	18,300	73,300	35,000	40.64%	35,000	16,800	51,800	51,800	177,399	38.89%	35,000	77,194	254,593	41.56%	
2028	87,399	40,075	127,474	55,000	16,650	71,650	35,000		35,000	15,400	50,400	50,400	177,399		35,000	72,125	249,524		
2029	92,399	37,525	129,924	55,000	15,000	70,000	40,000		40,000	14,000	54,000	54,000	187,399		40,000	66,525	253,924		
2030	92,399	34,825	127,224	60,000	13,350	73,350	40,000		40,000	12,400	52,400	52,400	192,399		40,000	60,575	252,974		
2031	97,399	32,125	129,524	65,000	11,550	76,550	40,000		40,000	10,800	50,800	50,800	202,399		40,000	54,475	256,874		
2032	102,385	29,038	131,423	65,000	9,600	74,600	40,000	72.73%	40,000	9,200	49,200	49,200	207,385	69.84%	40,000	47,838	255,223	67.40%	
2033	100,000	25,788	125,788	65,000	7,650	72,650	45,000		45,000	7,600	52,600	52,600	210,000		45,000	41,038	251,038		
2034	105,000	22,538	127,538	65,000	5,700	70,700	45,000		45,000	5,800	50,800	50,800	215,000		45,000	34,038	249,038		
2035	105,000	19,125	124,125	65,000	3,750	68,750	50,000		50,000	4,000	54,000	54,000	220,000		50,000	26,875	246,875		
2036	110,000	15,713	125,713	60,000	1,800	61,800	50,000	100.00%	50,000	2,000	52,000	52,000	220,000	100.00%	50,000	19,513	239,513		
2037	115,000	12,138	127,138	-	-	-	-		-	-	-	-	115,000		-	12,138	127,138	93.59%	
2038	120,000	8,400	128,400	-	-	-	-		-	-	-	-	120,000		-	8,400	128,400	100.00%	
2039	120,000	4,200	124,200	-	-	-	-		-	-	-	-	120,000		-	4,200	124,200		
	\$ 2,176,989	\$ 788,324	\$ 2,965,313	\$ 935,000	\$ 311,226	\$ 1,246,226	\$ 630,000		\$ 630,000	\$ 284,770	\$ 914,770	\$ 914,770	\$ 3,741,989		\$ 1,384,320	\$ 5,126,309			

(1) The above figures do not include short-term notes or leases outstanding, if any. For more information, see the notes to the Financial Statements in the CAFR.

(2) Estimated Interest Rates. Estimate Average Coupon of 3.00%

(3) Estimated Interest Rates. Estimate Average Coupon of 4.00%

CITY OF DUNLAP, TENNESSEE
Bonded Debt Service Requirements - Revenue and Tax Backed
Water And Sewer System

F.Y. Ended 6/30	Existing Debt as of 06/30/17 Water And Sewer System ¹			General Obligation Bonds, Series 2017B			% 2017B Principal			General Obligation Bonds, Series 2017C (Federally Taxable)			% 2017C Principal			Total Bonded Debt Service Requirements			% All Principal Repaid
	Principal	Interest	TOTAL	Principal	Interest (2)	TOTAL	Principal	Repaid		Principal	Interest (3)	TOTAL	Principal	Repaid		Principal	Interest	TOTAL	
2018	\$ 249,073	\$ 175,117	\$ 424,190	\$ -	\$ 5,622	\$ 5,622	\$ -	0.00%	\$ -	\$ 13,391	\$ 13,391	\$ 13,391	\$ -	0.00%		\$ 249,073	\$ 188,508	\$ 437,581	4.08%
2019	254,396	168,520	422,916	-	15,450	15,450	-		-	36,800	36,800	36,800				254,396	205,320	459,716	
2020	174,730	161,811	336,541	25,000	15,450	40,450	40,000		40,000	36,800	76,800	76,800				214,730	198,611	413,341	
2021	180,076	157,758	337,834	25,000	14,700	39,700	40,000		40,000	35,200	75,200	75,200				220,076	192,958	413,034	
2022	185,435	153,580	339,015	25,000	13,950	38,950	40,000	14.56%	40,000	33,600	73,600	73,600		13.04%		225,435	187,180	412,615	19.07%
2023	190,806	149,277	340,083	25,000	13,200	38,200	45,000		45,000	32,000	77,000	77,000				235,806	181,277	417,083	
2024	191,190	144,849	336,039	25,000	12,450	37,450	45,000		45,000	30,200	75,200	75,200				236,190	175,049	411,239	
2025	196,588	139,058	335,646	25,000	11,700	36,700	45,000		45,000	28,400	73,400	73,400				241,588	167,458	409,046	
2026	207,000	133,102	340,102	30,000	10,950	40,950	50,000		50,000	26,600	76,600	76,600				257,000	159,702	416,702	
2027	212,427	126,344	338,771	30,000	10,050	40,050	50,000	40.78%	50,000	24,600	74,600	74,600		38.59%		262,427	150,944	413,371	39.27%
2028	217,869	119,410	337,279	30,000	9,150	39,150	55,000		55,000	22,600	77,600	77,600				272,869	142,010	414,879	
2029	228,327	111,784	340,111	30,000	8,250	38,250	55,000		55,000	20,400	75,400	75,400				283,327	132,184	415,511	
2030	233,801	103,793	337,594	30,000	7,350	37,350	55,000		55,000	18,200	73,200	73,200				288,801	121,993	410,794	
2031	244,292	95,060	339,352	35,000	6,450	41,450	60,000		60,000	16,000	76,000	76,000				304,292	111,060	415,352	
2032	249,800	85,934	335,734	35,000	5,400	40,400	60,000	71.84%	60,000	13,600	73,600	73,600		69.57%		309,800	99,534	409,334	63.17%
2033	260,326	76,604	336,930	35,000	4,350	39,350	65,000		65,000	11,200	76,200	76,200				325,326	87,804	413,130	
2034	240,871	66,880	307,751	35,000	3,300	38,300	65,000		65,000	8,600	73,600	73,600				305,871	75,480	381,351	
2035	251,436	57,324	308,760	35,000	2,250	37,250	70,000		70,000	6,000	76,000	76,000				321,436	63,324	384,760	
2036	262,020	47,349	309,369	40,000	1,200	41,200	80,000	100.00%	80,000	3,200	83,200	83,200		100.00%		342,020	50,549	392,569	
2037	272,626	36,954	309,580	-	-	-	-		-	-	-	-	-			272,626	36,954	309,580	88.85%
2038	283,253	26,137	309,390	-	-	-	-		-	-	-	-	-			283,253	26,137	309,390	
2039	218,902	14,898	233,800	-	-	-	-		-	-	-	-	-			218,902	14,898	233,800	
2040	19,574	6,236	25,810	-	-	-	-		-	-	-	-	-			19,574	6,236	25,810	
2041	20,270	5,551	25,821	-	-	-	-		-	-	-	-	-			20,270	5,551	25,821	
2042	20,991	4,842	25,833	-	-	-	-		-	-	-	-	-			20,991	4,842	25,833	98.08%
2043	21,738	4,107	25,845	-	-	-	-		-	-	-	-	-			21,738	4,107	25,845	
2044	22,511	3,346	25,857	-	-	-	-		-	-	-	-	-			22,511	3,346	25,857	
2045	23,312	2,558	25,870	-	-	-	-		-	-	-	-	-			23,312	2,558	25,870	
2046	24,141	1,742	25,883	-	-	-	-		-	-	-	-	-			24,141	1,742	25,883	
2047	25,640	897	26,537	-	-	-	-		-	-	-	-	-			25,640	897	26,537	100.00%
	\$ 5,183,421	\$ 2,380,822	\$ 7,564,243	\$ 515,000	\$ 171,222	\$ 686,222	\$ -		\$ 920,000	\$ 417,391	\$ 1,337,391	\$ 1,337,391	\$ -			\$ 6,103,421	\$ 2,798,213	\$ 8,901,634	

(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 CAFR.

(2) Estimated Interest Rates. Estimate Average Coupon of 3.00%

(3) Estimated Interest Rates. Estimate Average Coupon of 4.00%

CITY OF DUNLAP, TENNESSEE
Bonded Debt Service Requirements - Revenue and Tax Backed
Gas System

F.Y.	Total Bonded Debt			% All
Ended	Service Requirements			Principal
<u>6/30</u>	<u>Principal</u>	<u>Interest</u>	<u>TOTAL</u>	<u>Repaid</u>
2018	\$ 160,000	\$ 31,263	\$ 191,263	11.85%
2019	150,000	40,300	190,300	
2020	155,000	34,300	189,300	
2021	160,000	28,100	188,100	
2022	180,000	21,700	201,700	59.63%
2023	180,000	14,500	194,500	
2024	180,000	7,300	187,300	
2025	185,000	3,700	188,700	100.00%
	<u>\$ 1,350,000</u>	<u>\$ 181,163</u>	<u>\$ 1,531,163</u>	

(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 CAFR.

FINANCIAL INFORMATION

BUDGET PROCESS

The City follows these procedures in establishing the budgetary data reflected in the financial statements. During April and May, budget requests from departments are submitted to the City Board of Commissioners at its regularly scheduled meetings. Budget items submitted are discussed at these regularly scheduled meetings and in special work session meetings in June. Subsequently the budget is enacted through vote of the Commissioners, with an operative date of July 1.

Formal budgets are adopted for the General Fund, Special Revenue, and Debt Service Funds on a basis consistent with accounting principles generally accepted in the United States of America (GAAP). Therefore, no adjustments are necessary to convert to the actual GAAP data from the budgetary basis. These formal budgets are adopted on a departmental basis. The Mayor is authorized to transfer budgeted amounts between departments within any fund. However, any revision that alters the total expenditures of any fund must be approved by the Board of Commissioners.

Budgeted amounts reflected in the accompanying final and actual comparison are as originally adopted in accordance with GAAP, or as amended by the Commissioners throughout the year. Individual amendments are not material in relation to the original appropriations, which were amended. All appropriations which are not expended lapse at year-end.

FUND BALANCES AND RETAINED EARNINGS

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

<u>For the Fiscal Year Ended June 30,</u>					
<u>Fund Type</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
<i>Governmental Funds:</i>					
General	\$1,147,034	\$ 980,271	\$ 957,923	\$856,307	\$ 948,160
Other Governmental	<u>120,372</u>	<u>119,485</u>	<u>92,961</u>	<u>91,653</u>	<u>63,886</u>
Total	<u>\$1,267,406</u>	<u>\$1,099,756</u>	<u>\$1,050,884</u>	<u>\$947,960</u>	<u>\$1,012,046</u>
<i>Proprietary Funds:</i>					
Water and Sewer	\$7,879,836	\$7,835,741	\$7,775,526	\$7,476,086	\$7,195,120
Natural Gas	<u>1,203,778</u>	<u>1,019,278</u>	<u>1,105,982</u>	<u>1,022,266</u>	<u>807,603</u>
Total	<u>\$9,083,614</u>	<u>\$8,855,019</u>	<u>\$8,881,508</u>	<u>\$8,498,352</u>	<u>\$8,002,723</u>

Source: Comprehensive Annual Financial Reports and Auditors Reports for the City of Dunlap, Tennessee.

CITY OF DUNLAP, TENNESSEE
Five Year Summary of Revenues, Expenditures and
Changes In Fund Balances - General Fund
For the Fiscal Year Ended June 30

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Revenues:					
Taxes	\$ 1,213,278	\$ 1,212,005	\$ 1,563,589	\$ 1,659,488	\$ 2,130,862
Licenses, Permits, Fines	3,910	3,595	3,525	2,825	1,940
Intergovernmental Rev.	822,873	852,653	1,067,413	1,125,859	1,131,350
Charges for Services	352,400	348,962	370,299	382,066	41,444
Fines, Forfeits and Penalties	78,095	102,175	94,392	66,144	74,125
Other Revenue	42,646	43,153	34,242	64,516	70,333
Total Revenues	<u>\$ 2,513,202</u>	<u>\$ 2,562,543</u>	<u>\$ 3,133,460</u>	<u>\$ 3,300,898</u>	<u>\$ 3,450,054</u>
Expenditures:					
General Government	\$ 859,459	\$ 796,134	\$ 810,186	\$ 877,699	\$ 959,385
Public Safety	829,546	783,874	882,147	872,055	953,641
Public Works	689,934	638,564	695,454	761,924	597,636
Welfare & Recreation	34,887	46,155	81,299	375,198	174,171
State Stree Aid	62,991	87,732	117,261	160,258	148,944
Capital Outlay	318,810	194,755	409,461	149,896	295,909
Debt Service	7,092	7,092	-	15,484	-
Total Expenditures	<u>\$ 2,802,719</u>	<u>\$ 2,554,306</u>	<u>\$ 2,995,808</u>	<u>\$ 3,212,514</u>	<u>\$ 3,129,686</u>
Excess of Revenues					
Over (Under) Expenditures	\$ (289,517)	\$ 8,237	\$ 137,652	\$ 88,384	\$ 320,368
Other Financing Sources (Uses):					
Loan Proceeds	\$ 151,200	\$ -	\$ -	\$ -	\$ -
Transfers In	-	-	-	-	-
Transfers Out	(150,000)	(175,000)	(160,000)	(190,000)	(228,515)
Total	<u>\$ 1,200</u>	<u>\$ (175,000)</u>	<u>\$ (160,000)</u>	<u>\$ (190,000)</u>	<u>\$ (228,515)</u>
Excess of Revenues Over (Under)					
Expenditures & Other Uses	\$ (288,317)	\$ (166,763)	\$ (22,348)	\$ (101,616)	\$ 91,853
Fund Balance July 1	1,435,351	1,147,034	980,271	957,923	856,307
Adjustments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance June 30	<u><u>\$ 1,147,034</u></u>	<u><u>\$ 980,271</u></u>	<u><u>\$ 957,923</u></u>	<u><u>\$ 856,307</u></u>	<u><u>\$ 948,160</u></u>

Source: Comprehensive Annual Financial Report for City of Dunlap, Tennessee.

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.

All proprietary funds are accounted for using the accrual basis of accounting, whereby revenues are recognized when they are earned and expenses are recognized when they are incurred. The reserve method is used to estimate the allowance for doubtful accounts for electric, water and sewer service receivables.

INVESTMENT AND CASH MANAGEMENT PRACTICES

The City is authorized by State Statutes to invest in bonds, notes or treasury bills of the United States, nonconvertible debt securities of the Federal Home Loan Bank, the Federal National Mortgage Association, the Federal Farm Credit Bank and the Student Loan Marketing Association, any obligation guaranteed by the United States or any of its agencies and certificates of deposit at state and federal chartered banks and savings and loan associations and the Local Government Investment Pool created by Title 9.

The City does not have a deposit or investment policy for custodial credit risk, however, the State of Tennessee requires its governmental entities to either meet the deposit and collateralization regulations under TCA Title 9, Chapter 4, Parts 1 and 4, or as provided in the collateral pool.

REAL PROPERTY ASSESSMENT, TAX LEVY AND COLLECTION PROCEDURES

State Taxation of Property; Classifications of Taxable Property; Assessment Rates

Under the Constitution and laws of the State of Tennessee, all real and personal property is subject to taxation, except to the extent that the General Assembly of the State of Tennessee (the "General Assembly") exempts certain constitutionally permitted categories of property from taxation. Property exempt from taxation includes federal, state and local government property, property of housing authorities, certain low cost housing for elderly persons, property owned and used exclusively for certain religious, charitable, scientific and educational purposes and certain other property as provided under Tennessee law.

Under the Constitution and laws of the State of Tennessee, property is classified into three separate classes for purposes of taxation: Real Property; Tangible Personal Property; and Intangible Personal Property. Real Property includes lands, structures, improvements, machinery and equipment affixed to realty and related rights and interests. Real Property is required constitutionally to be classified into four sub classifications and assessed at the rates as follows:

- (a) Public Utility Property (which includes all property of every kind used or held for use in the operation of a public utility, such as railroad companies, certain

- telephone companies, freight and private car companies, street car companies, power companies, express companies and other public utility companies), to be assessed at 55% of its value;
- (b) Industrial and Commercial Property (which includes all property of every kind used or held for use for any commercial, mining, industrial, manufacturing, business or similar purpose), to be assessed at 40% of its value;
 - (c) Residential Property (which includes all property which is used or held for use for dwelling purposes and contains no more than one rental unit), to be assessed at 25% of its value; and
 - (d) Farm Property (which includes all real property used or held for use in agriculture), to be assessed at 25% of its value.

Tangible Personal Property includes personal property such as goods, chattels and other articles of value, which are capable of manual or physical possession and certain machinery and equipment. Tangible Personal Property is required constitutionally to be classified into three sub classifications and assessed at the rates as follows:

- (a) Public Utility Property, to be assessed at 55% of its value;
- (b) Industrial and Commercial Property, to be assessed at 30% of its value; and
- (c) All other Tangible Personal Property (including that used in agriculture), to be assessed at 5% of its value, subject to an exemption of \$7,500 worth of Tangible Personal Property for personal household goods and furnishings, wearing apparel and other tangible personal property in the hands of a taxpayer.

Intangible Personal Property includes personal property, such as money, any evidence of debt owed to a taxpayer, any evidence of ownership in a corporation or other business organization having multiple owners and all other forms of property, the value of which is expressed in terms of what the property represents rather than its own intrinsic value. The Constitution of the State of Tennessee empowers the General Assembly to classify Intangible Personal Property into sub classifications and to establish a ratio of assessment to value in each class or subclass and to provide fair and equitable methods of apportionment of the value to the State of Tennessee for purposes of taxation.

The Constitution of the State of Tennessee requires that the ratio of assessment to value of property in each class or subclass be equal and uniform throughout the State of Tennessee and that the General Assembly direct the method to ascertain the value and definition of property in each class or subclass. Each respective taxing authority is constitutionally required to apply the same tax rate to all property within its jurisdiction.

County Taxation of Property

The Constitution of the State of Tennessee empowers the General Assembly to authorize the several counties and incorporated towns in the State of Tennessee to impose taxes for county and municipal purposes in the manner prescribed by law. Under the *Tennessee Code Annotated*, the General Assembly has authorized the counties in Tennessee to levy an *ad valorem* tax on all taxable property within their respective jurisdictions, the amount of which is required to be fixed

by the county legislative body of each county based upon tax rates to be established on the first Monday of July of each year or as soon thereafter as practicable.

All property is required to be taxed according to its value upon the principles established in regard to State taxation as described above, including equality and uniformity. All counties, which levy and collect taxes to pay off any bonded indebtedness, are empowered, through the respective county legislative bodies, to place all funds levied and collected into a special fund of the respective counties and to appropriate and use the money for the purpose of discharging any bonded indebtedness of the respective counties.

Assessment of Property

County Assessments; County Board of Equalization. The function of assessment is to assess all property (with certain exceptions) to the person or persons owning or claiming to own such property on January 1 for the year for which the assessment is made. All assessment of real and personal property are required to be made annually and as of January 1 for the year to which the assessment applies. Not later than May 20 of each year, the assessor of property in each county is required to (a) make an assessment of all property in the county and (b) note upon the assessor's records the current classification and assessed value of all taxable property within the assessor's jurisdiction.

The assessment records are open to public inspection at the assessor's office during normal business hours. The assessor is required to notify each taxpayer of any change in the classification or assessed value of the taxpayer's property and to cause a notice to be published in a newspaper of general circulation stating where and when such records may be inspected and describing certain information concerning the convening of the county board of equalization. The notice to taxpayers and such published notice are required to be provided and published at least 10 days before the local board of equalization begins its annual session.

The county board of equalization is required (among other things) to carefully examine, compare and equalize the county assessments; assure that all taxable properties are included on the assessments lists and that exempt properties are eliminated from the assessment lists; hear and act upon taxpayer complaints; and correct errors and assure conformity to State law and regulations.

State Assessments of Public Utility Property; State Board of Equalization. The State Comptroller of the Treasury is authorized and directed under Tennessee law to assess for taxation, for State, county and municipal purposes, all public utility properties of every description, tangible and intangible, within the State. Such assessment is required to be made annually as of the same day as other properties are assessed by law (as described above) and takes into account such factors as are prescribed by Tennessee law.

On or before the first Monday in August of each year, the assessments are required to be completed and the State Comptroller of the Treasury is required to send a notice of assessment to each company assessable under Tennessee law. Within ten days after the first Monday in August of each year, any owner or user of property so assessed may file an exception to such assessment together with supporting evidence to the State Comptroller of the Treasury, who may change or

affirm the valuation. On or before the first Monday in September of each year, the State Comptroller of the Treasury is required to file with the State Board of Equalization assessments so made. The State Board of Equalization is required to examine such assessments and is authorized to increase or diminish the valuation placed upon any property valued by the State Comptroller of the Treasury.

The State Board of Equalization has jurisdiction over the valuation, classification and assessment of all properties in the State. The State Board of Equalization is authorized to create an assessment appeals commission to hear and act upon taxpayer complaints. The action of the State Board of Equalization is final and conclusive as to all matters passed upon by the Board, subject to judicial review consisting of a new hearing in chancery court.

Periodic Reappraisal and Equalization

Tennessee law requires reappraisal in each county by a continuous six-year cycle comprised of an on-site review of each parcel of real property over a five-year period, or, upon approval of the State Board of Equalization, by a continuous four-year cycle comprised of an on-site review of each parcel of real property over a three-year period, followed by revaluation of all such property in the year following completion of the review period. Alternatively, if approved by the assessor and adopted by a majority vote of the county legislative body, the reappraisal program may be completed by a continuous five-year cycle comprised of an on-site review of each parcel of real property over a four-year period followed by revaluation of all such property in the year following completion of the review period.

After a reappraisal program has been completed and approved by the Director of Property Assessments, the value so determined must be used as the basis of assessments and taxation for property that has been reappraised. The State Board of Equalization is responsible to determine whether or not property within each county of the State has been valued and assessed in accordance with the Constitution and laws of the State of Tennessee.

Valuation for Property Tax Purposes

County Valuation of Property. The value of all property is based upon its sound, intrinsic and immediate value for purposes of sale between a willing seller and a willing buyer without consideration of speculative values. In determining the value of all property of every kind, the assessor is to be guided by, and follow the instructions of, the appropriate assessment manuals issued by the division of property assessments and approved by the State Board of Equalization. Such assessment manuals are required to take into account various factors that are generally recognized by appraisers as bearing on the sound, intrinsic and immediate economic value of property at the time of assessment.

State Valuation of Public Utility Property. The State Comptroller of the Treasury determines the value of public utility property based upon the appraisal of the property as a whole without geographical or functional division of the whole (*i.e.*, the unit rule of appraisal) and on other factors provided by Tennessee law. In applying the unit rule of appraisal, the State Comptroller of the Treasury is required to determine the State's share of the unit or system value based upon factors that relate to the portion of the system relating to the State of Tennessee.

Certified Tax Rate

Upon a general reappraisal of property as determined by the State Board of Equalization, the county assessor of property is required to (1) certify to the governing bodies of the county and each municipality within the county the total assessed value of taxable property within the jurisdiction of each governing body and (2) furnish to each governing body an estimate of the total assessed value of all new construction and improvements not included on the previous assessment roll and the assessed value of deletions from the previous assessment roll. Exclusive of such new construction, improvements and deletions, each governing body is required to determine and certify a tax rate (herein referred to as the "*Certified Tax Rate*") which will provide the same *ad valorem* revenue for that jurisdiction as was levied during the previous year. The governing body of a county or municipality may adjust the Certified Tax Rate to reflect extraordinary assessment changes or to recapture excessive adjustments.

Tennessee law provides that no tax rate in excess of the Certified Tax Rate may be levied by the governing body of any county or of any municipality until a resolution or ordinance has been adopted by the governing body after publication of a notice of the governing body's intent to exceed the Certified Tax Rate in a newspaper of general circulation and the holding of a public hearing.

The Tennessee Local Government Public Obligations Act of 1986 provides that a tax sufficient to pay when due the principal of and interest on general obligation bonds (such as the Bonds) shall be levied annually and assessed, collected and paid, in like manner with the other taxes of the local government as described above and shall be in addition to all other taxes authorized or limited by law. Bonds issued pursuant to the Local Government Public Obligations Act of 1986 may be issued without regard to any limit on indebtedness provided by law.

Tax Freeze for the Elderly Homeowners

The Tennessee Constitution was amended by the voters in November, 2006 to authorize the Tennessee General Assembly to enact legislation providing property tax relief for homeowners age 65 and older. The General Assembly subsequently adopted the Property Tax Freeze Act permitting (but not requiring) local governments to implement a program for "freezing" the property taxes of eligible taxpayers at an amount equal to the taxes for the year the taxpayer becomes eligible. For example, if a taxpayer's property tax bill is \$500 for the year in which he becomes eligible, his property taxes will remain at \$500 even if property tax rates or appraisals increase so long as he continues to meet the program's ownership and income requirements.

Tax Collection and Tax Lien

Property taxes are payable the first Monday in October of each year. The county trustee of each county acts as the collector of all county property taxes and of all municipal property taxes when the municipality does not collect its own taxes.

The taxes assessed by the State of Tennessee, a county, a municipality, a taxing district or other local governmental entity, upon any property of whatever kind, and all penalties, interest and costs accruing thereon become and remain a first lien on such property from January 1 of the year for which such taxes are assessed. In addition, property taxes are a personal debt of the property owner as of January and, when delinquent, may be collected by suit as any other personal debt. Tennessee law prescribes the procedures to be followed to foreclose tax liens and to pursue legal proceedings against property owners whose property taxes are delinquent.

Assessed Valuations. According to the Tax Aggregate Report, property in the City reflected a ratio of appraised value to true market value of 0.9773. The City is on a six-year appraisal cycle. The following table shows pertinent data for tax year 2016¹.

<u>Class</u>	<u>Estimated Assessed Valuation</u>	<u>Assessment Rate</u>	<u>Estimated Actual Value</u>
Public Utilities	\$ 5,907,893	55%	\$ 13,534,692
Commercial and Industrial	33,367,360	40%	85,382,998
Personal Tangible Property	7,236,019	30%	24,547,962
Residential and Farm	<u>41,862,050</u>	25%	<u>171,337,593</u>
Total	<u>\$88,373,322</u>		<u>\$294,803,245</u>

¹ The tax year coincides with the calendar year, so tax year 2016 is actually fiscal year 2016 -2017.

Source: 2016 Tax Aggregate for Tennessee.

The estimated assessed value of property in the City for the fiscal year ending June 30, 2017 (tax year 2016) is \$88,373,322 compared to \$88,865,840 for the fiscal year ending June 30, 2016 (tax year 2015). The estimated actual value of all taxable property for tax year 2016 is \$294,803,245 compared to \$296,530,924 for tax year 2015.

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

PROPERTY TAX RATES AND COLLECTIONS				Fiscal Yr Collections		Aggregate Uncollected Balance	
Tax Year ²	Assessed Valuation	Tax Rates	Taxes Levied	Amount	Pct	As of June 30, 2016 Amount	Pct
2012	\$85,274,762	\$0.762	\$650,624	\$589,432	90.6%	\$ 8,647	1.3%
2013	86,945,123	0.762	661,871	590,498	89.2%	14,443	2.2%
2014	85,811,590	0.762	652,788	600,388	92.0%	19,584	3.0%
2015	88,865,840	0.762	675,794	622,767	92.2%	54,459	8.1%
2016	88,373,322	0.762	671,092	IN PROCESS			

² The tax year coincides with the calendar year, so tax year 2016 is actually fiscal year 2016 -2017.

Ten Largest Taxpayers. For the fiscal year ending June 30, 2016 (tax year 2015), the ten largest taxpayers in the City are as follows:

<u>Taxpayer</u>	<u>Business</u>	<u>Assessment</u>	<u>Taxes</u>
1. Wal-Mart	Retail	\$2,678,520	\$20,410
2. National Health Investors	Healthcare	1,732,600	13,202
3. Sequatchie Electric Cooperative	Utility	916,280	6,982
4. Waltrust Properties Inc.	Real Estate	725,920	5,532
5. Citizen's Tri-County Bank	Financial Services	701,480	5,345
6. Valley View Gardens	Apartments	680,000	5,182
7. Dunlap Gardens G.P. LLC	Real Estate	611,880	4,663
8. On Line Inc.	Manufacturing	573,240	4,368
9. Sequatchie Assoc Inc	Manufacturing	452,400	3,447
10. Om Sai Nath General Partners	Manufacturing	418,840	3,192
TOTAL		<u>\$9,491,160</u>	<u>\$72,323</u>

Source: The County.

PENSION PLANS

Employees of the City 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 became disabled and cannot engage in gainful employment. There is no service requirement for disability that is a 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 statutes found in Title 8, Chapter 34-37 of the *Tennessee Code Annotated* (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as the Municipality 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.

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 located herein.

OTHER POST EMPLOYMENT BENEFITS (“OPEB”)

The City offers no other post-employment benefits.

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APPENDIX C

GENERAL PURPOSE FINANCIAL STATEMENTS

CITY OF DUNLAP, TENNESSEE

ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2016

JOHNSON, MURPHEY & WRIGHT, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
CHATTANOOGA, TENNESSEE

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CITY OF DUNLAP, TENNESSEE
City Officials
June 30, 2016

Mayor George Dwain Land

Commissioner/Vice Mayor Jeff Johnson

Commissioner..... Jeff Harmon

Commissioner..... Allen Jones

Commissioner..... Judy Layne

City Judge..... Keith Davis

City Recorder/Treasurer Norman D. Hatfield, CMFO

II. FINANCIAL SECTION



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Accountants

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37405

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Members
American Institute
of Certified
Public Accountants

Paul Johnson, III, CPA

Brian T. Wright, CPA

Karen Hutcherson, CPA

Marianne Greene, CPA

INDEPENDENT AUDITOR'S REPORT

Mayor and Commissioners
City of Dunlap, 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 Dunlap, Tennessee, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Mayor and Commissioners
City of Dunlap, Tennessee

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 Dunlap, Tennessee, as of June 30, 2016, and, the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General 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, Schedule of Changes in Dunlap's Net Pension Liability (Asset) and Related Ratios Based on Participation in the Public Employee Pension Plan of TCRS and Schedule of Dunlap's Contributions Based on Participation in the Public Employee Pension Plan of TCRS listed in the Table of Contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Dunlap, Tennessee's basic financial statements. The Introductory Section, non-major governmental fund financial statements, and financial schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The non-major governmental fund financial statements and financial schedules 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 non-major governmental fund financial statements and financial schedules 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.

Mayor and Commissioners
City of Dunlap, Tennessee

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 12, 2017, on our consideration of the City of Dunlap, Tennessee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Dunlap, Tennessee's internal control over financial reporting and compliance.

Johnson, Murphy & Wright, P.C.

Chattanooga, Tennessee
April 12, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Dunlap, Tennessee, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Dunlap, Tennessee for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with the City's financial statements.

FINANCIAL HIGHLIGHTS

The assets and deferred outflows of the City of Dunlap, Tennessee exceeded its liabilities and deferred inflows at June 30, 2016, by \$11,444,764 (net position). Of this amount, \$2,114,954 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.

The City's governmental activities operated at a surplus of \$788,198 and business-type activities operated at a deficit of \$(495,629).

The City's General Fund received grant funds in the amount of \$255,654 to be used for various projects.

As of the close of the current fiscal year, the City of Dunlap, Tennessee's governmental funds reported combined ending fund balances of \$1,012,046.

At the end of the current fiscal year, unassigned fund balance for the General Fund was \$652,886, or 20.86%, of total General Fund expenditures, excluding transfers.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction of the City of Dunlap, Tennessee's basic financial statements. The City of Dunlap, Tennessee's basic financial statements comprise 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 themselves.

Government-wide Financial Statements

The *Government-wide Financial Statements* are designed to provide readers with a broad overview of the City of Dunlap, Tennessee's finances, in a manner similar to a private-sector business.

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

The *Statement of Activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Dunlap, Tennessee 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 of Dunlap, Tennessee include general government, public safety, public works, state street aid, and public welfare and recreation. The business-type activities of the City of Dunlap, Tennessee include the Water and Sewer Fund and the Natural Gas Fund.

The government-wide financial statements can be found on pages 15 and 16 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Dunlap, Tennessee, 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 of Dunlap, Tennessee can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund Balance Sheet and governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between the governmental funds and governmental activities.

The City of Dunlap, Tennessee maintains four individual governmental funds. 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 and Solid Waste Fund, which are considered to be major funds. Individual fund data for each of the two non-major governmental funds is provided in the form of combining statements later in this report beginning on page 61.

The City of Dunlap, Tennessee adopts an annual appropriated budget for its governmental funds. A budgetary comparison statement has been provided for the major governmental funds to demonstrate compliance with this budget, as well as for the non-major funds.

The basic governmental fund financial statements can be found on pages 17 through 27 of this report.

Proprietary Funds

The City of Dunlap, Tennessee maintains one type of proprietary fund: Enterprise Fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Dunlap, Tennessee uses enterprise funds to account for its water and sewer and natural gas operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the Water and Sewer Fund and Natural Gas Fund, both of which are considered to be major funds of the City of Dunlap, Tennessee.

The basic proprietary fund financial statements can be found on pages 28 through 30 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 31 through 57 of this report.

Other Information

The statements referred to earlier in connection with non-major governmental funds, are presented immediately following the Notes to the Financial Statements and RSI. Combining and individual fund statements and schedules can be found on pages 61 through 65 of this report.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Dunlap, Tennessee, assets and deferred outflows exceeded liabilities and deferred inflows by \$11,444,764 at the close of this fiscal year.

The largest portion of the City of Dunlap, Tennessee's net position (78.38%) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment and infrastructure), less any debt used to acquire those assets that is still outstanding. The City of Dunlap, Tennessee uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City of Dunlap, Tennessee's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Approximately 3.14%, or \$359,160, of the City of Dunlap, Tennessee's net position represents resources that are subject to external restrictions on how they may be used. 18.48%, or \$2,114,954, in net position may be used to meet the government's ongoing obligations to its citizens and creditors.

At June 30, 2016, the City of Dunlap, Tennessee is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The table below provides a summary of the City's net assets broken down by governmental and business-type activities.

City of Dunlap, Tennessee's Net Position

	Governmental Activities		Business-type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Capital assets	\$ 3,255,969	\$ 2,808,959	\$ 13,261,013	\$ 13,934,815	\$ 16,516,982	\$ 16,743,774
Other assets	<u>1,949,657</u>	<u>1,740,935</u>	<u>2,563,088</u>	<u>2,903,295</u>	<u>4,512,745</u>	<u>4,644,230</u>
Total assets	<u>\$ 5,205,626</u>	<u>\$ 4,549,894</u>	<u>\$ 15,824,101</u>	<u>\$ 16,838,110</u>	<u>\$ 21,029,727</u>	<u>\$ 21,388,004</u>
Deferred outflows of resources	<u>\$ 283,331</u>	<u>\$ 203,976</u>	<u>\$ 231,818</u>	<u>\$ 170,293</u>	<u>\$ 515,149</u>	<u>\$ 374,269</u>
Long-term liabilities	\$ 842,357	\$ 1,021,653	\$ 7,259,532	\$ 7,648,533	\$ 8,101,889	\$ 8,670,186
Other liabilities	<u>388,169</u>	<u>262,853</u>	<u>674,781</u>	<u>747,195</u>	<u>1,062,950</u>	<u>1,010,048</u>
Total liabilities	<u>\$ 1,230,526</u>	<u>\$ 1,284,506</u>	<u>\$ 7,934,313</u>	<u>\$ 8,395,728</u>	<u>\$ 9,164,839</u>	<u>\$ 9,680,234</u>
Deferred inflows of resources	<u>\$ 816,390</u>	<u>\$ 815,521</u>	<u>\$ 118,883</u>	<u>\$ 114,323</u>	<u>\$ 935,273</u>	<u>\$ 929,844</u>
Net investment in capital assets	\$ 2,753,496	\$ 2,110,087	\$ 6,217,154	\$ 6,395,506	\$ 8,970,650	\$ 8,505,593
Restricted	359,160	402,302	-	-	359,160	402,302
Unrestricted	<u>329,385</u>	<u>141,454</u>	<u>1,785,569</u>	<u>2,102,846</u>	<u>2,114,954</u>	<u>2,244,300</u>
Total net position	<u>\$ 3,442,041</u>	<u>\$ 2,653,843</u>	<u>\$ 8,002,723</u>	<u>\$ 8,498,352</u>	<u>\$ 11,444,764</u>	<u>\$ 11,152,195</u>

Changes in Net Position

Governmental activities increased the City of Dunlap, Tennessee's net position by \$788,198. Business-type activities' net position decreased by \$(495,629).

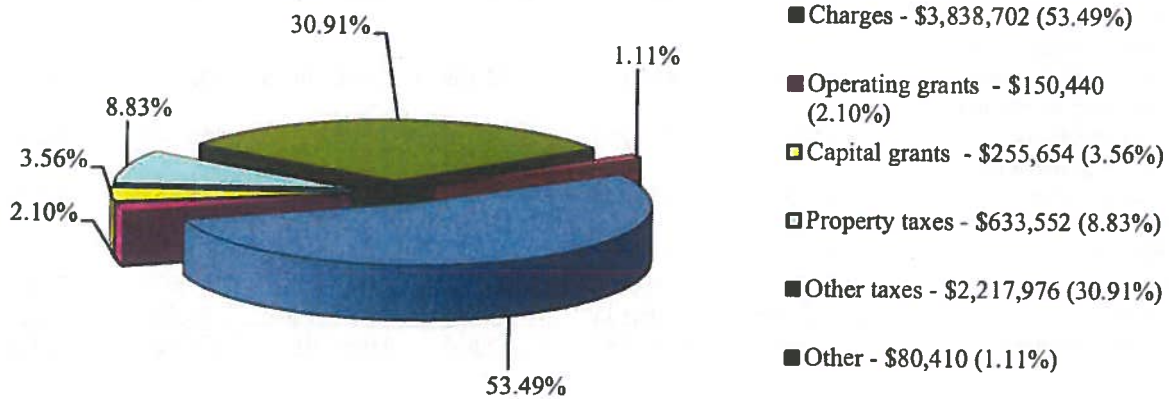
The table below provides a summary of the City's net position broken down by governmental and business-type activities.

City of Dunlap, Tennessee's Changes in Net Position

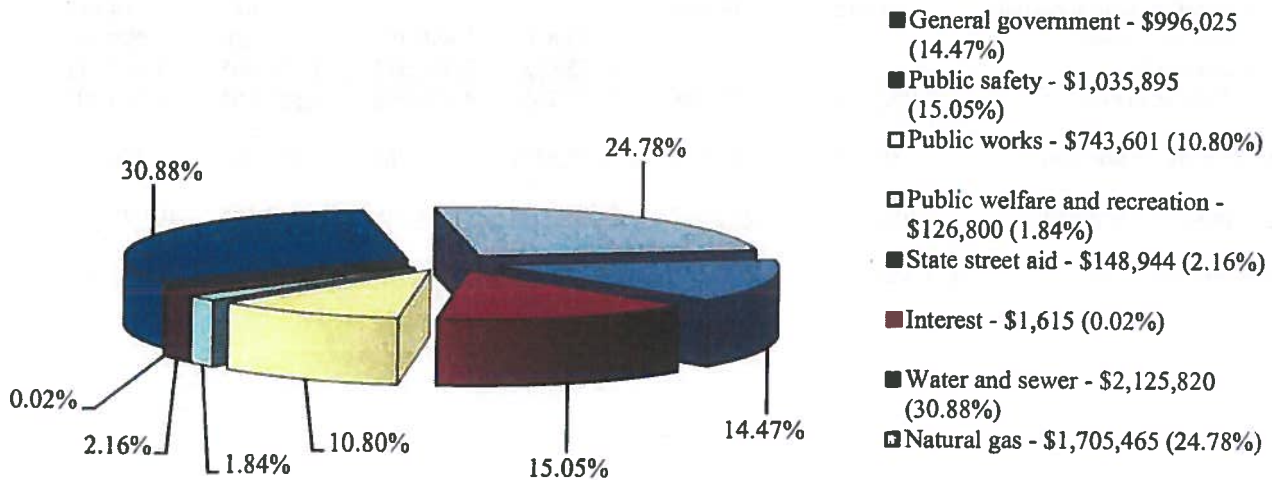
	Governmental Activities		Business-type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Charges for services	\$ 506,393	\$ 456,172	\$ 3,332,309	\$ 3,942,926	\$ 3,838,702	\$ 4,399,098
Operating grants and contributions	150,440	143,963	-	-	150,440	143,963
Capital grants and contributions	255,654	253,708	-	118,275	255,654	371,983
General revenues:						
Property taxes	633,552	618,256	-	-	633,552	618,256
Other taxes	2,217,976	1,749,860	-	-	2,217,976	1,749,860
Other	77,063	66,835	3,347	3,640	80,410	70,475
Total revenues	<u>3,841,078</u>	<u>3,288,794</u>	<u>3,335,656</u>	<u>4,064,841</u>	<u>7,176,734</u>	<u>7,353,635</u>
Expenses:						
General government	996,025	910,144	-	-	996,025	910,144
Public safety	1,035,895	920,812	-	-	1,035,895	920,812
Public works	743,601	780,992	-	-	743,601	780,992
Public welfare and recreation	126,800	68,974	-	-	126,800	68,974
State street aid	148,944	160,258	-	-	148,944	160,258
Interest on long-term debt	1,615	14,818	-	-	1,615	14,818
Water and sewer	-	-	2,125,820	1,998,397	2,125,820	1,998,397
Natural gas	-	-	1,705,465	2,072,511	1,705,465	2,072,511
Total expenses	<u>3,052,880</u>	<u>2,855,998</u>	<u>3,831,285</u>	<u>4,070,908</u>	<u>6,884,165</u>	<u>6,926,906</u>
Change in net position	788,198	432,796	(495,629)	(6,067)	292,569	426,729
Net position - beginning	<u>2,653,843</u>	<u>2,221,047</u>	<u>8,498,352</u>	<u>8,504,419</u>	<u>11,152,195</u>	<u>10,725,466</u>
Net position - end	<u>\$ 3,442,041</u>	<u>\$ 2,653,843</u>	<u>\$ 8,002,723</u>	<u>\$ 8,498,352</u>	<u>\$ 11,444,764</u>	<u>\$ 11,152,195</u>

The graphs below summarize the \$7,176,734 of city-wide revenue by source and the associated \$6,884,165 of expense by program. The graphs combine data from both governmental and business-type activities.

City-Wide Sources of Revenue



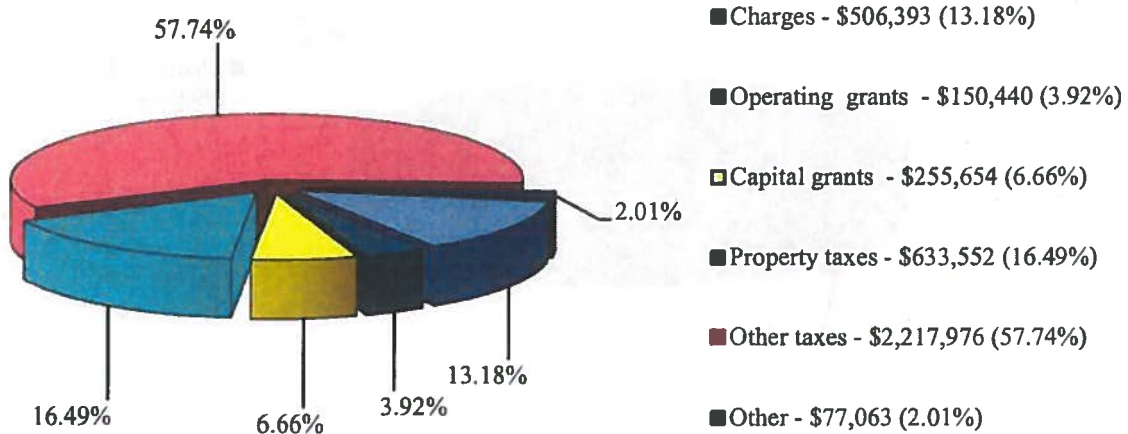
City-Wide Program Expenses



Governmental Activities

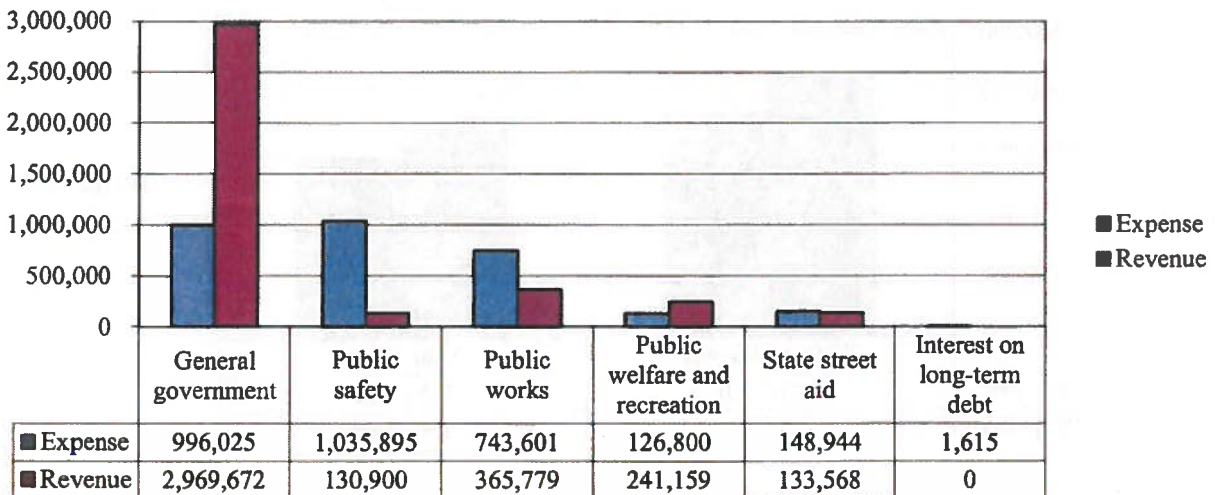
Governmental activities accounted for revenues of \$3,841,078. The following graph summarizes revenue by source.

**Revenue by Source -
Governmental Activities**



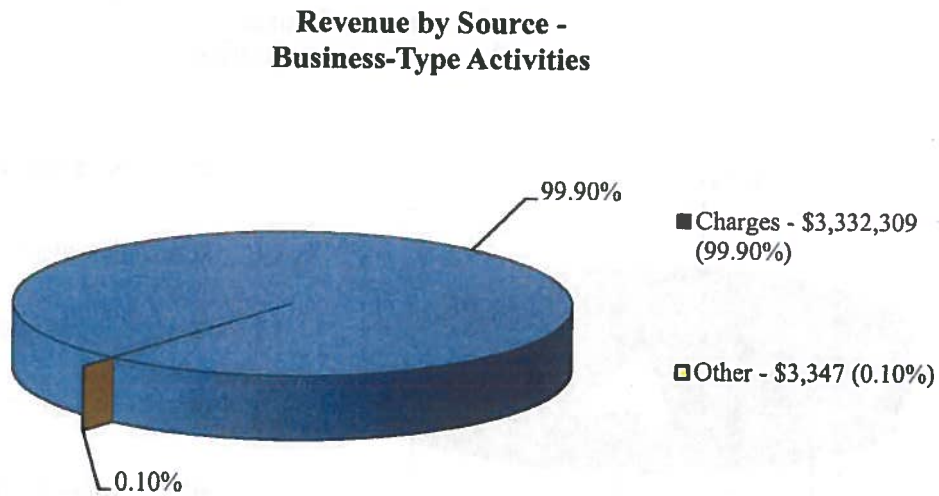
The following graph summarizes the revenue and related expense for each government program of the City. The difference between expense and revenue is the financial burden placed on the City for each program.

**Expenses and Program Revenues -
Governmental Activities**

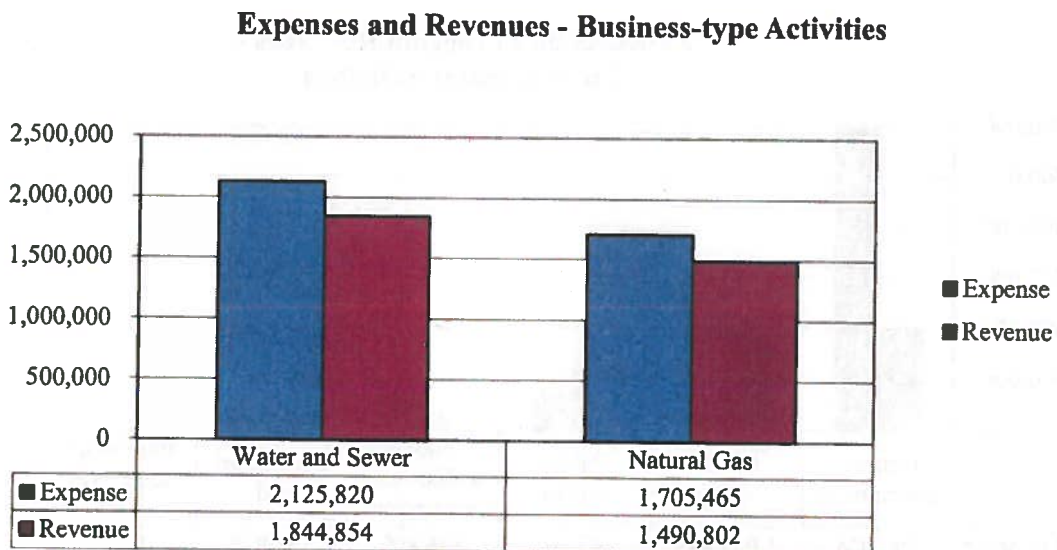


Business-type Activities

Business-type activities account for revenues of \$3,335,656. The following graph summarizes the revenue by source.



The following graph summarizes the revenue and related expense of operating the water and sewer and natural gas systems.



FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

Governmental Funds

The focus of the City of Dunlap, Tennessee's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Dunlap, Tennessee's financing requirements. The unassigned fund balance may serve as a useful measure of a government's net resources available at the end of the fiscal year for future unforeseen emergencies.

As of the end of the current fiscal year, the City of Dunlap, Tennessee's governmental funds reported combined ending fund balances of \$1,012,046. Within the governmental funds, \$19,294 is restricted for drug fund expenditures, \$44,592 is restricted for debt service and \$295,274 is restricted for state street aid expenditures.

The General Fund is the chief operating fund of the City of Dunlap, Tennessee. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$652,886. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance to total General Fund expenditures. Unassigned fund balance represents 20.86% of total fund expenditures, excluding transfers.

Proprietary Funds

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

Unrestricted net position at the end of the year amounted to \$1,094,010 for the Water and Sewer Fund, and \$691,559 for the Natural Gas Fund.

General Fund Budgetary Highlights

The differences between the original budget and the final amended budget netted to \$0.

Departmental budget officers closely monitored expenditures during the fiscal year in order to minimize budget amendments.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City of Dunlap, Tennessee's investment in capital assets for its governmental and business-type activities as of June 30, 2016, amounts to \$16,516,982 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery and equipment, vehicles, infrastructure, landfill and lines and extensions.

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

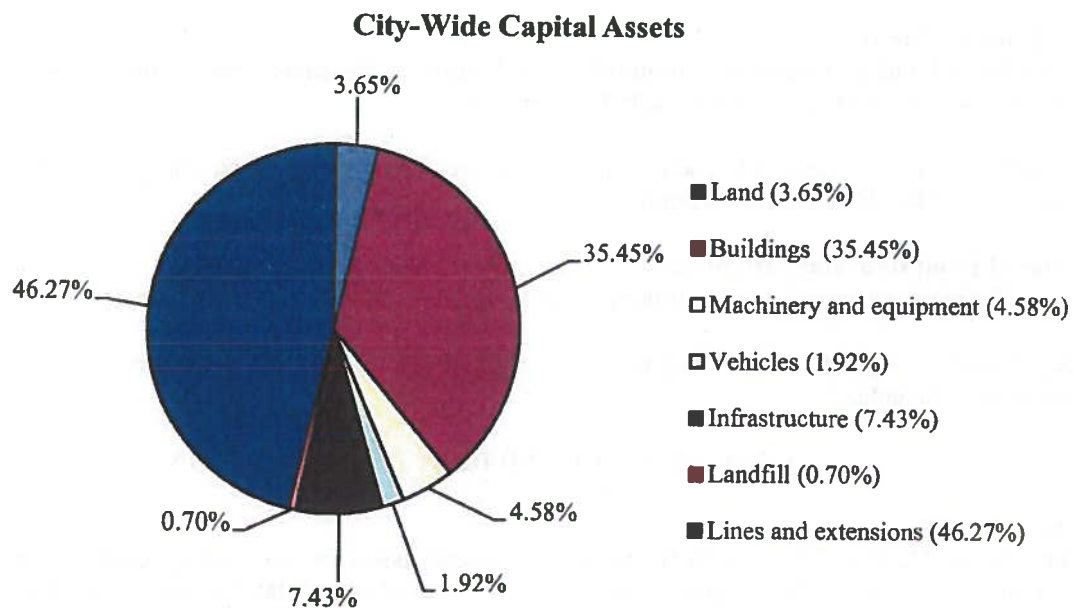
Harris Park site improvements	\$ 80,344
2016 Tahoe and equipment	\$ 41,956
Carbon exchange	\$ 57,990
Streetscape project	\$ 149,901
Coops Creek walking path	\$ 264,011

The table below summarizes the City's investment in capital assets and is broken down by governmental and business-type activities.

**City of Dunlap, Tennessee's Capital Assets
(Net of Depreciation)**

	Governmental Activities	Business-type Activities	Total
Land	\$ 498,792	\$ 104,646	\$ 603,438
Buildings	1,045,155	4,810,374	5,855,529
Machinery and equipment	164,267	591,489	755,756
Vehicles	204,140	112,822	316,962
Infrastructure	1,227,790	-	1,227,790
Landfill	115,825	-	115,825
Lines and extensions	-	7,641,682	7,641,682
	<u>\$ 3,255,969</u>	<u>\$ 13,261,013</u>	<u>\$ 16,516,982</u>

The following graph provides a breakdown of which assets make up the largest portion of the City's total investment in capital assets. The graph combines assets used in both governmental and business-type activities.



Additional information on the City of Dunlap, Tennessee's capital assets can be found in Note 9 on pages 41 and 42 of this report.

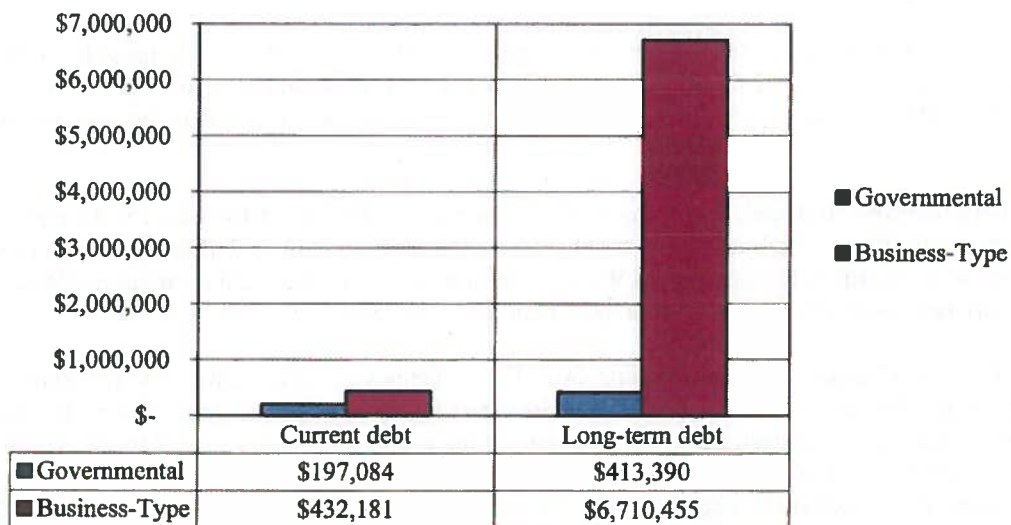
City of Dunlap, Tennessee's Outstanding Debt

At the end of the current fiscal year, the City of Dunlap, Tennessee had total long-term debt outstanding of \$7,753,110. Of that amount, \$629,265 is due in the next fiscal year.

	Governmental Activities	Business-type Activities	Total
Bonds payable	\$ 456,018	\$ 7,015,194	\$ 7,471,212
Notes payable	8,085	28,665	36,750
Landfill post-closure-estimate	38,370	-	38,370
Compensated absences	108,001	98,777	206,778
	610,474	7,142,636	7,753,110
Less current portion	(197,084)	(432,181)	(629,265)
Total long-term debt	<u>\$ 413,390</u>	<u>\$ 6,710,455</u>	<u>\$ 7,123,845</u>

As shown in the graph below, long-term debt is attributed greatly to the City's water and sewer and natural gas funds. Long-term debt of governmental activities only accounts for 7.87% of total long-term debt.

Long-Term Debt By Activity



Additional information on outstanding debt can be found in Note 11 on pages 43 through 46.

Currently Known Conditions

The Coops Creek Phase 1 grant agreement will be completed by November 2016. This project is a 10' wide asphalt walking trail along Coops Creek that is 90% complete. The final 10% will be for additional benches, trash receptacles and man hole covers to be placed along the trail. The estimated completion date for this project is November 2016.

The Coops Creek Phase II is the continuation of the Phase 1 project. The project will entail continuing the 10' wide asphalt walking trail with Boardwalks and Bridges following the former railroad line from Coops Creek to the campus of the Sequatchie County Schools. The campus will provide a trail head to house basic parking and a focal point of the trail. The total project cost is \$857,265 with the municipal match being \$266,124. The project is estimated to be completed during the 2017-2018 fiscal year.

The Dunlap Streetscape Project Phase II is the construction of streetscape improvements from Rankin Avenue/Church Street intersection to the Spring Street/Cherry Street intersection. The project includes ADA upgrades, landscaping, signage, pedestrian lighting and pedestrian amenities. The notice to proceed to construction must be received by July 1, 2019. The total project cost is \$603,052, with the local match of \$198,887.

The Harris Park Phase II is continued improvements to the City of Dunlap Harris Park. The amenities will include construction of a splash pad, landscaping and public bathrooms. Design and Engineering will be during the 2016-2017 fiscal year with construction during the 2017-2018 fiscal year. The total project cost is \$1,000,000 with a municipal match being \$500,000. The City funding for this project will come from the issuance of Bonds/Notes.

The City received a grant from Rural Development to study existing issues, provide understanding and assign costs associated with the City's storm water and wastewater issues. The total project cost is \$25,000 with the municipal match being \$5,000. The study is estimated to be completed by June 30, 2017.

The City received an Appalachian Regional Commission (ARC) grant for road construction and at the old Tecumseh Building which has been purchased by the City of Dunlap Industrial Development Board. A portion of the grant is to upgrade the Water Pumping Station at the Dunlap Industrial Park. Total project costs are estimated at \$482,836 with a local match of \$282,486.

The City of Dunlap has received approval for a Tennessee Department of Transportation (TDOT) Multimodal Access Grant. The project would entail 982 linear feet of sidewalks with curbs, pedestrian bridges, crosswalks, pedestrian scale lighting, signage and landscaping on Rankin Avenue from Reed Street to the Coops Creek Greenway. Notice to proceed must be received within two (2) years of the grant agreement being executed. The project could see construction during the fiscal year of 2018-2019. The total cost of the project is \$496,160 with a municipal match of \$24,808.

Requests for Information

This financial report is designed to provide a general overview of the City of Dunlap, Tennessee's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information may be addressed to the City of Dunlap, Tennessee, and P.O. Box 546, Dunlap, Tennessee 37327.

BASIC FINANCIAL STATEMENTS

CITY OF DUNLAP, TENNESSEE
Statement of Net Position
June 30, 2016

	Primary Government		
	Governmental Activities	Business- Type Activities	Total
ASSETS			
Current assets			
Cash	\$ 323,552	\$ 963,392	\$ 1,286,944
Investments	114,590	491,490	606,080
Property taxes receivable - net	751,659	-	751,659
Accounts receivable - net	274,797	196,059	470,856
Grants receivable	55,555	-	55,555
Internal balances	26,390	(26,390)	-
Due from other governments	403,114	-	403,114
Inventory	-	476,918	476,918
Total current assets	<u>1,949,657</u>	<u>2,101,469</u>	<u>4,051,126</u>
Non-current assets			
Restricted assets	-	461,599	461,599
Other assets	-	20	20
Capital assets			
Land	498,792	104,646	603,438
Other capital assets - net of accumulated depreciation	<u>2,757,177</u>	<u>13,156,367</u>	<u>15,913,544</u>
Total capital assets	<u>3,255,969</u>	<u>13,261,013</u>	<u>16,516,982</u>
Total non-current assets	<u>3,255,969</u>	<u>13,722,632</u>	<u>16,978,601</u>
TOTAL ASSETS	<u>\$ 5,205,626</u>	<u>\$ 15,824,101</u>	<u>\$ 21,029,727</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	<u>\$ 283,331</u>	<u>\$ 231,818</u>	<u>\$ 515,149</u>
LIABILITIES			
Current liabilities			
Accounts payable	\$ 124,931	\$ 62,168	\$ 187,099
Payable to pension plan	19,925	-	19,925
Accrued liabilities	46,229	44,358	90,587
Accrued interest	-	136,074	136,074
Bonds payable - due in one year	165,000	383,762	548,762
Notes payable - due in one year	8,085	28,665	36,750
Landfill post closure liability - estimate - due in one year	2,399	-	2,399
Compensated absences - due in one year	<u>21,600</u>	<u>19,754</u>	<u>41,354</u>
Total current liabilities	<u>388,169</u>	<u>674,781</u>	<u>1,062,950</u>
Non-current liabilities			
Bonds payable	291,018	6,631,432	6,922,450
Landfill post-closure liability - estimate	35,971	-	35,971
Compensated absences	86,401	79,023	165,424
Customer deposits	-	198,105	198,105
Net pension liability	<u>428,967</u>	<u>350,972</u>	<u>779,939</u>
Total non-current liabilities	<u>842,357</u>	<u>7,259,532</u>	<u>8,101,889</u>
TOTAL LIABILITIES	<u>\$ 1,230,526</u>	<u>\$ 7,934,313</u>	<u>\$ 9,164,839</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred revenue - property taxes	\$ 671,092	\$ -	\$ 671,092
Deferred inflows related to pensions	<u>145,298</u>	<u>118,883</u>	<u>264,181</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>\$ 816,390</u>	<u>\$ 118,883</u>	<u>\$ 935,273</u>
NET POSITION			
Net investment in capital assets	\$ 2,753,496	\$ 6,217,154	\$ 8,970,650
Restricted for state street aid expenditures	295,274	-	295,274
Restricted for non-recurring police expenditures	19,294	-	19,294
Restricted for debt service	44,592	-	44,592
Unrestricted	<u>329,385</u>	<u>1,785,569</u>	<u>2,114,954</u>
TOTAL NET POSITION	<u>\$ 3,442,041</u>	<u>\$ 8,002,723</u>	<u>\$ 11,444,764</u>

The accompanying notes are an integral part of the financial statements.

CITY OF DUNLAP, TENNESSEE
Statement of Activities
Year Ended June 30, 2016

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary Government							
Government activities:							
General government	\$ 996,025	\$ 41,081	\$ -	\$ -	\$ (954,944)	\$ -	\$ (954,944)
Public safety	1,035,895	111,426	7,200	12,274	(904,995)	-	(904,995)
Public works	743,601	353,886	9,672	2,221	(377,822)	-	(377,822)
Public welfare and recreation	126,800	-	-	241,159	114,359	-	114,359
State street aid	148,944	-	133,568	-	(15,376)	-	(15,376)
Interest on long-term debt	1,615	-	-	-	(1,615)	-	(1,615)
Total governmental activities	3,052,880	506,393	150,440	255,654	(2,140,393)	-	(2,140,393)
Business-type activities:							
Water and sewer	2,125,820	1,843,478	-	-	-	(282,342)	(282,342)
Natural gas	1,705,465	1,488,831	-	-	-	(216,634)	(216,634)
Total business-type activities	3,831,285	3,332,309	-	-	-	(498,976)	(498,976)
Total primary government	\$ 6,884,165	\$ 3,838,702	\$ 150,440	\$ 255,654	(2,140,393)	(498,976)	(2,639,369)
General revenues:							
Real property tax					633,552	-	633,552
Public utility tax					42,632	-	42,632
Minimum business tax					101,408	-	101,408
Local sales tax					1,215,333	-	1,215,333
Local beer tax					298,474	-	298,474
Other state taxes					560,129	-	560,129
Interest revenue					533	3,347	3,880
Miscellaneous					76,530	-	76,530
Total general revenues					2,928,591	3,347	2,931,938
Change in net position					788,198	(495,629)	292,569
Net position - beginning					2,653,843	8,498,352	11,152,195
Net position - end					\$ 3,442,041	\$ 8,002,723	\$ 11,444,764

The accompanying notes are an integral part of the financial statements.

CITY OF DUNLAP, TENNESSEE
Governmental Funds
Balance Sheet
June 30, 2016

	General Fund	Solid Waste Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash	\$ 289,666	\$ -	\$ 33,886	\$ 323,552
Investments	84,590	-	30,000	114,590
Property taxes receivable - net	751,659	-	-	751,659
Accounts receivable - net	274,797	-	-	274,797
Grant receivable	55,555	-	-	55,555
Due from other funds	30,480	30,480	-	60,960
Due from other governments	403,114	-	-	403,114
TOTAL ASSETS	\$ 1,889,861	\$ 30,480	\$ 63,886	\$ 1,984,227
LIABILITIES				
Accounts payable	\$ 124,931	\$ -	\$ -	\$ 124,931
Payable to pension plan	19,925	-	-	19,925
Accrued liabilities	46,229	-	-	46,229
Due to other funds	4,090	30,480	-	34,570
TOTAL LIABILITIES	\$ 195,175	\$ 30,480	\$ -	\$ 225,655
DEFERRED INFLOWS OF RESOURCES				
Deferred revenue - property taxes	\$ 746,526	\$ -	\$ -	\$ 746,526
FUND BALANCES				
Restricted	\$ 295,274	\$ -	\$ 63,886	\$ 359,160
Unassigned	652,886	-	-	652,886
TOTAL FUND BALANCES	\$ 948,160	\$ -	\$ 63,886	\$ 1,012,046

The accompanying notes are an integral part of the financial statements.

CITY OF DUNLAP, TENNESSEE
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2016

Total fund balances per governmental funds balance sheet	\$ 1,012,046
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	3,255,969
Long-term liabilities, including notes payable, bonds payable, compensated absences and landfill closure costs and post-closure costs are not due and payable in the current period and, therefore, are not reported in the funds.	(610,474)
Pension liabilities, including deferred inflows and deferred outflows, are not due and payable in the current period and, therefore, are not reported in the funds.	(290,934)
Some of the City's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	<u>75,434</u>
Net position of governmental activities	<u>\$ 3,442,041</u>

The accompanying notes are an integral part of the financial statements.

CITY OF DUNLAP, TENNESSEE
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended June 30, 2016

	General Fund	Solid Waste Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$2,130,862	\$ -	\$ -	\$ 2,130,862
License and permits	1,940	-	-	1,940
Intergovernmental	1,131,350	-	-	1,131,350
Charges for services	41,444	353,886	-	395,330
Fines and forfeitures	74,125	-	37,301	111,426
Other revenues	70,333	2,399	164	72,896
TOTAL REVENUES	3,450,054	356,285	37,465	3,843,804
EXPENDITURES				
Current expenditures				
General government	959,385	-	5,479	964,864
Public safety	953,641	-	4,783	958,424
Public works	597,636	387,401	-	985,037
Public welfare and recreation	174,171	-	-	174,171
State street aid	148,944	-	-	148,944
Capital outlay	295,909	-	54,355	350,264
Debt service	-	2,399	195,615	198,014
TOTAL EXPENDITURES	3,129,686	389,800	260,232	3,779,718
Excess (deficiency) of revenues over (under) expenditures	320,368	(33,515)	(222,767)	64,086
OTHER FINANCING SOURCES (USES)				
Transfers in	-	33,515	195,000	228,515
Transfers out	(228,515)	-	-	(228,515)
Total other financing sources (uses)	(228,515)	33,515	195,000	-
Net changes in fund balances	91,853	-	(27,767)	64,086
Fund balances - beginning	856,307	-	91,653	947,960
Fund balances - end	\$ 948,160	\$ -	\$ 63,886	\$ 1,012,046

The accompanying notes are an integral part of the financial statements.

CITY OF DUNLAP, TENNESSEE
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
Year Ended June 30, 2016

Net change in fund balances for total governmental funds	\$ 64,086
Governmental funds report capital outlay as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeds depreciation in the current period.	447,010
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	(4,591)
Repayment of long-term debt is reported as an expenditure in governmental funds, but the payment reduces long-term liabilities in the Statement of Net Position.	196,399
Pension expense for the prior year is not reported in the governmental funds but is reported in the Statement of Activities. Current year pension contributions are reported as an expense in the governmental funds but are not reported in the Statement of Activities.	87,230
Some items 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. These activities consist of:	
Accrued vacation	<u>(1,936)</u>
Change in net position of governmental activities	<u>\$ 788,198</u>

The accompanying notes are an integral part of the financial statements.

CITY OF DUNLAP, TENNESSEE

General Fund

**Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Year Ended June 30, 2016**

	Budgeted Amounts		Actual	Variance
	Original	Final		
REVENUES				
Taxes				
Real property	\$ 673,900	\$ 673,900	\$ 638,142	\$ (35,758)
Public utility	-	-	42,632	42,632
Minimum business	100,000	100,000	101,408	1,408
Local option sales tax	-	-	358,828	358,828
Local sales	1,018,000	1,018,000	856,505	(161,495)
Local beer	58,100	58,100	133,347	75,247
Total taxes	<u>1,850,000</u>	<u>1,850,000</u>	<u>2,130,862</u>	<u>280,862</u>
License and permits				
Building permits	<u>3,000</u>	<u>3,000</u>	<u>1,940</u>	<u>(1,060)</u>
Intergovernmental				
State shared				
Sales tax	378,500	378,500	427,674	49,174
Beer tax	237,900	237,900	165,127	(72,773)
Income tax	30,000	30,000	66,583	36,583
Excise tax	10,500	10,500	9,345	(1,155)
Gas and motor fuel tax	132,700	132,700	133,568	868
Streets and transportation	8,500	8,500	9,672	1,172
TVA replacment	55,000	55,000	56,527	1,527
Federal and state grants	307,893	307,893	255,654	(52,239)
Police supplemental	<u>7,200</u>	<u>7,200</u>	<u>7,200</u>	<u>-</u>
Total intergovernmental	<u>1,168,193</u>	<u>1,168,193</u>	<u>1,131,350</u>	<u>(36,843)</u>
Charges for services				
Beer license and fees	7,500	7,500	4,399	(3,101)
Rent of facilities	<u>37,000</u>	<u>37,000</u>	<u>37,045</u>	<u>45</u>
Total charges for services	<u>44,500</u>	<u>44,500</u>	<u>41,444</u>	<u>(3,056)</u>
Fines and forfeitures				
Court fines and fees	<u>71,000</u>	<u>71,000</u>	<u>74,125</u>	<u>3,125</u>

(Continued)

The accompanying notes are an integral part of the financial statements.

CITY OF DUNLAP, TENNESSEE

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Continued)
Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance
	Original	Final		
REVENUES				
Other revenues				
Miscellaneous	\$ 53,800	\$ 53,800	\$ 4,899	\$ (48,901)
Donation	13,000	13,000	30,000	17,000
Sale of property	1,000	1,000	1,000	-
Reimbursements	3,400	3,400	19,801	16,401
Interest	210	210	434	224
Cable TV franchise	12,000	12,000	14,199	2,199
Total other revenues	<u>83,410</u>	<u>83,410</u>	<u>70,333</u>	<u>(13,077)</u>
TOTAL REVENUES	<u>3,220,103</u>	<u>3,220,103</u>	<u>3,450,054</u>	<u>229,951</u>
EXPENDITURES				
Current expenditures				
General government				
Financial administration				
Salaries	400,295	400,295	381,095	19,200
Payroll taxes	35,633	35,633	32,617	3,016
Employee benefits	128,141	128,141	132,085	(3,944)
Advertising	8,000	8,000	8,108	(108)
Auditing and legal services	24,000	24,000	28,481	(4,481)
Contracts	16,000	16,000	14,500	1,500
Donations	78,683	78,683	78,697	(14)
Economic development	10,800	10,800	9,000	1,800
Industrial board	300,000	300,000	3,996	296,004
Insurance	25,700	25,700	28,130	(2,430)
Miscellaneous	2,950	2,950	2,783	167
Office supplies	24,100	24,100	22,624	1,476
Other fees, billings and refunds	24,000	24,000	15,441	8,559
Professional services	18,300	18,300	12,788	5,512
Repairs and maintenance	73,200	73,200	27,284	45,916
Telephone	8,500	8,500	10,860	(2,360)
Training and travel	7,000	7,000	5,988	1,012
Uniforms	300	300	1,060	(760)
Utilities	56,500	56,500	50,960	5,540
Vehicle expense	7,150	7,150	8,263	(1,113)
Total financial administration	<u>1,249,252</u>	<u>1,249,252</u>	<u>874,760</u>	<u>374,492</u>

(Continued)

The accompanying notes are an integral part of the financial statements.

CITY OF DUNLAP, TENNESSEE

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Continued)
Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance
	Original	Final		
EXPENDITURES (Continued)				
Current expenditures (Continued)				
General government (Continued)				
Judicial				
Salaries	\$ 51,339	\$ 51,339	\$ 45,160	\$ 6,179
Payroll taxes	3,775	3,775	3,336	439
Employee benefits	17,806	17,806	12,477	5,329
Insurance	450	450	347	103
Miscellaneous	100	100	14	86
Office supplies	1,250	1,250	389	861
Other fees, billings and refunds	20,000	20,000	17,502	2,498
Professional services	3,200	3,200	3,360	(160)
Training and travel	250	250	2,040	(1,790)
Total judicial	<u>98,170</u>	<u>98,170</u>	<u>84,625</u>	<u>13,545</u>
Total general government	<u>1,347,422</u>	<u>1,347,422</u>	<u>959,385</u>	<u>388,037</u>
Public safety				
Police department				
Salaries	517,430	517,430	533,361	(15,931)
Payroll taxes	39,584	39,584	38,900	684
Employee benefits	178,921	178,921	163,262	15,659
Contracts	5,000	5,000	3,402	1,598
Insurance	44,775	44,775	45,885	(1,110)
Miscellaneous	10,150	10,150	9,152	998
Office supplies	8,300	8,300	7,626	674
Other fees, billings and refunds	300	300	4,500	(4,200)
Repairs and maintenance	7,500	7,500	1,710	5,790
Supplies	4,000	4,000	3,782	218
Telephone	6,500	6,500	7,190	(690)
Training and travel	9,500	9,500	9,813	(313)
Uniforms	8,580	8,580	9,790	(1,210)
Utilities	450	450	378	72
Vehicle expense	40,100	40,100	24,781	15,319
Total police department	<u>881,090</u>	<u>881,090</u>	<u>863,532</u>	<u>17,558</u>

(Continued)

The accompanying notes are an integral part of the financial statements.

CITY OF DUNLAP, TENNESSEE

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Continued)

Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance
	Original	Final		
EXPENDITURES (Continued)				
Current expenditures (Continued)				
Public safety (Continued)				
Fire department				
Contracts	\$ 16,300	\$ 16,300	\$ 16,424	\$ (124)
Insurance	19,315	19,315	21,237	(1,922)
Miscellaneous	250	250	150	100
Office supplies	1,950	1,950	1,950	-
Other fees, billings and refunds	2,000	2,000	2,559	(559)
Professional services	300	300	-	300
Repairs and maintenance	19,000	19,000	7,687	11,313
Supplies	3,500	3,500	3,110	390
Telephone	2,500	2,500	1,960	540
Training and travel	2,750	2,750	1,657	1,093
Uniforms	23,000	23,000	17,008	5,992
Utilities	4,425	4,425	2,893	1,532
Vehicle expense	25,700	25,700	13,474	12,226
Total fire department	<u>120,990</u>	<u>120,990</u>	<u>90,109</u>	<u>30,881</u>
Total public safety	<u>1,002,080</u>	<u>1,002,080</u>	<u>953,641</u>	<u>48,439</u>
Public works				
Street department				
Salaries	151,229	151,229	147,267	3,962
Payroll taxes	11,570	11,570	10,563	1,007
Employee benefits	65,967	65,967	35,523	30,444
Insurance	19,050	19,050	17,275	1,775
Miscellaneous	350	350	812	(462)
Repairs and maintenance	7,500	7,500	-	7,500
Supplies	363,000	363,000	280,527	82,473
Telephone	600	600	1,078	(478)
Training and travel	500	500	-	500
Uniforms	1,000	1,000	146	854
Vehicle expense	17,000	17,000	8,752	8,248
Total street department	<u>637,766</u>	<u>637,766</u>	<u>501,943</u>	<u>135,823</u>

(Continued)

The accompanying notes are an integral part of the financial statements.

CITY OF DUNLAP, TENNESSEE

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Continued)

Year Ended June 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
EXPENDITURES (Continued)				
Current expenditures (Continued)				
Public works (Continued)				
Maintenance				
Salaries	\$ 66,315	\$ 66,315	\$ 65,868	\$ 447
Payroll taxes	3,317	3,317	3,151	166
Employee benefits	23,474	23,474	21,187	2,287
Insurance	2,600	2,600	2,693	(93)
Miscellaneous	200	200	20	180
Office supplies	1,400	1,400	163	1,237
Repairs and maintenance	1,000	1,000	432	568
Supplies	2,500	2,500	968	1,532
Telephone	225	225	601	(376)
Training and travel	800	800	-	800
Utilities	3,700	3,700	-	3,700
Vehicle expense	3,550	3,550	610	2,940
Total maintenance	<u>109,081</u>	<u>109,081</u>	<u>95,693</u>	<u>13,388</u>
Total public works	<u>746,847</u>	<u>746,847</u>	<u>597,636</u>	<u>149,211</u>
Public welfare and recreation				
Salaries	65,485	65,485	50,338	15,147
Harris City Park	68,200	68,200	119,583	(51,383)
Historical Preservation	5,000	5,000	4,250	750
Total public welfare and recreation	<u>138,685</u>	<u>138,685</u>	<u>174,171</u>	<u>(35,486)</u>
State street aid				
Gravel, culverts, concrete repair	15,000	15,000	4,088	10,912
Other street materials	3,850	3,850	924	2,926
Repairs and maintenance	11,000	11,000	6,364	4,636
Signs purchased	3,500	3,500	2,691	809
Street lighting	48,000	48,000	50,694	(2,694)
Street paving and repair	250,000	215,000	84,183	130,817
Total state street aid	<u>331,350</u>	<u>296,350</u>	<u>148,944</u>	<u>147,406</u>

(Continued)

The accompanying notes are an integral part of the financial statements.

CITY OF DUNLAP, TENNESSEE
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Continued)
Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance
	Original	Final		
EXPENDITURES (Continued)				
Capital outlay				
General government	\$ 41,800	\$ 76,800	\$ 41,950	\$ 34,850
Judicial department	6,500	6,500	3,349	3,151
Police department	60,200	60,200	68,391	(8,191)
Fire department	117,000	117,000	23,997	93,003
Street department	55,000	55,000	152,893	(97,893)
Maintenance department	5,500	5,500	5,329	171
Total capital outlay	<u>286,000</u>	<u>321,000</u>	<u>295,909</u>	<u>25,091</u>
TOTAL EXPENDITURES	<u>3,852,384</u>	<u>3,852,384</u>	<u>3,129,686</u>	<u>722,698</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(632,281)</u>	<u>(632,281)</u>	<u>320,368</u>	<u>952,649</u>
OTHER FINANCING SOURCES (USES)				
Loan proceeds	900,000	900,000	-	(900,000)
Transfers out	<u>(253,500)</u>	<u>(253,500)</u>	<u>(228,515)</u>	<u>24,985</u>
Total other financing sources (uses)	<u>646,500</u>	<u>646,500</u>	<u>(228,515)</u>	<u>(875,015)</u>
Net changes in fund balances	14,219	14,219	91,853	77,634
Fund balances - beginning	<u>856,307</u>	<u>856,307</u>	<u>856,307</u>	<u>-</u>
Fund balances - end	<u>\$ 870,526</u>	<u>\$ 870,526</u>	<u>\$ 948,160</u>	<u>\$ 77,634</u>

The accompanying notes are an integral part of the financial statements.

CITY OF DUNLAP, TENNESSEE
Solid Waste Fund
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Year Ended June 30, 2016

	Budgeted Amounts			
	Original	Final	Actual	Variance
REVENUES				
Charges for services				
Rent of facilities	\$ 351,600	\$ 351,600	\$ 353,886	\$ 2,286
Other revenues				
Miscellaneous	-	-	2,399	2,399
TOTAL REVENUES	<u>351,600</u>	<u>351,600</u>	<u>356,285</u>	<u>4,685</u>
EXPENDITURES				
Current expenditures				
Public works				
Contract services - hauling	398,100	398,100	387,401	10,699
Debt service				
Interest	-	-	2,399	(2,399)
TOTAL EXPENDITURES	<u>398,100</u>	<u>398,100</u>	<u>389,800</u>	<u>8,300</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(46,500)</u>	<u>(46,500)</u>	<u>(33,515)</u>	<u>12,985</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	46,500	46,500	33,515	(12,985)
Net changes in fund balances	-	-	-	-
Fund balances - beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances - end	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF DUNLAP, TENNESSEE
Proprietary Funds
Statement of Net Position
June 30, 2016

	Water and Sewer Fund	Enterprise Natural Gas Fund	Totals
ASSETS			
Current assets			
Cash	\$ 611,813	\$ 351,579	\$ 963,392
Investments	216,193	275,297	491,490
Accounts receivable - net	162,404	33,655	196,059
Due from other funds	3,562	528	4,090
Inventory	68,509	408,409	476,918
Total current assets	<u>1,062,481</u>	<u>1,069,468</u>	<u>2,131,949</u>
Non-current assets			
Restricted assets			
Bond sinking fund - cash	-	12,749	12,749
Bond sinking fund - investments	448,850	-	448,850
Total restricted assets	<u>448,850</u>	<u>12,749</u>	<u>461,599</u>
Other assets			
Security deposit	-	20	20
Capital assets			
Land and construction in progress	104,646	-	104,646
Other capital assets - net of accumulated depreciation	11,447,323	1,709,044	13,156,367
Total capital assets	<u>11,551,969</u>	<u>1,709,044</u>	<u>13,261,013</u>
Total non-current assets	<u>12,000,819</u>	<u>1,721,813</u>	<u>13,722,632</u>
TOTAL ASSETS	<u>\$ 13,063,300</u>	<u>\$ 2,791,281</u>	<u>\$ 15,854,581</u>
 DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	<u>\$ 144,241</u>	<u>\$ 87,577</u>	<u>\$ 231,818</u>
 LIABILITIES			
Current liabilities			
Accounts payable	\$ 11,127	\$ 51,041	\$ 62,168
Accrued liabilities	31,367	12,991	44,358
Accrued interest	12,957	123,117	136,074
Due to other funds	30,480	-	30,480
Bonds payable - due in one year	238,762	145,000	383,762
Notes payable - due in one year	28,665	-	28,665
Compensated absences - due in one year	12,842	6,912	19,754
Total current liabilities	<u>366,200</u>	<u>339,061</u>	<u>705,261</u>
Non-current liabilities			
Bonds payable	5,183,432	1,448,000	6,631,432
Compensated absences	51,371	27,652	79,023
Customer deposits	119,065	79,040	198,105
Net pension liability	218,382	132,590	350,972
Total non-current liabilities	<u>5,572,250</u>	<u>1,687,282</u>	<u>7,259,532</u>
TOTAL LIABILITIES	<u>\$ 5,938,450</u>	<u>\$ 2,026,343</u>	<u>\$ 7,964,793</u>
 DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	<u>\$ 73,971</u>	<u>\$ 44,912</u>	<u>\$ 118,883</u>
 NET POSITION			
Net investment in capital assets	\$ 6,101,110	\$ 116,044	\$ 6,217,154
Unrestricted	<u>1,094,010</u>	<u>691,559</u>	<u>1,785,569</u>
TOTAL NET POSITION	<u>\$ 7,195,120</u>	<u>\$ 807,603</u>	<u>\$ 8,002,723</u>

The accompanying notes are an integral part of the financial statements.

CITY OF DUNLAP, TENNESSEE
Proprietary Funds
Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2016

	Water and Sewer	Enterprise Natural Gas	
	Fund	Fund	Totals
OPERATING REVENUES			
Water sales and sewer charges	\$ 1,794,466	\$ -	\$ 1,794,466
Gas sales	-	1,468,210	1,468,210
Customer penalties	1,207	1,681	2,888
Connection fees	37,977	11,650	49,627
Other operating	9,828	7,290	17,118
Total operating revenues	<u>1,843,478</u>	<u>1,488,831</u>	<u>3,332,309</u>
OPERATING EXPENSES			
Purchased gas	-	683,778	683,778
Transmission and treatment	220,326	-	220,326
Operating and maintenance	748,993	442,737	1,191,730
Administration	353,353	358,087	711,440
Depreciation	614,046	156,979	771,025
Total operating expenses	<u>1,936,718</u>	<u>1,641,581</u>	<u>3,578,299</u>
Operating income (loss)	<u>(93,240)</u>	<u>(152,750)</u>	<u>(245,990)</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest revenue	1,376	1,971	3,347
Interest expense	(189,102)	(63,884)	(252,986)
Total non-operating revenues (expenses)	<u>(187,726)</u>	<u>(61,913)</u>	<u>(249,639)</u>
Changes in net position	(280,966)	(214,663)	(495,629)
Net position - beginning	<u>7,476,086</u>	<u>1,022,266</u>	<u>8,498,352</u>
Net position - end	<u>\$ 7,195,120</u>	<u>\$ 807,603</u>	<u>\$ 8,002,723</u>

The accompanying notes are an integral part of the financial statements.

CITY OF DUNLAP, TENNESSEE
Proprietary Funds
Statement of Cash Flows
Year Ended June 30, 2016

	Enterprise		
	Water and Sewer	Natural Gas	
	Fund	Fund	Total
Cash Flows from Operating Activities			
Receipts from customers and users	\$ 1,828,216	\$ 1,483,854	\$ 3,312,070
Payments to suppliers	(725,855)	(1,146,777)	(1,872,632)
Payments to employees	(589,117)	(441,291)	(1,030,408)
Net cash provided (used) by operating activities	<u>513,244</u>	<u>(104,214)</u>	<u>409,030</u>
Cash Flows from Non-capital Financing Activities			
Increase (decrease) in due to other funds	<u>(2,770)</u>	<u>(528)</u>	<u>(3,298)</u>
Cash Flows from Capital and Related Financing Activities			
Principal paid on bonds and notes	(350,450)	(145,000)	(495,450)
Interest paid on bonds and notes	(189,361)	(65,673)	(255,034)
Acquisition and construction of capital assets	<u>(96,074)</u>	<u>(1,149)</u>	<u>(97,223)</u>
Net cash provided (used) by capital and related financing activities	<u>(635,885)</u>	<u>(211,822)</u>	<u>(847,707)</u>
Cash Flows from Investing Activities			
Interest payments received	1,376	1,971	3,347
Purchase of investments	<u>(318)</u>	<u>(1)</u>	<u>(319)</u>
Net cash provided (used) by investing activities	<u>1,058</u>	<u>1,970</u>	<u>3,028</u>
Net increase (decrease) in cash	(124,353)	(314,594)	(438,947)
Cash - beginning	<u>736,166</u>	<u>678,922</u>	<u>1,415,088</u>
Cash - end	<u>\$ 611,813</u>	<u>\$ 364,328</u>	<u>\$ 976,141</u>
Reconciliation of Operating Income (Loss) to Net Cash			
Provided (Used) by Operating Activities			
Operating income (loss)	<u>\$ (93,240)</u>	<u>\$ (152,750)</u>	<u>\$ (245,990)</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	614,046	156,979	771,025
Increase (decrease) in net pension liability	(6,846)	(4,156)	(11,002)
Increase (decrease) in deferred inflows related to pensions	2,837	1,723	4,560
(Increase) decrease in deferred outflows related to pensions	(37,492)	(24,033)	(61,525)
(Increase) decrease in accounts receivable	(15,262)	(4,977)	(20,239)
(Increase) decrease in inventories	6,595	(81,479)	(74,884)
Increase (decrease) in accounts payable	6,248	(25,685)	(19,437)
Increase (decrease) in accrued liabilities	18,318	9,559	27,877
Increase (decrease) in customer deposits	9,525	7,978	17,503
Increase (decrease) in compensated absences	<u>8,515</u>	<u>12,627</u>	<u>21,142</u>
Total adjustments	<u>606,484</u>	<u>48,536</u>	<u>655,020</u>
Net cash provided (used) by operating activities	<u>\$ 513,244</u>	<u>\$ (104,214)</u>	<u>\$ 409,030</u>
Cash			
Cash	\$ 611,813	\$ 351,579	\$ 963,392
Bond sinking fund - cash	<u>-</u>	<u>12,749</u>	<u>12,749</u>
Total	<u>\$ 611,813</u>	<u>\$ 364,328</u>	<u>\$ 976,141</u>

The accompanying notes are an integral part of the financial statements.

CITY OF DUNLAP, TENNESSEE
Notes to Financial Statements
June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Dunlap, Tennessee have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The City of Dunlap, Tennessee operates under a Mayor and Board of Commissioners form of government within the following departments: general government, public safety, public works, public welfare and recreation and state street aid.

The following is a summary of the more significant accounting policies:

A. Reporting Entity

In evaluating how to define the reporting entity, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP and GASB issued Statement No. 14, *The Financial Reporting Entity*. This statement requires that the financial statements present the City of Dunlap, Tennessee (the primary government) and any component units. Component units generally are legally separate entities for which a primary government is financially accountable. Financial accountability ordinarily involves meeting one of the following criteria; the primary government is accountable for the potential component unit (i.e., the primary government appoints the voting majority of its board and the primary government is able to impose its will upon the potential component unit); or there is a possibility that the potential component unit may provide specific financial benefits or impose specific financial burdens on the primary government.

Based on the foregoing criteria, there are no entities, which meet the above criteria for inclusion in the City of Dunlap, Tennessee's financial statements.

Joint Venture

Sequatchie/Bledsoe County Landfill

The Sequatchie/Bledsoe County Landfill (SBCL) is a joint venture entered into by four governmental entities, Bledsoe and Sequatchie counties and the cities of Dunlap and Pikeville. The landfill was formed by agreements entered into by these governments for the purpose of providing solid waste disposal for the citizens of Sequatchie and Bledsoe counties. The landfill is administered under the oversight of a Board of Directors consisting of three people from each county and two from each city. The County Executive of each county and the Mayors of each city are members of the Board, and the remaining members are appointed by these officials subject to the approval of their respective governing body. Financial statements of the SBCL can be obtained by contacting the Bledsoe County Courthouse.

Related Organization

The Industrial Development Board of the City of Dunlap, Tennessee

The Industrial Development Board of the City of Dunlap, Tennessee, is determined to be a related organization of the City of Dunlap, Tennessee. Although the City of Dunlap, Tennessee, appoints the board of directors, the City of Dunlap, Tennessee is not financially accountable for operations of The Industrial Development Board of the City of Dunlap, Tennessee.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basic Financial Statements

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. Both government-wide and fund financial statements categorize activities as either government activities or business-type activities.

Government-wide Statements - The Statement of Net Position and the Statement of Activities display information about the primary government. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. In the government-wide Statement of Net Position, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reflected on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents both a gross and net cost comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. The net cost (by function or business-type activity) is normally covered by general revenue (property or sales tax, intergovernmental revenues, interest income, etc.).

This government-wide focus is designed to view the City as a complete entity and the change in aggregate financial position resulting from the activities of the fiscal period.

Fund Financial Statements - The fund financial statements provide information about the City's funds, including its governmental funds and enterprise funds. Separate statements for each fund category are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The City reports the following major governmental funds:

General Fund - This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Solid Waste Fund - This fund is used to account for the revenues from and expenditures related to the City's solid waste services.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basic Financial Statements (Continued)

The City reports the following major enterprise funds:

Water and Sewer Fund - This fund is used to account for the water and sewer delivery and recovery system of the City.

Natural Gas Fund - This fund is used to account for the natural gas delivery system for the City.

C. Measurement Focus - Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Government fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Property taxes, sales taxes, franchise taxes, gasoline taxes, wholesale beer taxes, income taxes, mixed drink taxes, and in-lieu of taxes are susceptible to accrual. Licenses and permits, fines and forfeitures, gross receipts taxes and excise taxes are recorded as revenue when received in cash because they are generally not measurable until actually received. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the governmental activities column in the government-wide financial statements, a reconciliation is presented on the page following each statement which briefly explains the adjustments necessary to transform the fund-based financial statements into the governmental activities column of the government-wide presentation.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operation. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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 needed.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Data

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

During April and May, budget requests from departments are submitted to the City Commissioners at its regularly scheduled meetings.

Budget items submitted are discussed at these regularly scheduled meetings and in special work session meetings in June. Subsequently the budget is enacted through vote of the Commissioners, with an operative date of July 1.

Formal budgets are adopted for the General Fund, Special Revenue, and Debt Service Funds on a basis consistent with accounting principles generally accepted in the United States of America (GAAP). Therefore, no adjustments are necessary to convert to the actual GAAP data from the budgetary basis. These formal budgets are adopted on a departmental basis. The City Mayor is authorized to transfer budgeted amounts between departments within any fund. However, any revision that alters the total expenditures of any fund must be approved by the Board of Commissioners.

Budgeted amounts reflected in the accompanying final and actual comparison are as originally adopted in accordance with GAAP, or as amended by the Commissioners throughout the year. Individual amendments are not material in relation to the original appropriations, which were amended. All appropriations which are not expended lapse at year-end.

During the year, supplementary appropriations were necessary. The effect of the amendments netted to \$0.

Budgets for Enterprise Funds are adopted by the Commissioners as a management tool.

E. Cash and Cash Equivalents

Cash consists of cash on hand and on deposit with financial institutions. These are classified on the Statement of Net Position as "Cash" and "Restricted Assets". At June 30, 2016, the City had no cash equivalents. For purposes of reporting cash on the Statement of Cash Flows, the City considers unrestricted highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

F. Investments

All investments are reported at fair value, which is based on quoted market prices. The City is authorized by State Statutes to invest in the following:

Bonds, notes or treasury bills of the United States.

Nonconvertible debt securities of the Federal Home Loan Bank, the Federal National Mortgage Association, the Federal Farm Credit Bank and the Student Loan Marketing Association.

Any obligation guaranteed by the United States or any of its agencies.

Certificates of deposit at state and federal chartered banks and savings and loan associations.

The Local Government Investment Pool created by Title 9.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Property Taxes

Property taxes are levied by the City on January 1st on property value assessed for that calendar year. The billings are mailed October 1st and are considered due upon receipt by the taxpayer, however, the actual due date is based on a period ending approximately 60 days after calendar year end. On this date, March 1st, the bill becomes delinquent and penalties and interest may be assessed. Property taxes levied by the City are assessed by the Tax Assessor of Sequatchie County, Tennessee and are collected by the City. Property taxes are recognized on the accrual basis in the government-wide financial statements, and in the governmental funds, they are recognized on the modified accrual basis. Proper allowances are made for estimated uncollectible and delinquent accounts when necessary. The tax rate for the 2016 levy is \$.762 per \$100 of assessed valuation and the tax rate for the 2015 levy is \$.762 per \$100 of assessed valuation.

Property taxes for the 2016 levy are considered to be owed to the City as of the lien date on January 1, 2016. Therefore, the entire 2016 levy was recorded as a receivable and deferred revenue as of June 30, 2016, in both the government-wide financial statements and in the governmental fund statements.

H. Interfund Transactions

Interfund Receivables and Payables

Short-term advances between funds are not eliminated but accounted for in the appropriate interfund receivable and payable accounts, classified as due to other funds or due from other funds in the fund financial statements, and are subject to elimination upon consolidation. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances".

Transactions between Funds

Transactions between funds that would be treated as revenues, expenditures, or expenses if they involved organizations external to the governmental unit are accounted for as revenues, expenditures, or expenses in the funds involved. Transactions which constitute reimbursements of a fund for expenditures or expenses initially made from that fund which are properly applicable to another fund are recorded as expenditures or expenses in the reimbursing fund and as reductions of the expenditures or expense in the fund that is reimbursed. All other legally authorized transfers are not eliminated but treated as operating transfers and are included as other financing sources or uses in the governmental funds and reported after non-operating revenues or expenses in the enterprise funds.

I. Prepayment of Expenditures

Governmental fund expenditures for insurance and similar services extending over more than one accounting period are not allocated between accounting periods but accounted for as expenditures of the period of acquisition.

J. Inventories

Inventories are valued at cost, using the first-in, first-out (FIFO method). The cost of an inventory item is recorded as an expense at the time of purchase. Inventories on hand at year-end are physically counted and recorded as assets, reducing the appropriate expense account.

K. Restricted Assets

Certain resources are classified as restricted assets on the Statement of Net Position because their use is limited by applicable note restrictions.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., primary roads, secondary roads, drainage), are reported in the 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 \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extended assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Years</u>
Buildings	5-40
Machinery and equipment	3-20
Vehicles	5-15
Infrastructure	50
Landfill	30

Capital assets of the proprietary funds are accounted for in the proprietary fund and are stated at cost or estimated fair value when original cost is not available. Major additions are capitalized while maintenance and repairs, including the cost of minor items of property, are expensed as incurred. Upon disposal of such assets, the accounts are relieved of the related costs and accumulated depreciation, and resulting gains or losses are reflected in income. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets. The estimated useful lives are as follows:

<u>Asset Class</u>	<u>Years</u>
Buildings	5-50
Machinery and equipment	3-40
Vehicles	5-10
Lines and extensions	5-50

Donated capital assets are valued at their estimated fair value on the date donated. The City's policy is to capitalize the net interest cost incurred during the year resulting from borrowings utilized to finance the construction of assets.

M. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. Currently, the Entity has only one type of item that qualifies for reporting in this category: deferred outflows related to pensions.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. Currently, the City has two types of items that qualify for reporting in this category: deferred revenue - property taxes and deferred inflows related to pensions.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Compensated Absences

City employees are paid annual leave for vacation, personal business and absence due to sickness by prescribed formulas based on length of service. Annual leave for employees of governmental funds is recorded as an expenditure in the period it is used and considered payable from current financial resources. Annual leave is based on employment date, and unused annual leave may be accumulated up to a total of 500 hours. Government-wide proprietary funds accrue vacation benefits in the period they are earned. A liability for these amounts is reported in governmental funds only if they have matured.

O. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the Statement of Net Position.

P. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of Dunlap's participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System (TCRS), and additions to/deductions from Dunlap's fiduciary net position have been determined on the same basis as they are reported by the TCRS for the Public Employee Retirement Plan. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Public Employee Retirement Plan of TCRS. Investments are reported at fair value.

Q. Net Position

Net position is the residual of all elements presented in the Statement of Financial Position (i.e., assets + deferred outflows - liabilities - deferred inflows). Net investment in capital assets represent capital assets reduced by accumulated depreciation and by any outstanding debt related to the acquisition, construction or improvement of those assets. Restricted net position represents restricted assets reduced by any related outstanding debt.

R. Fund Balance

Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* established standards for fund balance classifications for state and local governments and requires that resources be classified for accounting reporting purposes into the following fund balances:

Nonspendable: The City cannot spend these amounts due to form.

Restricted: The State or other sources can restrict funds to specific purposes by externally imposing restrictions or imposing by law through constitutional provisions or enabling legislation.

Committed: The Board of Commissioners has the authority to commit funds for a specific purpose. Any funds set aside as committed fund balance requires, at a minimum, the passage of a resolution by a simple majority vote. An ordinance may also be used.

Assigned: The Board of Commissioners has the authority to set aside funds for the intended use of a specific purpose. Any funds set aside as assigned fund balance requires a simple majority vote and must be recorded in the minutes.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

R. Fund Balance (Continued)

Unassigned: Amounts not classified as nonspendable, restricted, committed, or assigned.

When both restricted and unrestricted funds are available for expenditure, restricted funds should be spent first unless legal requirements disallow it.

When restricted, committed, assigned and unassigned funds are available for use, restricted funds should be spent first, committed funds second, assigned funds third and unassigned funds last.

S. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

T. Events Occurring after Reporting Date

The City has evaluated events and transactions that occurred between June 30, 2016, and April 12, 2017, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTE 2 - DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk is the risk that in the event of bank failure the City's deposits may not be returned to it. The City does not have a deposit or investment policy for custodial credit risk, however, the State of Tennessee requires its governmental entities to either meet the deposit and collateralization regulations under TCA Title 9, Chapter 4, Parts 1 and 4, or as provided in the collateral pool. As of June 30, 2016, the carrying amount of the City's deposits was \$2,229,144, and the bank balance was \$2,370,442. None of the City's bank balance was exposed to custodial credit risk as uninsured or uncollateralized.

The carrying amount of the City's deposits is classified as follows on the Statement of Net Position:

Cash	\$ 1,286,944
Investments	606,080
Restricted assets	<u>461,599</u>
	2,354,623
Less: petty cash	(800)
Less: Local Government Investment Pool (LGIP)	<u>(124,679)</u>
Total	<u>\$ 2,229,144</u>

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)Investments

The City's investments are carried at fair value, and consist of certificates-of-deposit and investments in the State of Tennessee Local Government Investment Pool (LGIP). The LGIP is considered a 2a-7 like account (SEC designation) and is only required to be reported at amortized cost. Because the fund is valued at a constant dollar, the City's position in the pool is equal to its account balance (fair value) as of June 30, 2016. The City's investments are listed on the Statement of Net Position as follows:

Investments	\$ 606,080
Restricted assets	<u>461,599</u>
	1,067,679
Less: restricted cash	<u>(12,749)</u>
Total	<u>\$ 1,054,930</u>

NOTE 3 - PROPERTY TAXES RECEIVABLE - NET

Property taxes receivable as of June 30, 2016, consist of the following:

<u>Year of Levy</u>	
2016	\$ 671,092
2015	54,459
2014	19,584
2013	14,443
2012	8,647
2011	2,353
2010	3,041
2009	432
2008	332
2007	<u>905</u>
	775,288
Less: allowance for uncollectibles	<u>(23,629)</u>
Property taxes receivable - net	<u>\$ 751,659</u>

NOTE 4 - ACCOUNTS RECEIVABLE - NET

Accounts receivable - net at June 30, 2016, consists of the following:

	<u>General Fund</u>	<u>Water and Sewer Fund</u>	<u>Natural Gas Fund</u>	<u>Total</u>
Customer receivables	\$ -	\$ 178,391	\$ 35,410	\$ 213,801
Less: allowance for doubtful accounts	-	(15,987)	(1,755)	(17,742)
Local beer and liquor tax	54,768	-	-	54,768
Franchise tax	7,400	-	-	7,400
Industrial Development Board	210,595	-	-	210,595
Other	<u>2,034</u>	<u>-</u>	<u>-</u>	<u>2,034</u>
Total	<u>\$274,797</u>	<u>\$ 162,404</u>	<u>\$ 33,655</u>	<u>\$ 470,856</u>

Bad debt expense was \$0 for the year ended June 30, 2016.

NOTE 5 - GRANTS RECEIVABLE

Grants receivable as of June 30, 2016, consist of the following:

Department of Transportation	<u>\$ 55,555</u>
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NOTE 6 - INTERNAL BALANCES

Internal balances to be repaid within one year consist of the following:

	Due From:			
	General Fund	Solid Waste Fund	Water and Sewer Fund	Total
Due to:				
General Fund	\$ -	\$ 30,480	\$ -	\$ 30,480
Solid Waste Fund	-	-	30,480	30,480
Water and Sewer Fund	3,562	-	-	3,562
Natural Gas Fund	<u>528</u>	<u>-</u>	<u>-</u>	<u>528</u>
Total	<u>\$ 4,090</u>	<u>\$ 30,480</u>	<u>\$ 30,480</u>	<u>\$ 65,050</u>

Water and Sewer funds of \$30,480 will pass through to the Solid Waste Fund and then pass to the General Fund. The remaining internal balance represent amounts paid by the Water and Sewer Fund and Natural Gas Fund on behalf of the General Fund.

NOTE 7 - DUE FROM OTHER GOVERNMENTS

Due from other governments at June 30, 2016, consists of the following:

Local sales tax	\$ 148,076
Gas and motor fuel tax	24,088
City streets and transportation	1,633
State sales tax	67,849
State income tax	66,545
Telecommunication sales tax	80
Mixed drink tax	839
Business tax	2,942
Local option sales tax	<u>91,062</u>
Total	<u>\$ 403,114</u>

NOTE 8 - RESTRICTED ASSETS

Restricted assets include funds restricted for specific expenditures. The restricted assets at June 30, 2016, are as follows:

	Water and Sewer Fund	Natural Gas Fund	Totals
Bond covenants	<u>\$ 448,850</u>	<u>\$ 12,749</u>	<u>\$ 461,599</u>

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 465,360	\$ 33,432	\$ -	\$ 498,792
Capital assets being depreciated:				
Buildings	1,660,334	-	-	1,660,334
Machinery and equipment	1,136,063	58,682	(36,760)	1,157,985
Vehicles	1,933,107	71,365	(19,520)	1,984,952
Infrastructure	908,276	494,254	-	1,402,530
Landfill	198,557	-	-	198,557
Total capital assets being depreciated	<u>5,836,337</u>	<u>624,301</u>	<u>(56,280)</u>	<u>6,404,358</u>
Less accumulated depreciation for:				
Buildings	574,189	40,990	-	615,179
Machinery and equipment	976,692	53,786	(36,760)	993,718
Vehicles	1,732,614	67,718	(19,520)	1,780,812
Infrastructure	133,129	41,611	-	174,740
Landfill	76,114	6,618	-	82,732
Total accumulated depreciation	<u>3,492,738</u>	<u>210,723</u>	<u>(56,280)</u>	<u>3,647,181</u>
Total capital assets being depreciated - net	<u>2,343,599</u>	<u>413,578</u>	<u>-</u>	<u>2,757,177</u>
Governmental activities capital assets - net	<u>\$2,808,959</u>	<u>\$ 447,010</u>	<u>\$ -</u>	<u>\$ 3,255,969</u>

Depreciation expense was charged to the functions of the primary government as follows:

General government	\$ 59,790
Public safety	83,361
Public works	36,734
Public welfare and recreation	<u>30,838</u>
Total	<u>\$ 210,723</u>

NOTE 9 - CAPITAL ASSETS (Continued)

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 104,646	\$ -	\$ -	\$ 104,646
Capital assets being depreciated:				
Buildings	8,156,711	57,990	-	8,214,701
Machinery and equipment	1,686,356	25,504	(14,885)	1,696,975
Vehicles	867,491	-	-	867,491
Lines and extensions	<u>15,546,604</u>	<u>13,729</u>	<u>-</u>	<u>15,560,333</u>
Total capital assets being depreciated	<u>26,257,162</u>	<u>97,223</u>	<u>(14,885)</u>	<u>26,339,500</u>
Less accumulated depreciation for:				
Buildings	3,181,183	223,144	-	3,404,327
Machinery and equipment	987,692	132,679	(14,885)	1,105,486
Vehicles	704,868	49,801	-	754,669
Lines and extensions	<u>7,553,250</u>	<u>365,401</u>	<u>-</u>	<u>7,918,651</u>
Total accumulated depreciation	<u>12,426,993</u>	<u>771,025</u>	<u>(14,885)</u>	<u>13,183,133</u>
Total capital assets being depreciated - net	<u>13,830,169</u>	<u>(673,802)</u>	<u>-</u>	<u>13,156,367</u>
Business-type activities capital assets - net	<u>\$ 13,934,815</u>	<u>\$ (673,802)</u>	<u>\$ -</u>	<u>\$ 13,261,013</u>

NOTE 10 - DEFERRED OUTFLOWS RELATED TO PENSIONS

Deferred outflows related to pensions at June 30, 2016, consists of the following:

Balance as of June 30, 2015	\$ 374,269
2016 contribution	248,293
Deferred outflows for investment earnings	186,178
Amortization of deferred outflows for actuarial experience	(19,652)
2015 contributions	(236,690)
Amortization of deferred outflows for investment earnings	(37,236)
Actual versus estimated contributions	(13)
Total	<u>\$ 515,149</u>

NOTE 11 - LONG-TERM DEBT

A. Governmental Debt

Long-term debt, payable by the governmental funds, which consists of notes payable, bonds payable, landfill post-closure liability and compensated absences is summarized as follows:

	<u>Principal Balance</u>
City of Dunlap TML 1999, original amount \$2,500,000 at 0.27%, maturing 5/25/2017	\$ 8,085
Landfill Post-closure Liability - estimate	38,370
Tennessee Municipal Bonds 2002, original amount \$1,214,018 at 0.28%, maturing 5/25/2019	456,018
Compensated absences	<u>108,001</u>
	610,474
Less: current portion of governmental long-term debt	<u>(197,084)</u>
 Total governmental long-term debt	 <u>\$ 413,390</u>

A summary of changes in governmental long-term debt for the year ended June 30, 2016, are as follows:

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2016</u>	<u>Amount Due Within One Year</u>
TML - 1999 Note	\$ 41,085	\$ -	\$(33,000)	\$ 8,085	\$ 8,085
Landfill Post-closure Liability - Estimate	40,769	-	(2,399)	38,370	2,399
2002 TML Bond	617,018	-	(161,000)	456,018	165,000
Compensated absences	<u>106,065</u>	<u>1,936</u>	<u>-</u>	<u>108,001</u>	<u>21,600</u>
 Total	 <u>\$ 804,937</u>	 <u>\$ 1,936</u>	 <u>\$(196,399)</u>	 610,474	 <u>\$ 197,084</u>
 Less: current portion of governmental long-term debt				 <u>(197,084)</u>	
 Total governmental long-term debt				 <u>\$ 413,390</u>	

Interest paid during the year ended June 30, 2016, on governmental long-term debt was \$1,615.

Government fund debt service requirements to maturity, including interest of \$2,452 are as follows:

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2017	\$ 175,484	\$ 1,298	\$ 176,782
2018	172,399	815	173,214
2019	123,417	339	123,756
2020	2,399	-	2,399
2021	2,399	-	2,399
2022-2026	11,995	-	11,995
2027-2031	11,995	-	11,995
2032	<u>2,385</u>	<u>-</u>	<u>2,385</u>
	<u>\$ 502,473</u>	<u>\$ 2,452</u>	<u>\$ 504,925</u>

Note: The above debt service requirements schedule does not include compensated absences.

NOTE 11 - LONG-TERM DEBT (Continued)

B. Business-Type Debt Payable

Water and Sewer Fund

Long-term debt, payable by the Water and Sewer Fund, which consists of revenue bonds, notes payable and compensated absences is summarized as follows:

	<u>Principal Balance</u>
Water and Sewer Revenue Refunding bonds, Series 2007, 3.65% - 3.85%, due 1-1-2019	\$ 235,000
Water and Sewer Revenue and Tax bonds, Series 2009, 3.50%, due 2047	482,194
Water and Sewer General Obligation Refunding Bonds, Series 2014, 2.0% to 4.0%, due 2039	4,705,000
Capital Outlay Note - TML - interest at 0.41%, due 2017	28,665
Compensated absences	<u>64,213</u>
	5,515,072
Less: current portion of water and sewer long-term debt	<u>(280,269)</u>
 Total water and sewer long-term debt	 <u>\$ 5,234,803</u>

A summary of changes in water and sewer long-term debt for the year ended June 30, 2016, are as follows:

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2016</u>	<u>Amount Due Within One Year</u>
2007 Bond	\$ 305,000	\$ -	\$(70,000)	\$ 235,000	\$ 75,000
2009 Bond	490,644	-	(8,450)	482,194	8,762
2014 Bond	4,860,000	-	(155,000)	4,705,000	155,000
Capital Outlay Note -TML	145,665	-	(117,000)	28,665	28,665
Compensated absences	<u>55,698</u>	<u>8,515</u>	<u>-</u>	<u>64,213</u>	<u>12,842</u>
 Total	 <u>\$ 5,857,007</u>	 <u>\$ 8,515</u>	 <u>\$(350,450)</u>	 5,515,072	 <u>\$ 280,269</u>
Less: current portion of water and sewer long-term debt				<u>(280,269)</u>	
Total water and sewer long-term debt				<u>\$ 5,234,803</u>	

Interest paid during the year ended June 30, 2016, on water and sewer long-term debt was \$189,102.

NOTE 11 - LONG-TERM DEBT (Continued)

B. Business-Type Debt Payable (Continued)

Water and Sewer Fund (Continued)

Water and Sewer debt service requirements to maturity, including interest of \$2,553,980 are as follows:

Year ended June 30	Principal	Interest	Total Requirements
2017	\$ 267,427	\$ 181,366	\$ 448,793
2018	249,073	174,950	424,023
2019	254,396	168,347	422,743
2020	174,730	161,633	336,363
2021	180,076	157,575	337,651
2022-2026	971,019	718,863	1,689,882
2027-2031	1,136,716	555,214	1,691,930
2032-2036	1,264,453	332,715	1,597,168
2037-2041	814,625	88,155	902,780
2042-2046	112,693	14,687	127,380
2047	<u>25,651</u>	<u>475</u>	<u>26,126</u>
	<u>\$ 5,450,859</u>	<u>\$ 2,553,980</u>	<u>\$ 8,004,839</u>

Note: The above debt service requirements schedule does not include compensated absences.

Natural Gas Fund

Long-term debt, payable by the Natural Gas Fund, which consists of revenue bonds and compensated absences, is summarized as follows:

	Principal Balance
Natural gas revenue bond, Series 1964, 5.25%, matured and unrepresented	\$ 63,000
Natural gas revenue and tax bond, Series 2007, 3.625% to 4.000%, due 2025	1,530,000
Compensated absences	<u>34,564</u>
	1,627,564
Less: current portion of natural gas long-term debt	<u>(151,912)</u>
Total natural gas long-term debt	<u>\$ 1,475,652</u>

A summary of changes in natural gas long-term debt for the year ended June 30, 2016, are as follows:

	Balance July 1, 2015	Additions	Retirements	Balance June 30, 2016	Amount Due Within One Year
1964 Bond	\$ 63,000	\$ -	\$ -	\$ 63,000	\$ -
2007 Bond	1,675,000	-	(145,000)	1,530,000	145,000
Compensated absences	<u>21,937</u>	<u>12,627</u>	<u>-</u>	<u>34,564</u>	<u>6,912</u>
	<u>\$ 1,759,937</u>	<u>\$ 12,627</u>	<u>\$ (145,000)</u>	<u>1,627,564</u>	<u>\$ 151,912</u>

Less: current portion of natural gas long-term debt (151,912)

Total natural gas long-term debt \$ 1,475,652

Interest paid during the year ended June 30, 2016, on natural gas long-term debt was \$63,884.

NOTE 11 - LONG-TERM DEBT (Continued)

B. Business-Type Debt Payable (Continued)

Natural Gas Fund (Continued)

Natural gas debt service requirements to maturity, including interest of \$320,617 are as follows:

Year ended <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2017	\$ 145,000	\$ 60,307	\$ 205,307
2018	150,000	54,943	204,943
2019	155,000	49,167	204,167
2020	160,000	43,200	203,200
2021	165,000	36,800	201,800
2022-2025	<u>755,000</u>	<u>76,200</u>	<u>831,200</u>
Total	\$ 1,530,000	\$ 320,617	\$ 1,850,617

Note: Future debt service requirements for the Series 1964 issue are not available due to the unknown location of the matured but unrepresented bonds. Also, the above debt service requirements schedule does not include compensated absences.

NOTE 12 - LANDFILL CLOSURE AND POST-CLOSURE COSTS

The City of Dunlap is in a joint venture with the City of Pikeville, Bledsoe County, and Sequatchie County in the Sequatchie/Bledsoe County Landfill. The City of Dunlap shares in the closure and post-closure costs in a ratio equal to the proportion that the City's population bears to the total population of the county. The landfill stopped accepting waste in May of 1999 and concluded closure in November of 2003.

Rules established by the federal Environmental Protection Agency and the Tennessee Solid Waste Management Act of 1991 require municipalities operating landfills in Tennessee to be financially responsible for certain closure and post-closure care costs.

Closure and post-closure care costs include:

- The cost of equipment expected to be installed and facilities expected to be constructed near or after the date the landfill stops accepting waste and during the post-closure period.
- The costs of final cover expected to be applied near or after the closure date.
- The costs of monitoring and maintaining the expected usable landfill areas during the post-closure period. Statement No. 18, *Accounting for Solid Waste Landfill Closure and Post-closure Care Costs*, issued by the Government Accounting Standards Board, requires governments to accrue a liability for these closure and post-closure care costs. This liability represents a proportionate share of estimated total current cost of closure and post-closure care. The liability is based on the cost to provide the required care on the date of the financial statements. The amount accrued each period is determined using the depletion method based on the percentage of landfill capacity used during the period. Estimates of closure and post-closure care costs are recalculated each year to reflect the effects of general inflation/deflation, changes in the landfill's closure or post-closure care plan and for changes in operating conditions such as technology or changes in applicable laws or regulations.

NOTE 12 - LANDFILL CLOSURE AND POST-CLOSURE COSTS (Continued)

The estimated total current cost of closure and post-closure care of the Sequatchie/Bledsoe County Landfill is \$178,465. The City of Dunlap's share of the estimated total current cost of closure and post-closure, based upon population percentages, would be 21.5%, or \$38,370. This amount has been recorded as a liability in the Statement of Net Position.

The landfill stopped accepting waste in May, 1999 and concluded closure in November, 2003.

NOTE 13 - NET PENSION LIABILITY

Net pension liability at June 30, 2016, consists of the following:

Net pension liability at June 30, 2015	\$ 804,387
Employer contributions made during 2015	(236,690)
Pension expense	93,083
Actuarial experience different than assumption	(84,164)
Amortization of actuarial experience	(9,131)
Investment earnings greater than assumption	186,178
Amortization of investment earnings	<u>26,276</u>
Total	<u>\$ 779,939</u>

NOTE 14 - DEFERRED REVENUE - PROPERTY TAXES

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds as deferred inflows were as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Property taxes	<u>\$ 75,434</u>	<u>\$ 671,092</u>	<u>\$ 746,526</u>

Funds that are earned, but not available, are realized as revenue under GASB #33.

NOTE 15 - DEFERRED INFLOWS RELATED TO PENSIONS

Deferred inflows related to pension at June 30, 2016, consists of the following:

Balance as of June 30, 2015	\$ 254,050
Deferred inflows for actuarial experience	84,164
Amortization of deferred inflows for investment earnings	(63,512)
Amortization of deferred inflows for actuarial experience	<u>(10,521)</u>
Total	<u>\$ 264,181</u>

NOTE 16 - NET POSITION RESTRICTIONS

The City can restrict net position to be maintained for specific purposes. The nature and purpose of these are explained as follows:

State street aid funds in the amount of \$295,274 are legally restricted for state street aid expenditures.

Drug funds in the amount of \$19,294 are legally restricted for non-recurring police expenditures.

Debt service funds in the amount of \$44,592 are legally restricted for the payment of principal and interest on long-term debt.

NOTE 17 - FUND BALANCES

Fund balances are as follows:

Restricted: \$295,274 is legally restricted for state street aid expenditures, \$19,294 is legally restricted for non-recurring police expenditures and \$44,592 is legally restricted for the payment of principal and interest on long-term debt.

Unassigned: In accordance with generally accepted accounting principles, the General Fund is the only fund at the City that reports amounts for unassigned fund balance. This classification represents fund balance that is not nonspendable and has not been committed to specific purposes within the General Fund.

NOTE 18 - TRANSFERS

Interfund operating transfers for the current year were as follows:

<u>Transfers to:</u>	<u>Transfers from:</u>
	<u>General</u>
Solid Waste Fund	\$ 33,515
Debt Service Fund	195,000
Total	<u>\$228,515</u>

General funds were transferred to the Solid Waste Fund and Debt Service Fund for the payment of principal and interest on long-term debt.

NOTE 19 - 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:

The governmental fund balance includes a reconciliation between fund balance - total governmental funds, and net position - government activities as reported in the government-wide Statement of Net Position. One element of that reconciliation explains that, "Long-term liabilities, including notes payable, bonds payable, compensated absences, and landfill closure and post-closure costs are not due and payable in the current period and, therefore, are not reported in the funds". The details of this \$(610,474) difference are as follows:

Bonds payable	\$(456,018)
Notes payable	(8,085)
Landfill post-closure liability - estimate	(38,370)
Compensated absences	<u>(108,001)</u>
Net adjustment	<u><u>\$(610,474)</u></u>

Another element of that reconciliation states that, "Pension liabilities, including deferred inflows and deferred outflows, are not due and payable in the current period and, therefore, are not reported in the funds." The details of this \$(290,934) difference are as follows:

Deferred outflows related to pensions	\$ 283,331
Net pension liability	(428,967)
Deferred inflows related to pensions	<u>(145,298)</u>
Net adjustment	<u><u>\$(290,934)</u></u>

Explanation of certain differences between the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances and the government-wide Statement of Activities:

The governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances includes a reconciliation between net changes in fund balances for total governmental funds and changes in net position of governmental activities as reported in the government-wide Statement of Activities. One element of that reconciliation explains that, "Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense". The details of this \$447,010 difference are as follows:

Depreciation expense	\$(210,723)
Capital outlay	<u>657,733</u>
Net adjustment	<u><u>\$ 447,010</u></u>

Another element of that reconciliation states that, "Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position". The details of this \$196,399 difference are as follows:

TML - 1999 bond	\$ 33,000
Landfill post-closure cost	2,399
2002 TML bond	<u>161,000</u>
Net adjustment	<u><u>\$ 196,399</u></u>

NOTE 19 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

Another element of that reconciliation states that, "Pension expense for the prior year is not reported in the governmental funds but is reported in the Statement of Activities. Current year pension contributions are reported as an expense in the governmental funds but are not reported in the Statement of Activities." The details of this \$87,230 difference are as follows:

Pension expense	\$ (51,196)
Contributions	136,561
Actual versus estimate	<u>1,865</u>
Net adjustment	<u>\$ 87,230</u>

NOTE 20 - RISK MANAGEMENT POOL

The City is exposed to various risk of loss related to torts, errors and omissions, damages to assets, and injuries to employees. The City has joined the Tennessee Municipal League Risk Management Pool (TML). The membership allows the City to share liability, motor vehicle, and employee injury risks.

The TML Risk Management Pool is a governmental entity organized by Tennessee cities as a not-for-profit corporation to provide liability and workers' compensation coverage to Tennessee cities. Emphasis is on risk management and controlling losses, as all costs are shared by the Pool member cities. An extensive program of loss prevention, employee training, and legal counsel supplements experienced claims processing for member cities.

Coverages are as follows:

Buildings and personal property	\$ 28,517,934
Workmen's compensation	\$ 300,000 per accident
	\$ 700,000 policy limit
	\$ 300,000 per person
General/personal injury liability	\$ 300,000 per person
	\$ 700,000 per occurrence
	\$ 100,000 per property
	\$ 1,000,000 each other loss - per occurrence
Automobile liability	\$ 300,000 per person
	\$ 700,000 per occurrence
	\$ 100,000 per property

NOTE 20 - RISK MANAGEMENT POOL (Continued)

The responsibilities of the City are as follows:

To pay all contributions or other sums due to TML at such times and in such amounts as shall be established by TML.

To allow TML and its agents reasonable access to all facilities of the City and all records, including but not limited to financial records, which relate to the purposes of TML during the coverage period and up to (3) three years afterward.

To allow attorneys appointed by TML to represent the City in investigation, settlement discussions and all levels of litigation arising out of any claim made against the City within the scope of loss protection furnished by TML.

To assist and cooperate in the defense and settlement of claims against the City.

To furnish full cooperation to TML's attorneys, claims adjusters, and any agent, employee, officer or independent contractor of TML relating to the purposes of TML.

To follow all loss reduction and prevention procedures established by TML where possible.

To furnish to TML such operating and underwriting information as may be requested.

To report as promptly as possible, and in accordance with any conditions issued, all incidents which could result in TML being required to pay claim for loss or injuries to municipal property or injuries to persons or property when such loss or injury is within the scope of the protection in which the City participates.

To allow TML to inspect and appraise any damaged property before its repair or disposition.

The City must cooperate with the pool in any dispute resolutions with other insurance companies.

The responsibilities of TML are as follows:

TML will defend any suit against the City or covered party seeking damages even if any of the allegations of the suit are groundless, false, or fraudulent.

TML's duty to pay on behalf of or to indemnify a covered party other than the City does not apply to any act, error or omission:

- (1) That constitutes malfeasance in office;
- (2) That constitutes willful and wanton neglect of duty;
- (3) That constitutes dishonesty on the part of a covered party; or
- (4) That constitutes the willful violation of a statute or ordinance by any official, employee, or agent of the municipality.

The City has not compiled a record of the claims paid up to the applicable deductible for the prior or current fiscal year. The City is not aware of any claims which the City is liable for (up to the applicable deductible) which were outstanding and unpaid at June 30, 2016. No provision has been made in the financial statements for the year ended June 30, 2016, for any estimate of potential unpaid claims.

NOTE 21 - COMMERCIAL INSURANCE

It is the policy of the City to purchase commercial insurance for various risks of losses to which it is exposed. These risks include accident and employee health. Other risks of losses are covered under a risk management pool. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE 22 - MATERIAL COMPLIANCE WITH FINANCE RELATED LEGAL AND CONTRACTUAL PROVISIONS

The City's Drug Fund had expenditures that exceeded the amount budgeted by \$18,638.

NOTE 23 - EMPLOYEE PENSION PLAN

General Information about the Pension Plan

Plan description

Employees of Dunlap are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the TCRS. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits provided

Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Members are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Reduced benefits for early retirement are available at age 55 and vested. Members vest with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

Employees covered by benefit terms

At the measurement date of June 30, 2015, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	14
Inactive employees entitled to but not yet receiving benefits	34
Active employees	<u>42</u>
	<u>90</u>

NOTE 23 - EMPLOYEE PENSION PLAN (Continued)

General Information about the Pension Plan (Continued)

Contributions

Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5 percent of salary. Dunlap makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2015, the Actuarial Determined Contribution (ADC) for Dunlap was \$236,690 based on a rate of 12.74 percent of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept Dunlap's state shared taxes if required employer contributions are not remitted. The employer's ADC and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Liability (Asset)

Dunlap's net pension liability (asset) was measured as of June 30, 2015, and the total pension liability used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date.

Actuarial assumptions

The total pension liability as of June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of pension plan investment expenses, including inflation
Cost-of-living adjustment	2.5 percent

Mortality rates were based on actual experience from the June 30, 2012 actuarial experience study adjusted for some of the expected future improvement in life expectancy.

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

NOTE 23 - EMPLOYEE PENSION PLAN (Continued)

Net Pension Liability (Asset) (Continued)

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

<u>Asset class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation</u>
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

Discount rate

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from Dunlap will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE 23 - EMPLOYEE PENSION PLAN (Continued)

Changes in the Net Pension Liability (Asset)

	Increase (Decrease)		
	Total Pension Liability (Asset)	Plan Fiduciary Net Position	Net Pension Liability (Asset)
	(a)	(b)	(a) - (b)
Balances at 6/30/14	\$ 4,968,832	\$ 4,164,445	\$ 804,387
Changes for the year:			
Service cost	142,045	-	142,045
Interest	374,617	-	374,617
Differences between expected and actual experience	(84,164)	-	(84,164)
Contributions - employer	-	236,690	(236,690)
Contributions - employees	-	92,893	(92,893)
Net investment income	-	129,728	(129,728)
Benefit payments, including refunds of employee contributions	(231,956)	(231,956)	-
Administrative expense	-	(2,365)	2,365
Other changes	-	-	-
Net changes	200,542	224,990	(24,448)
Balances at 6/30/15	\$ 5,169,374	\$ 4,389,435	\$ 779,939

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

The following presents the net pension liability (asset) of Dunlap calculated using the discount rate of 7.5 percent, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Dunlap's net pension liability (asset)	\$ 1,528,361	\$ 779,939	\$ 157,169

NOTE 23 - EMPLOYEE PENSION PLAN (Continued)

Changes in the Net Pension Liability (Asset) (Continued)

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

Pension expense

For the year ended June 30, 2016, Dunlap recognized pension expense of \$93,083.

Deferred outflows of resources and deferred inflows of resources

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actuarial experience	\$ 117,914	\$ 73,643
Net difference between projected and actual earnings on pension plan investments	148,942	190,538
Contributions subsequent to the measurement date of June 30, 2015	<u>248,293</u>	<u>(not applicable)</u>
Total	<u>\$ 515,149</u>	<u>\$ 264,181</u>

The amount shown above for "Contributions subsequent to the measurement date of June 30, 2015," will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:

2017	\$ (17,145)
2018	\$ (17,145)
2019	\$ (17,145)
2020	\$ 46,367
2021	\$ 9,131
Thereafter	\$ (1,390)

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

Payable to the Pension Plan

At June 30, 2016, Dunlap reported a payable of \$19,925 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2016.

NOTE 24 - LITIGATION AND CLAIMS

City management is not aware of any litigation or claims that would be material to the City's financial statements.

NOTE 25 - CONTINGENCIES

The City of Dunlap is currently executing a corrective action plan for the removal and clean-up of underground fuel storage tanks on city property as approved by the Tennessee Department of Environmental and Conservation Division of Underground Storage Tanks. The fuel tanks and 117 tons of contaminated soil have been successfully removed. As of June 30, 2016, the property currently has 10 monitoring wells in place as part of the ground water corrective action system. These wells will be monitored for ground water contamination, and the appropriate clean-up method will be implemented if necessary.

NOTE 26 - DEFINED CONTRIBUTION PLAN

The City of Dunlap offers a 457(b) defined contribution plan to its employees. Employees can invest money where pretax funds accumulate on a tax-deferred basis.

REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A

CITY OF DUNLAP, TENNESSEE
Schedule of Changes in Dunlap's Net Position Liability (Asset) and Related Ratios
Based on Participation in the Public Employee Pension Plan of TCRS
June 30, 2016

Last Fiscal Year Ending June 30

	<u>2014</u>	<u>2015</u>
<u>Total pension liability (asset)</u>		
Service cost	\$ 137,855	\$ 142,045
Interest	339,302	374,617
Changes in benefit terms	-	-
Differences between actual and expected experience	157,218	(84,164)
Change of assumptions	-	-
Benefit payments, including refunds of employee contributions	(103,422)	(231,956)
Net change in total pension liability (asset)	530,953	200,542
Total pension liability (asset) - beginning	4,437,879	4,968,832
Total pension liability (asset) - ending (a)	<u>\$ 4,968,832</u>	<u>\$ 5,169,374</u>
 <u>Plan fiduciary net position</u>		
Contributions - employer	\$ 224,294	\$ 236,690
Contributions - employee	91,103	92,893
Net investment income	578,616	129,728
Benefit payments, including refunds of employee contributions	(103,422)	(231,956)
Administrative expense	(1,758)	(2,365)
Other	-	-
Net change in plan fiduciary net position	788,833	224,990
Plan fiduciary net position - beginning	3,375,612	4,164,445
Plan fiduciary net position - ending (b)	<u>\$ 4,164,445</u>	<u>\$ 4,389,435</u>
 Net Pension Liability (asset) - ending (a) - (b)	<u>\$ 804,387</u>	<u>\$ 779,939</u>
 Plan fiduciary net position as a percentage of total pension liability	83.81%	84.91%
 Covered payroll	\$ 1,822,045	\$ 1,857,854
 Net pension liability (asset) as a percentage of covered payroll	44.15%	41.98%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

CITY OF DUNLAP, TENNESSEE
Schedule of Dunlap's Contributions Based on Participation
in the Public Employee Pension Plan of TCRS
June 30, 2016

Last Fiscal Year Ending June 30

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Actuarially determined contribution	\$ 224,294	\$ 236,690	\$ 248,293
Contributions in relation to the actuarially determined contribution	<u>224,294</u>	<u>236,690</u>	<u>248,293</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 1,822,045	\$ 1,857,854	\$ 1,948,876
Contributions as a percentage of covered payroll	12.31%	12.74%	12.74%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

CITY OF DUNLAP, TENNESSEE
Schedule of Dunlap's Contributions Based on Participation
in the Public Employee Pension Plan of TCRS (Continued)
June 30, 2016

Notes to Schedule

Valuation date: Actuarially determined contribution rates for 2016 were calculated based on the July 1, 2013 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Frozen initial liability
Amortization method	Level dollar, closed (not to exceed 20 years)
Remaining amortization period	8 years
Asset valuation	10-year smoothed within a 20 percent corridor to market value
Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation
Investment rate of return	7.5 percent, net of investment expense, including inflation
Retirement age	Pattern of retirement determined by experience study
Mortality	Customized table based on actual experience including an adjustment for some anticipated improvement
Cost of living adjustment	2.5 percent

OTHER SUPPLEMENTARY INFORMATION

NON-MAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Drug Fund:

This fund is used to account for investigation of violations of controlled substance laws and is funded primarily by the state statute from the receipt of fines and costs related to drug enforcement cases.

Debt Service Funds

Debt Service:

This fund is used to account for funds accumulated and used for the payment of governmental funds debt.

CITY OF DUNLAP, TENNESSEE
Non-major Governmental Funds
Combining Balance Sheet
June 30, 2016

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Total</u>
	<u>Drug</u>	<u>Debt Service</u>	<u>Non-major</u>
	<u>Fund</u>	<u>Funds</u>	<u>Governmental</u>
			<u>Funds</u>
ASSETS			
Cash	\$ 19,294	\$ 14,592	\$ 33,886
Investments	<u>-</u>	<u>30,000</u>	<u>30,000</u>
TOTAL ASSETS	<u>\$ 19,294</u>	<u>\$ 44,592</u>	<u>\$ 63,886</u>
 FUND BALANCES			
 Fund Balances			
Restricted	<u>\$ 19,294</u>	<u>\$ 44,592</u>	<u>\$ 63,886</u>
TOTAL FUND BALANCES	<u>\$ 19,294</u>	<u>\$ 44,592</u>	<u>\$ 63,886</u>

CITY OF DUNLAP, TENNESSEE
Non-major Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended June 30, 2016

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Total</u>
	<u>Drug</u>	<u>Debt Service</u>	<u>Non-major</u>
	<u>Fund</u>	<u>Funds</u>	<u>Governmental</u>
			<u>Funds</u>
REVENUES			
Fines and forfeitures	\$ 37,301	\$ -	\$ 37,301
Other revenues	<u>152</u>	<u>12</u>	<u>164</u>
TOTAL REVENUES	<u>37,453</u>	<u>12</u>	<u>37,465</u>
EXPENDITURES			
Current expenditures			
General government	-	5,479	5,479
Public safety	4,783	-	4,783
Capital outlay	54,355	-	54,355
Debt service	<u>-</u>	<u>195,615</u>	<u>195,615</u>
TOTAL EXPENDITURES	<u>59,138</u>	<u>201,094</u>	<u>260,232</u>
Excess (deficiency) of revenues over (under) expenditures	(21,685)	(201,082)	(222,767)
OTHER FINANCING SOURCES (USES)			
Transfers in	<u>-</u>	<u>195,000</u>	<u>195,000</u>
Net changes in fund balances	(21,685)	(6,082)	(27,767)
Fund balances - beginning	<u>40,979</u>	<u>50,674</u>	<u>91,653</u>
Fund balances - end	<u>\$ 19,294</u>	<u>\$ 44,592</u>	<u>\$ 63,886</u>

CITY OF DUNLAP, TENNESSEE
Drug Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Year Ended June 30, 2016

	Budgeted Amounts			
	Original	Final	Actual	Variance
REVENUES				
Fines and forfeitures				
Court fines	\$ 7,400	\$ 7,400	\$ 37,301	\$ 29,901
Other revenues				
Miscellaneous	17,500	17,500	65	(17,435)
Interest	-	-	87	87
Total other revenues	17,500	17,500	152	(17,348)
TOTAL REVENUES	24,900	24,900	37,453	12,553
EXPENDITURES				
Current expenditures				
Public safety				
Drug enforcement	8,500	8,500	4,783	3,717
Capital outlay	32,000	32,000	54,355	(22,355)
TOTAL EXPENDITURES	40,500	40,500	59,138	(18,638)
Excess (deficiency) of revenues over (under) expenditures	(15,600)	(15,600)	(21,685)	(6,085)
Fund balances - beginning	40,979	40,979	40,979	-
Fund balances - end	\$ 25,379	\$ 25,379	\$ 19,294	\$ (6,085)

CITY OF DUNLAP, TENNESSEE
Debt Service Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Year Ended June 30, 2016

	Budgeted Amounts			
	Original	Final	Actual	Variance
REVENUES				
Other revenues				
Interest	\$ 10	\$ 10	\$ 12	\$ 2
TOTAL REVENUES	<u>10</u>	<u>10</u>	<u>12</u>	<u>2</u>
EXPENDITURES				
Current expenditures				
General government				
Other fees and billing	<u>7,000</u>	<u>7,000</u>	<u>5,479</u>	<u>1,521</u>
Debt service				
Interest	4,042	4,042	1,615	2,427
Principal	<u>202,085</u>	<u>202,085</u>	<u>194,000</u>	<u>8,085</u>
Total debt service	<u>206,127</u>	<u>206,127</u>	<u>195,615</u>	<u>10,512</u>
TOTAL EXPENDITURES	<u>213,127</u>	<u>213,127</u>	<u>201,094</u>	<u>12,033</u>
Excess (deficiency) of revenues over (under) expenditures	(213,117)	(213,117)	(201,082)	12,035
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>207,000</u>	<u>207,000</u>	<u>195,000</u>	<u>(12,000)</u>
Net changes in fund balances	(6,117)	(6,117)	(6,082)	35
Fund balances - beginning	<u>50,674</u>	<u>50,674</u>	<u>50,674</u>	<u>-</u>
Fund balances - end	<u>\$ 44,557</u>	<u>\$ 44,557</u>	<u>\$ 44,592</u>	<u>\$ 35</u>

FINANCIAL SCHEDULES

CITY OF DUNLAP, TENNESSEE
Schedule of Expenditures of Federal and State Awards
Year Ended June 30, 2016

<u>Federal Grantor/Pass - Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State Grant/Program Number</u>	<u>(Receivable) Deferred June 30, 2015</u>	<u>Grant/Loan Receipts</u>	<u>Grant/Loan Expenditures</u>	<u>(Receivable) Deferred June 30, 2016</u>
Federal						
Department of Justice						
Bureau of Justice Assistance	16.607	2013BUBX13067359	\$ -	\$ 2,070	\$ 2,070	\$ -
Bureau of Justice Assistance	16.708	2014-AM-WX-0004	-	151	151	-
Total Department of Justice			-	2,221	2,221	-
Department of Transportation						
Tennessee Department of Transportation -						
Alcohol Countermeasures	20.607	Z-15-GHS108	(10,636)	16,230	5,594	-
Alcohol Countermeasures	20.607	Z-14-GHS107	-	551	6,680	(6,129)
Streetscape	20.205	STP-EN-7700(17)	-	98,736	98,736	-
Coops Creek	20.205	STP-EN-7700(18)	-	92,997	142,423	(49,426)
Total Department of Transportation			(10,636)	208,514	253,433	(55,555)
Total Federal Awards			(10,636)	210,735	255,654	(55,555)
State						
Department of Environment and Conservation	-	32701-01857	(60,070)	60,070	-	-
Total State Awards			(60,070)	60,070	-	-
Total Federal and State Awards			\$ (70,706)	\$ 270,805	\$ 255,654	\$ (55,555)

CITY OF DUNLAP, TENNESSEE
Notes to the Schedule of Expenditures of Federal and State Awards
Year Ended June 30, 2016

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal and State Awards includes the federal and state grant activity of the City of Dunlap, Tennessee and is presented on the modified accrual basis of accounting.

CITY OF DUNLAP, TENNESSEE
Water and Sewer Fund
Schedule of Revenues, Expenses and Changes in Net Position - Budget and Actual
Year Ended June 30, 2016

	Budgeted Amounts			
	Original	Final	Actual	Variance
OPERATING REVENUES				
Water sales and sewer charges	\$ 2,191,500	\$ 2,191,500	\$ 1,794,466	\$ (397,034)
Customer penalties	2,500	2,500	1,207	(1,293)
Connection fees	42,500	42,500	37,977	(4,523)
Other operating	9,500	9,500	9,828	328
Total operating revenues	<u>2,246,000</u>	<u>2,246,000</u>	<u>1,843,478</u>	<u>(402,522)</u>
OPERATING EXPENSES				
Transmission and treatment	251,975	251,975	220,326	31,649
Operating and maintenance	1,088,341	1,088,341	748,993	339,348
Administration	456,135	456,135	353,353	102,782
Depreciation	-	-	614,046	(614,046)
Total operating expenses	<u>1,796,451</u>	<u>1,796,451</u>	<u>1,936,718</u>	<u>(140,267)</u>
Operating income (loss)	<u>449,549</u>	<u>449,549</u>	<u>(93,240)</u>	<u>(542,789)</u>
NON-OPERATING REVENUES (EXPENSES)				
Interest revenue	900	900	1,376	476
Interest expense	<u>(538,337)</u>	<u>(538,337)</u>	<u>(189,102)</u>	<u>349,235</u>
Total non-operating revenues (expenses)	<u>(537,437)</u>	<u>(537,437)</u>	<u>(187,726)</u>	<u>349,711</u>
Changes in net position	(87,888)	(87,888)	(280,966)	(193,078)
Net position - beginning	<u>7,476,086</u>	<u>7,476,086</u>	<u>7,476,086</u>	<u>-</u>
Net position - end	<u>\$ 7,388,198</u>	<u>\$ 7,388,198</u>	<u>\$ 7,195,120</u>	<u>\$ (193,078)</u>

CITY OF DUNLAP, TENNESSEE

Natural Gas Fund

**Schedule of Revenues, Expenses and Changes in Net Position - Budget and Actual
Year Ended June 30, 2016**

	Budgeted Amounts		Actual	Variance
	Original	Final		
OPERATING REVENUES				
Gas sales	\$ 2,305,000	\$ 2,305,000	\$ 1,468,210	\$ (836,790)
Customer penalties	2,500	2,500	1,681	(819)
Connection fees	15,400	15,400	11,650	(3,750)
Other operating	1,000	1,000	7,290	6,290
Total operating revenues	<u>2,323,900</u>	<u>2,323,900</u>	<u>1,488,831</u>	<u>(835,069)</u>
OPERATING EXPENSES				
Purchased gas	1,333,600	1,333,600	683,778	649,822
Operating and maintenance	624,621	624,621	442,737	181,884
Administration	399,075	399,075	358,087	40,988
Depreciation	-	-	156,979	(156,979)
Total operating expenses	<u>2,357,296</u>	<u>2,357,296</u>	<u>1,641,581</u>	<u>715,715</u>
Operating income (loss)	<u>(33,396)</u>	<u>(33,396)</u>	<u>(152,750)</u>	<u>(119,354)</u>
NON-OPERATING REVENUES (EXPENSES)				
Interest revenue	1,650	1,650	1,971	321
Interest expense	(210,673)	(210,673)	(63,884)	146,789
Total non-operating revenues (expenses)	<u>(209,023)</u>	<u>(209,023)</u>	<u>(61,913)</u>	<u>147,110</u>
Changes in net position	(242,419)	(242,419)	(214,663)	27,756
Net position - beginning	<u>1,022,266</u>	<u>1,022,266</u>	<u>1,022,266</u>	<u>-</u>
Net position - end	<u>\$ 779,847</u>	<u>\$ 779,847</u>	<u>\$ 807,603</u>	<u>\$ 27,756</u>

CITY OF DUNLAP, TENNESSEE
General Fund
Schedule of Property Taxes Receivable
June 30, 2016

Year of Levy

2016	\$ 671,092
2015	54,459
2014	19,584
2013	14,443
2012	8,647
2011	2,353
2010	3,041
2009	432
2008	332
2007	<u>905</u>
	775,288
Less allowance for uncollectible	<u>(23,629)</u>
Property taxes receivable - net	<u>\$ 751,659</u>

CITY OF DUNLAP, TENNESSEE
General Fund
Schedule of Changes in Property Taxes Receivable
Year Ended June 30, 2016

	Taxes Receivable July 1, 2015	Taxes Levied	Pickups	Releases	Collections	Taxes Receivable June 30, 2016
2016	\$ -	\$ 671,092	\$ -	\$ -	\$ -	\$ 671,092
2015	675,794	-	1,432	-	(622,767)	54,459
2014	53,680	-	-	-	(34,096)	19,584
2013	27,569	-	-	-	(13,126)	14,443
2012	17,622	-	-	-	(8,975)	8,647
2011	4,041	-	-	-	(1,688)	2,353
2010	4,083	-	-	-	(1,042)	3,041
2009	432	-	-	-	-	432
2008	332	-	-	-	-	332
2007	905	-	-	-	-	905
2006	585	-	-	(585)	-	-
	<u>\$ 785,043</u>	<u>\$ 671,092</u>	<u>\$1,432</u>	<u>\$ (585)</u>	<u>\$ (681,694)</u>	<u>\$ 775,288</u>

CITY OF DUNLAP, TENNESSEE
Governmental Funds
Schedule of Debt Service Requirements
June 30, 2016

TML 1999
0.27%

<u>Maturing June 30, 2017</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
	<u>\$ 8,085</u>	<u>\$ 21</u>	<u>\$ 8,106</u>
Total	<u>\$ 8,085</u>	<u>\$ 21</u>	<u>\$ 8,106</u>

CITY OF DUNLAP, TENNESSEE
Governmental Funds
Schedule of Debt Service Requirements
June 30, 2016

LANDFILL POST-CLOSURE LIABILITY - ESTIMATE

<u>Maturing</u> <u>June 30,</u>	<u>Total</u> <u>Requirements</u>
2017	\$ 2,399
2018	2,399
2019	2,399
2020	2,399
2021	2,399
2022	2,399
2023	2,399
2024	2,399
2025	2,399
2026	2,399
2027	2,399
2028	2,399
2029	2,399
2030	2,399
2031	2,399
2032	<u>2,385</u>
Total	<u>\$ 38,370</u>

CITY OF DUNLAP, TENNESSEE
Governmental Funds
Schedule of Debt Service Requirements
June 30, 2016

TENNESSEE MUNICIPAL BONDS
SERIES 2002 AT 0.28%

<u>Maturing June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2017	\$ 165,000	\$ 1,277	\$ 166,277
2018	170,000	815	170,815
2019	<u>121,018</u>	<u>339</u>	<u>121,357</u>
Total	<u>\$ 456,018</u>	<u>\$ 2,431</u>	<u>\$ 458,449</u>

CITY OF DUNLAP, TENNESSEE
Water and Sewer Fund
Schedule of Debt Service Requirements
June 30, 2016

WATER AND SEWER REFUNDING BONDS
SERIES 2007 AT 3.65% TO 3.85%

<u>Maturing June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2017	\$ 75,000	\$ 9,047	\$ 84,047
2018	80,000	6,160	86,160
2019	<u>80,000</u>	<u>3,080</u>	<u>83,080</u>
Total	<u>\$ 235,000</u>	<u>\$ 18,287</u>	<u>\$ 253,287</u>

CITY OF DUNLAP, TENNESSEE
Water and Sewer Fund
Schedule of Debt Service Requirements
June 30, 2016

WATER AND SEWER REVENUE AND TAX BOND
SERIES 2009 AT 3.50%

<u>Maturing June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2017	\$ 8,762	\$ 16,714	\$ 25,476
2018	9,073	16,403	25,476
2019	9,396	16,080	25,476
2020	9,730	15,746	25,476
2021	10,076	15,400	25,476
2022	10,435	15,041	25,476
2023	10,806	14,670	25,476
2024	11,190	14,286	25,476
2025	11,588	13,888	25,476
2026	12,000	13,476	25,476
2027	12,427	13,049	25,476
2028	12,869	12,607	25,476
2029	13,327	12,149	25,476
2030	13,801	11,675	25,476
2031	14,292	11,184	25,476
2032	14,800	10,676	25,476
2033	15,326	10,150	25,476
2034	15,871	9,605	25,476
2035	16,436	9,040	25,476
2036	17,020	8,456	25,476
2037	17,626	7,850	25,476
2038	18,253	7,223	25,476
2039	18,902	6,574	25,476
2040	19,574	5,902	25,476
2041	20,270	5,206	25,476
2042	20,991	4,485	25,476
2043	21,738	3,738	25,476
2044	22,511	2,965	25,476
2045	23,312	2,164	25,476
2046	24,141	1,335	25,476
2047	<u>25,651</u>	<u>475</u>	<u>26,126</u>
Total	<u>\$ 482,194</u>	<u>\$ 308,212</u>	<u>\$ 790,406</u>

CITY OF DUNLAP, TENNESSEE
Water and Sewer Fund
Schedule of Debt Service Requirements
June 30, 2016

WATER AND SEWER GENERAL OBLIGATION REFUNDING BONDS
SERIES 2014 AT 2.0% TO 4.0%

<u>Maturing June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2017	\$ 155,000	\$ 155,487	\$ 310,487
2018	160,000	152,387	312,387
2019	165,000	149,187	314,187
2020	165,000	145,887	310,887
2021	170,000	142,175	312,175
2022	175,000	138,350	313,350
2023	180,000	134,413	314,413
2024	180,000	130,363	310,363
2025	185,000	124,963	309,963
2026	195,000	119,413	314,413
2027	200,000	113,075	313,075
2028	205,000	106,575	311,575
2029	215,000	99,400	314,400
2030	220,000	91,875	311,875
2031	230,000	83,625	313,625
2032	235,000	75,000	310,000
2033	245,000	66,188	311,188
2034	225,000	57,000	282,000
2035	235,000	48,000	283,000
2036	245,000	38,600	283,600
2037	255,000	28,800	283,800
2038	265,000	18,600	283,600
2039	<u>200,000</u>	<u>8,000</u>	<u>208,000</u>
Total	<u>\$4,705,000</u>	<u>\$2,227,363</u>	<u>\$ 6,932,363</u>

CITY OF DUNLAP, TENNESSEE
Water and Sewer Fund
Schedule of Debt Service Requirements
June 30, 2016

WATER AND SEWER TML CAPITAL OUTLAY NOTE
0.41%

<u>Maturing June 30, 2017</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
	<u>\$ 28,665</u>	<u>\$ 118</u>	<u>\$ 28,783</u>
 Total	 <u>\$ 28,665</u>	 <u>\$ 118</u>	 <u>\$ 28,783</u>

CITY OF DUNLAP, TENNESSEE
Natural Gas Fund
Schedule of Debt Service Requirements
June 30, 2016

NATURAL GAS REVENUE BONDS
SERIES 1964 AT 5.25% (1)

<u>Due Date</u>	<u>Numbers</u>	<u>Total Requirements</u>
01/01/70	# 10-19	\$ 10,000
01/01/71	# 20-29	10,000
01/01/72	# 30-36	7,000
01/01/77	# 99-116	18,000
01/01/78	# 117-134	<u>18,000</u>
		<u>\$ 63,000</u>

(1) The location and owners of the bond numbers listed above are unknown, and they are still outstanding as of June 30, 2016.

CITY OF DUNLAP, TENNESSEE
Natural Gas Fund
Schedule of Debt Service Requirements
June 30, 2016

NATURAL GAS REVENUE AND TAX BONDS
SERIES 2007 AT 3.625% TO 4.000%

<u>Maturing June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2017	\$ 145,000	\$ 60,307	\$ 205,307
2018	150,000	54,943	204,943
2019	155,000	49,167	204,167
2020	160,000	43,200	203,200
2021	165,000	36,800	201,800
2022	185,000	30,200	215,200
2023	185,000	22,800	207,800
2024	190,000	15,400	205,400
2025	<u>195,000</u>	<u>7,800</u>	<u>202,800</u>
Total	<u>\$ 1,530,000</u>	<u>\$ 320,617</u>	<u>\$ 1,850,617</u>

CITY OF DUNLAP, TENNESSEE
Proprietary Funds
Schedule of Operating Expenses
Year Ended June 30, 2016

	<u>Water and Sewer</u>	<u>Enterprise</u>	
	<u>Fund</u>	<u>Natural Gas</u>	<u>Totals</u>
OPERATING EXPENSES			
Purchased gas	\$ -	\$ 683,778	\$ 683,778
Transmission and treatment			
Power	161,450	-	161,450
Chemicals and treatment	58,876	-	58,876
Total transmission and treatment	<u>220,326</u>	<u>-</u>	<u>220,326</u>
Operating and maintenance			
Salaries	549,370	318,604	867,974
Gas franchise	-	6,858	6,858
Insurance	40,835	7,506	48,341
Meter repairs and purchases	-	12,112	12,112
Pipe, fittings, valves, etc.	65,010	41,149	106,159
Rent	18,000	18,000	36,000
Repairs and maintenance	48,070	13,092	61,162
Supplies	2,887	5,968	8,855
Training	7,623	2,732	10,355
Uniforms	165	1,527	1,692
Vehicle expense	17,033	15,189	32,222
Total operating and maintenance	<u>748,993</u>	<u>442,737</u>	<u>1,191,730</u>
Administration			
Salaries	39,747	122,687	162,434
Payroll taxes	44,612	27,942	72,554
Employee benefits	166,109	104,160	270,269
Advertising	171	13,212	13,383
Auditing and legal services	9,820	9,656	19,476
Inspection fees	5,840	-	5,840
Insurance	25,347	12,870	38,217
Miscellaneous	4,355	884	5,239
Office supplies	27,226	22,654	49,880
Other fees, billings and refunds	2,176	6,266	8,442
Professional services	13,445	23,751	37,196
Telephone	10,491	10,218	20,709
Travel	711	391	1,102
Utilities	3,303	3,396	6,699
Total administration	<u>353,353</u>	<u>358,087</u>	<u>711,440</u>
Depreciation	<u>614,046</u>	<u>156,979</u>	<u>771,025</u>
Total operating expenses	<u>\$ 1,936,718</u>	<u>\$ 1,641,581</u>	<u>\$ 3,578,299</u>

CITY OF DUNLAP, TENNESSEE
Tax Rates and Assessed Valuation Applicable to Last Ten Years and
Uncollected Delinquent Accounts
June 30, 2016

<u>Year of Levy</u>	<u>Per \$100</u>	<u>Values</u>	<u>Assessment</u>
2016	\$.762	\$88,069,785	\$671,092
2015	\$.762	\$88,874,803	\$677,226
2014	\$.762	\$85,835,694	\$654,068
2013	\$.762	\$86,954,593	\$662,594
2012	\$.762	\$85,383,734	\$650,624
2011	\$.73	\$91,199,589	\$665,757
2010	\$.73	\$90,388,588	\$659,837
2009	\$.73	\$94,511,197	\$689,932
2008	\$.73	\$97,401,604	\$711,032
2007	\$.99	\$70,090,202	\$693,893

NOTE: On July 1, 2016, the City of Dunlap approved the levy for the year ended June 30, 2016, for residents on record as of January 1, 2016. The 2016 levy was recorded as a receivable and deferred revenue for the year ended June 30, 2016.

UNCOLLECTED DELINQUENT ACCOUNTS

Delinquent taxes filed for collection by years are as follows:

<u>Year of Levy</u>	<u>Delinquent Taxes Filed</u>
2015	\$ 54,459
2014	19,584
2013	14,443
2012	8,647
2011	2,353
2010	3,041
2009	432
2008	332
2007	905
	<u>\$ 104,196</u>

CITY OF DUNLAP, TENNESSEE
Schedule of Municipal Utility Rates and Number of Customers
June 30, 2016

WATERWORKS

Number of customers 2,759

		Residential Inside City	Residential Outside
0	- 2,000 gallons (minimum bill)	\$ 17.00	\$ 27.00
Next	- 10,000 gallons	\$ 5.07 per/1,000	\$ 9.50 per/1,000
Over	10,000 gallons	\$ 3.83 per/1,000	\$ 8.00 per/1,000
		Commercial Inside City	Commercial Outside
0	- 2,000 gallons (minimum bill)	\$ 20.00	\$ 30.00
Next	- 10,000 gallons	\$ 5.07 per/1,000	\$ 9.50 per/1,000
Over	10,000 gallons	\$ 3.83 per/1,000	\$ 8.00 per/1,000
1	inch meter minimum bill (6,930 gal.)	\$ 49.00	\$ 76.84
1-1/2	inch meter minimum bill (13,330 gal.)	\$ 77.31	\$132.64
2	inch meter minimum bill (22,280 gal.)	\$ 111.59	\$204.24
4	inch meter minimum bill (22,280 gal.)	\$ 111.59	\$204.24

SEWER SYSTEM

Number of customers 857
 Residential - \$5.25 per/1,000 gallons
 Commercial - \$7.19 per/1,000 gallons

NATURAL GAS SYSTEM

Number of customers 2,100

Residential - \$5.00 minimum, \$1.06 per unit
 Commercial - \$10.00 minimum, \$1.10 per unit
 Industrial - \$25.00 minimum, \$0.746373 per unit
 Industrial sales to Pikeville - \$0.556076 per unit

CITY OF DUNLAP, TENNESSEE
Schedule of Insurance
June 30, 2016

<u>Description</u>	<u>Policy #</u>	<u>Policy Term</u>	<u>Coverage</u>
Buildings and personal property	TMP-4314-16	7-1-15/16	\$ 28,517,934
Workmen's compensation	TWC-0399-17	2-28-14/17	\$ 300,000 per accident \$ 700,000 policy limit \$ 300,000 per person
General/personal injury liability	TML-0409-16	1-7-15/16	\$ 300,000 per person \$ 700,000 per occurrence \$ 100,000 per property \$1,000,000 each other loss
Automobile liability	TML-0409-17	1-7-16/17	per occurrence \$ 300,000 per person \$ 700,000 per occurrence \$ 100,000 per property
Employee surety bonds		2015/2016	\$ 200,000 Recorder/Treasurer \$ 5,000 Bookkeeper, Judge/ Police Officers/ Cashiers/Mayor/ Vice-Mayor

CITY OF DUNLAP, TENNESSEE
Schedule of Unaccounted for Water
June 30, 2016

**AWWA Free Water Audit Software:
Reporting Worksheet**

Water Audit Report for: Dunlap Water System (0000205)
Reporting Year: 2016 7/2015 - 6/2016

All volumes to be entered as: MILLION GALLONS (US) PER YEAR

WATER SUPPLIED

Volume from own sources: 9 302.076 MG/Yr
Water imported: n/a 0.000 MG/Yr
Water exported: 8 7.104 MG/Yr

Master Meter and Supply Error Adjustments

Pcnt: Value: MG/Yr
 MG/Yr
 MG/Yr
Enter negative % or value for under-registration
Enter positive % or value for over-registration

WATER SUPPLIED: 294.972 MG/Yr

AUTHORIZED CONSUMPTION

Billed metered: 7 193.981 MG/Yr
Billed unmetered: n/a 0.000 MG/Yr
Unbilled metered: 10 0.000 MG/Yr
Unbilled unmetered: 3.687 MG/Yr

Pcnt: 1.25% Value: MG/Yr

Default option selected for Unbilled unmetered - a grading of 5 is applied but not displayed

AUTHORIZED CONSUMPTION: 197.668 MG/Yr

WATER LOSSES (Water Supplied - Authorized Consumption)

97.304 MG/Yr

Apparent Losses

Unauthorized consumption: 0.737 MG/Yr

Pcnt: 0.25% Value: MG/Yr

Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed

Customer metering inaccuracies: 8 1.959 MG/Yr
Systematic data handling errors: 0.485 MG/Yr

1.00% MG/Yr
0.25% MG/Yr

Default option selected for Systematic data handling errors - a grading of 5 is applied but not displayed

Apparent Losses: 3.182 MG/Yr

Real Losses (Current Annual Real Losses or CARL)

Real Losses = Water Losses - Apparent Losses: 94.122 MG/Yr

WATER LOSSES: 97.304 MG/Yr

NON-REVENUE WATER

NON-REVENUE WATER: 100.991 MG/Yr

= Water Losses + Unbilled Metered + Unbilled Unmetered

SYSTEM DATA

Length of mains: 8 142.0 miles
Number of active AND inactive service connections: 9 2,732
Service connection density: 19 conn./mile main

Are customer meters typically located at the curbstop or property line? Yes

Average length of customer service line has been set to zero and a data grading score of 10 has been applied

Average operating pressure: 3 95.0 psi

COST DATA

Total annual cost of operating water system: 10 \$1,473,668 \$/Year
Customer retail unit cost (applied to Apparent Losses): 10 \$7.62 \$/1000 gallons (US)
Variable production cost (applied to Real Losses): 10 \$/million gallons

WATER AUDIT DATA VALIDITY SCORE:

*** YOUR SCORE IS: 83 out of 100 ***

A weighted scale for the components of consumption and water loss is included in the calculation of the Water Audit Data Validity Score

PRIORITY AREAS FOR ATTENTION:

Based on the information provided, audit accuracy can be improved by addressing the following components:

- 1: Billed metered
- 2: Volume from own sources
- 3: Unauthorized consumption

CITY OF DUNLAP, TENNESSEE
Schedule of Unaccounted for Water (Continued)
June 30, 2016

AWWA Free Water Audit Software: WAS v5.0	
Audit Report for:	Dunlap Water System (0000205)
Reporting Year:	2016 7/2015 - 6/2016
<div style="text-align: center;"> *** YOUR WATER AUDIT DATA VALIDITY SCORE IS: 83 out of 100 *** </div>	
System Attributes:	
<div style="display: flex; justify-content: space-between;"> Apparent Losses: 3,182 MG/Yr </div>	
<div style="display: flex; justify-content: space-between;"> + Real Losses: 94,122 MG/Yr </div>	
<div style="display: flex; justify-content: space-between;"> = Water Losses: 97,304 MG/Yr </div>	
<div style="display: flex; justify-content: space-between;"> Unavoidable Annual Real Losses (UARL): 40.85 MG/Yr </div>	
<div style="display: flex; justify-content: space-between;"> Annual cost of Apparent Losses: \$24,245 </div>	
<div style="display: flex; justify-content: space-between;"> Annual cost of Real Losses: </div>	<div style="text-align: right;"> Valued at Variable Production Cost <small>Return to Reporting Worksheet to change this assumption</small> </div>
Performance Indicators:	
<div style="display: flex; justify-content: space-between;"> Non-revenue water as percent by volume of Water Supplied: 34.2% </div>	
<div style="display: flex; justify-content: space-between;"> Non-revenue water as percent by cost of operating system: 1.0% Real Losses valued at Variable Production Cost </div>	
<div style="display: flex; justify-content: space-between;"> Apparent Losses per service connection per day: 3.12 gallons/connection/day </div>	
<div style="display: flex; justify-content: space-between;"> Real Losses per service connection per day: 1.02 gallons/connection/day </div>	
<div style="display: flex; justify-content: space-between;"> Real Losses per length of main per day*: 1.01590 gallons/mile/day </div>	
<div style="display: flex; justify-content: space-between;"> Real Losses per service connection per day per psi pressure: N/A gallons/connection/day/psi </div>	
<div style="display: flex; justify-content: space-between;"> From Above, Real Losses = Current Annual Real Losses (CARL): 94,122 million gallons/year </div>	
<div style="display: flex; justify-content: space-between;"> Infrastructure Leakage Index (ILI) (CARL/UARL): 2.30 </div>	
<small>* This performance indicator applies for systems with a low service connection density of less than 32 service connections/mile of pipeline</small>	

1. The purpose of this section is to provide a clear and concise statement of the organization's internal control and compliance policies. This section should be updated regularly to reflect changes in the organization's structure, operations, and regulatory environment.

III. INTERNAL CONTROL AND COMPLIANCE SECTION

The Internal Control and Compliance Section is responsible for developing, implementing, and maintaining the organization's internal control and compliance policies. This section works closely with other departments to ensure that all activities are conducted in accordance with applicable laws, regulations, and organizational policies. The section also monitors and reports on the effectiveness of the internal control system.

A. Internal Control System

The Internal Control System is designed to ensure the reliability of financial reporting, the effectiveness of operations, and compliance with applicable laws and regulations. It consists of a series of policies and procedures that are implemented across the organization. The system is designed to identify and manage risks, prevent errors, and detect and correct any deficiencies.

The Internal Control System is based on the following principles: (1) The system should be designed to provide reasonable assurance of the achievement of the organization's objectives. (2) The system should be designed to be cost-effective. (3) The system should be designed to be flexible and adaptable to changes in the organization's structure, operations, and regulatory environment. (4) The system should be designed to be transparent and accountable.



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

Mayor and Commissioners
City of Dunlap, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Dunlap, Tennessee, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise City of Dunlap, Tennessee's basic financial statements and have issued our report thereon dated April 12, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as item 2016-001 through 2016-002 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Dunlap, Tennessee's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed two instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described in the accompanying Schedule of Findings and Responses as items 2016-003 through 2016-004.

City of Dunlap, Tennessee's Response to Findings

The City of Dunlap, Tennessee's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The City of Dunlap, Tennessee's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Johnson, Murphy & Wright, P.C.

Chattanooga, Tennessee
April 12, 2017

CITY OF DUNLAP, TENNESSEE
Schedule of Findings and Responses
June 30, 2016

SUMMARY OF AUDIT RESULTS

Opinion on Financial Statements:

Unqualified opinion issued on the financial statements in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Deficiencies:

During the audit of the financial statements, two significant deficiencies in internal controls were disclosed.

Material Noncompliance:

Two instances of noncompliance or other matters were disclosed.

FINDINGS RELATING TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

INTERNAL CONTROL:

Finding 2016-001 - Safeguards for Inventory and Supplies (Repeat 2015-001)

Criteria:

The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 5, Chapter 23, Section 1b, states "all materials and supplies are stored in designated areas that are protected against unauthorized withdrawals and other losses."

Condition:

The maintenance shop area can be accessed by multiple employees by using only their time card and there is no video record of who enters and leaves the maintenance shop yard.

Cause:

The maintenance shop area does not have the proper video security to secure the inventory and material supplies of the City.

Effect:

Without proper security in place, there could be unauthorized use and/or loss of materials and supplies.

Management's Response:

We concur. We will work on installing video security.

CITY OF DUNLAP, TENNESSEE
Schedule of Findings and Responses (Continued)
June 30, 2016

FINDINGS RELATING TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS (Continued)

INTERNAL CONTROL: (Continued)

Finding 2016-002 - Approvals and Documentation (Repeat 2015-002)

Criteria:

Government Auditing Standards Chapter A.06(h) states that, "inadequate controls for the safeguarding of assets," is a control deficiency.

Condition:

Bank accounts were not always being reconciled timely each month.

Cause:

Bank accounts were not always reconciled on a timely basis.

Effect:

Banking errors may not be found in a timely manner.

Management's Response:

We concur. The bank account will be reconciled on a timely basis.

COMPLIANCE:

Finding 2016-003 - Enterprise Fund Operating at a Loss (Repeat 2015-003)

Criteria:

Tennessee Code Annotated (TCA) Section 7-35-414 states in part that "Such rates and charges shall be adjusted so as to provide funds sufficient to pay all reasonable expenses of operation..."

Condition:

The Water and Sewer Fund operated at a loss of \$(280,966) for the year ending June 30, 2016.
The Natural Gas Fund operated at a loss of \$(214,663) for the year ending June 30, 2016.

Cause:

The Water and Sewer Fund and Natural Gas Fund did not have sufficient rates and charges or expenditure reduction to offset current year expenses.

Effect:

Continued losses by the Water and Sewer Fund and Natural Gas Fund may cause the funds to have a negative net position.

Management's Response:

We concur. We will more closely monitor the funds in the future to ensure they operate with sufficient rates and charges to pay all reasonable expenses.

CITY OF DUNLAP, TENNESSEE
Schedule of Findings and Responses (Continued)
June 30, 2016

**FINDINGS RELATING TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO
BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT
AUDITING STANDARDS** (Continued)

COMPLIANCE: (Continued)

Finding 2016-004 - Expenditures Exceeded Budget

Criteria:

Tennessee Code Annotated (TCA) Section 6-56-203 states that no municipality may expend any moneys regardless of their source...except in accordance with a budget ordinance...

Condition:

Expenditures in the Drug Fund exceeded the amount budgeted by \$18,638.

Cause:

The City's budget was not amended to account for all expenditures.

Effect:

Without following proper procedures, the City has failed to authorize all expenditures by the end of the fiscal year.

Management's Response:

We concur. We will make every effort in the future to provide for all expenditures in our budget.

CITY OF DUNLAP, TENNESSEE
Schedule of Prior Audit Findings
June 30, 2016

INTERNAL CONTROL

2015-001 - Safeguards for Inventory and Supplies

Still in effect.

2015-002 - Approvals and Documentation

Still in effect.

COMPLIANCE

2015-003 - Enterprise Fund Operating at a Loss

Still in effect.

2015-004 - Budget Approval

Corrected.

