

Annual Financial Report

Morristown Utilities Commission
(An Administrative Unit Accounted for
as Enterprise Funds of the
City of Morristown, Tennessee)

Year ended June 30, 2017

Morristown Utilities Commission
Annual Financial Report
Board of Commissioners and Management
Year ended June 30, 2017

Board of Commissioners

George B. McGuffin, Chairman

Harold L. Nichols, Secretary

B. Lynn Elkins, Member

Bryan Dickerson, Member

Rod Isaacs, Member

Management

Joseph S. Wigington, General Manager, CEO

Clark H. Rucker, Assistant General Manager, CFO

Michael R. Howard, Water System Manager

Bryan J. Delozier, Power System Manager

George A. Benjamin, Telecommunications Manager

Morristown Utilities Commission

Annual Financial Report

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Year ended June 30, 2017

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Report of Independent Auditors

Board of Commissioners
Morristown Utilities Commission

Report on the Financial Statements

We have audited the accompanying financial statements of the Power System, Water System, Wastewater System and Broadband System (collectively, the Systems), enterprise funds of the City of Morristown, Tennessee (the City), as of and for the year ended June 30, 2017, and the related notes to the 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 Systems' 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 Systems' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Board of Commissioners
Morristown Utilities Commission

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Power System, Water System, Wastewater System and Broadband System of the City as of June 30, 2017, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Systems and do not purport to, and do not present fairly the financial position of the City as of June 30, 2017, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 and the schedules of funding progress on page 37 and employer contributions on page 38 for the Morristown Utilities Retiree Benefit Plan 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Systems' basic financial statements. The schedules of long-term debt principal and interest requirements and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Board of Commissioners
Morristown Utilities Commission

Other Matters (continued)

Other Information (continued)

The schedules of long-term debt principal and interest requirements 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 schedules of long-term debt principal and interest requirements are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2017, on our consideration of the Systems' 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 Systems' internal control over financial reporting and compliance.

Coulter & Justus, P.C.

October 26, 2017
Knoxville, Tennessee

Morristown Utilities Commission
Management's Discussion and Analysis

June 30, 2017

This discussion and analysis is intended to be an introduction to the financial statements and notes that follow this section and should be read in conjunction with them. This section will provide narrative discussion and analysis of the financial activities of Morrilltown Utilities Commission (we, the Commission, or MUC). The Commission is responsible for the operation of four major funds of the City of Morrilltown, Tennessee. These funds are the Power System, the Water System, the Wastewater System and the Broadband System. This discussion and analysis is reported at the Commission level. The financial performance of the Commission is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

Financial Statement Overview

The Balance Sheet includes the assets and liabilities of MUC that represent the available resources and required obligations, with the difference reported as net position. The change in net position is a potential indicator of the improving or deteriorating financial position of MUC. The change in net position is a function of the revenues and expenses, which are recorded in the Statement of Revenues, Expenses, and Changes in Net Position. Revenues are recorded as they are earned and expenses are recorded when incurred (regardless of cash requirements). Cash activity for the period is presented in the Statement of Cash Flows and the activity is segmented between operating, investing, and financing activities. In addition, the Notes to the Financial Statements offer additional information to provide a full understanding of the financial activity and position of MUC.

The Commission is an administrative unit of the City of Morrilltown, Tennessee (the City) operated under the general supervision and control of a five-member Board of Commissioners. The Commission issues an annual financial report which is incorporated in the City's comprehensive annual financial report.

Morristown Utilities Commission

Management's Discussion and Analysis (continued)

Financial Position

The primary indicator of financial position is net position. The net position of the Power System, Water System, Wastewater System and Broadband System increased by \$699,818, \$92,875, \$1,556,393 and \$2,686,460, respectively, as a result of operations discussed later. The overall increase has primarily been used to acquire additional capital assets in the current year.

| Table 1 | Morristown Utilities Commission | |
|-----------------------------------|--|----------------------|
| | Condensed Balance Sheets | |
| | June 30, 2017 | June 30, 2016 |
| Assets: | | |
| Current and other assets | \$ 51,625,159 | \$ 50,287,919 |
| Net capital assets | 202,965,872 | 198,514,335 |
| Total assets | 254,591,031 | 248,802,254 |
| Liabilities: | | |
| Current liabilities | 24,827,023 | 23,599,396 |
| Non-current liabilities | 105,538,309 | 106,012,705 |
| Total liabilities | 130,365,332 | 129,612,101 |
| Net position: | | |
| Net investments in capital assets | 102,936,049 | 98,984,414 |
| Unrestricted | 21,289,650 | 20,205,739 |
| Total net position | \$124,225,699 | \$119,190,153 |

Morristown Utilities Commission

Management's Discussion and Analysis (continued)

Results of Operations

As indicated in Table 2, operating revenues of the Commission increased by \$4,596,036 or 4.2% from fiscal year 2016 to 2017.

Table 2

**Morristown Utilities Commission
Condensed Statement of Revenues,
Expenses and Changes in Net Position**

| | Year ended June 30 | |
|---|---------------------------|---------------|
| | 2017 | 2016 |
| Revenues: | | |
| Operating revenues | \$112,818,985 | \$108,199,878 |
| Non-operating revenues | 68,257 | 44,978 |
| Total revenues | 112,887,242 | 108,244,856 |
| Expenses: | | |
| Purchased power | 62,673,543 | 60,623,773 |
| Other operating expenses | 40,660,461 | 38,355,763 |
| Interest expense and financing costs | 2,842,366 | 2,523,175 |
| Total expenses | 106,176,370 | 101,502,711 |
| Income before contributions and transfers | 6,710,872 | 6,742,145 |
| Contributions | 230,150 | 422,950 |
| Transfers to the City | (1,905,476) | (1,768,812) |
| Changes in net position | 5,035,546 | 5,396,283 |
| Beginning net position | 119,190,153 | 113,793,870 |
| Ending net position | \$124,225,699 | \$119,190,153 |

Assets

The Water and Wastewater System continued the ongoing project for the new Office and Warehousing Building. The Wastewater System also continued ongoing construction projects to upgrade and enhance the infrastructure of the wastewater plant, sewer lines and pumping stations.

The Broadband System began an ongoing project for video upgrade.

Morristown Utilities Commission

Management's Discussion and Analysis (continued)

Debt

During fiscal year 2017, the Wastewater System entered into a loan agreement providing for draws up to \$15,000,000 for the purpose of extension, construction, improvement and equipping of the Wastewater System of which \$90,000 was drawn in 2017. The Wastewater System drew an additional \$6,132,413 on existing loans for the purpose of extension, construction, improvement and equipping of the Wastewater System in 2017. The Broadband System entered into a loan agreement and drew the entire \$2,000,000 for the purpose of improving the telecommunications system. Additional information on the Commission's long-term debt can be found in the notes to the financial statements included in this annual financial report.

Requests for Information

This financial report is designed to provide a general overview of the Commission's finances for all those with an interest in the Commission's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the Assistant General Manager, P.O. Box 667, Morristown, Tennessee 37815.

Morristown Utilities Commission

Balance Sheet

Year ended June 30, 2017

| | Power System | Water System | Wastewater System | Broadband System |
|---|-------------------------|-------------------------|------------------------------|-----------------------------|
| Assets | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 12,053,642 | \$ 3,029,564 | \$ 7,153,118 | \$ 3,110,167 |
| Accounts receivable: | | | | |
| Trade, net of allowance for doubtful accounts of \$282,986 | 7,912,951 | - | - | - |
| Due from other funds | 1,096,080 | - | - | - |
| Due from others | 328,094 | 3,049 | 102,151 | 9,277 |
| Accrual for unbilled revenue | 1,820,629 | 220,188 | 685,234 | - |
| Other current assets | - | 10,818 | 19,011 | 166,351 |
| Materials and supplies inventories | 1,103,288 | 381,635 | 259,634 | - |
| Total current assets | <u>24,314,684</u> | <u>3,645,254</u> | <u>8,219,148</u> | <u>3,285,795</u> |
| Restricted assets: | | | | |
| Cash and cash equivalents | - | 2,167,842 | 6,589,751 | - |
| Capital assets: | | | | |
| Plant and equipment in service | 117,054,283 | 67,689,511 | 134,884,915 | 13,816,014 |
| Less accumulated depreciation | 55,012,575 | 30,042,447 | 53,347,993 | 5,899,372 |
| | <u>62,041,708</u> | <u>37,647,064</u> | <u>81,536,922</u> | <u>7,916,642</u> |
| Construction in progress | 474,989 | 1,332,175 | 9,710,288 | 2,306,084 |
| Net capital assets | <u>62,516,697</u> | <u>38,979,239</u> | <u>91,247,210</u> | <u>10,222,726</u> |
| Due from other funds | 2,926,192 | - | - | - |
| Plant acquisition adjustments, net of accumulated amortization | 155,029 | - | - | - |
| Other assets | 313,049 | - | 8,415 | - |
| Total assets | <u>\$ 90,225,651</u> | <u>\$ 44,792,335</u> | <u>\$ 106,064,524</u> | <u>\$ 13,508,521</u> |

Morristown Utilities Commission

Balance Sheet (continued)

Year ended June 30, 2017

| | Power System | Water System | Wastewater System | Broadband System |
|--|----------------------|----------------------|-----------------------|----------------------|
| Liabilities and net position | | | | |
| Current liabilities: | | | | |
| Accounts payable: | | | | |
| Trade | \$ 6,394,372 | \$ 131,111 | \$ 1,791,771 | \$ 337,816 |
| Due to other funds | - | 110,705 | 297,421 | 687,954 |
| City of Morristown | 208,779 | - | - | - |
| Unearned revenues | - | - | - | 257,289 |
| Customer deposits | 4,295,004 | - | - | 106,500 |
| Accrued payroll related liabilities | 1,393,742 | 403,917 | 192,978 | 149,026 |
| Other accrued liabilities | 214,671 | 38,223 | 433,658 | 239,503 |
| Current portion of capital lease obligation | - | - | - | 18,877 |
| Current portion of contractual obligation | 65,146 | - | 92,673 | - |
| Current portion of long-term debt | 1,176,501 | 936,403 | 4,218,212 | 634,771 |
| Total current liabilities | 13,748,215 | 1,620,359 | 7,026,713 | 2,431,736 |
| Accrued post retirement benefit obligation | 583,825 | 141,094 | 22,794 | 219,566 |
| Due to other funds | - | - | - | 2,926,192 |
| Capital lease obligation, less current portion | - | - | - | 9,256 |
| Contractual obligation, less current portion | - | - | 2,138,229 | - |
| Long-term debt, less current portion | 16,401,726 | 10,823,268 | 66,020,193 | 6,252,166 |
| Total liabilities | 30,733,766 | 12,584,721 | 75,207,929 | 11,838,916 |
| Net position: | | | | |
| Net investment in capital assets | 44,873,324 | 29,387,410 | 25,367,654 | 3,307,661 |
| Unrestricted | 14,618,561 | 2,820,204 | 5,488,941 | (1,638,056) |
| Total net position | 59,491,885 | 32,207,614 | 30,856,595 | 1,669,605 |
| Total liabilities and net position | <u>\$ 90,225,651</u> | <u>\$ 44,792,335</u> | <u>\$ 106,064,524</u> | <u>\$ 13,508,521</u> |

See accompanying Notes to Financial Statements.

Morristown Utilities Commission

Statement of Revenues, Expenses and Changes in Net Position

Year ended June 30, 2017

| | Power System | Water System | Wastewater System | Broadband System |
|--|----------------------|----------------------|----------------------|---------------------|
| Operating revenues: | | | | |
| Metered sales | \$ 77,244,198 | \$ 6,616,395 | \$ 13,781,869 | \$ - |
| Broadband sales | - | - | - | 8,602,426 |
| Interfund services provided | 1,375,014 | 517,040 | - | 2,056,250 |
| Other operating revenues | 1,741,709 | 35,557 | 745,810 | 102,717 |
| Total operating revenues | <u>80,360,921</u> | <u>7,168,992</u> | <u>14,527,679</u> | <u>10,761,393</u> |
| Operating expenses: | | | | |
| Power purchased | 62,673,543 | - | - | - |
| Operations | 5,316,382 | 4,020,723 | 4,454,508 | 5,755,749 |
| Maintenance | 2,731,852 | 731,394 | 1,343,761 | 337,614 |
| Interfund services used | 1,914,097 | 444,540 | 531,852 | 1,057,815 |
| Depreciation and amortization | 5,127,842 | 1,560,786 | 4,167,387 | 598,614 |
| Taxes | 373,645 | - | - | 191,900 |
| Total operating expenses | <u>78,137,361</u> | <u>6,757,443</u> | <u>10,497,508</u> | <u>7,941,692</u> |
| Operating income | 2,223,560 | 411,549 | 4,030,171 | 2,819,701 |
| Other income (expense): | | | | |
| Interest income | 37,567 | 15,570 | 13,906 | 1,214 |
| Financing cost | - | - | (181,770) | (29,052) |
| Interest expense | (274,309) | (363,274) | (1,888,558) | (105,403) |
| Net other expense | <u>(236,742)</u> | <u>(347,704)</u> | <u>(2,056,422)</u> | <u>(133,241)</u> |
| Income before contributions and transfers | 1,986,818 | 63,845 | 1,973,749 | 2,686,460 |
| Contributions | - | 65,150 | 165,000 | - |
| Transfers out (tax equivalent payments to City of Morristown) | (1,287,000) | (36,120) | (582,356) | - |
| Changes in net position | <u>699,818</u> | <u>92,875</u> | <u>1,556,393</u> | <u>2,686,460</u> |
| Net position at beginning of year | 58,792,067 | 32,114,739 | 29,300,202 | (1,016,855) |
| Net position at end of year | <u>\$ 59,491,885</u> | <u>\$ 32,207,614</u> | <u>\$ 30,856,595</u> | <u>\$ 1,669,605</u> |

See accompanying Notes to Financial Statements.

Morristown Utilities Commission

Statement of Cash Flows

Year ended June 30, 2017

| | Power System | Water System | Wastewater System | Broadband System |
|---|-----------------|-----------------|----------------------|---------------------|
| Cash flows from operating activities | | | | |
| Cash received from customers | \$ 78,881,824 | \$ 7,160,282 | \$ 14,480,110 | \$ 10,786,366 |
| Cash received from City of Morristown, Tennessee | 1,539,981 | - | - | - |
| Cash paid to suppliers and vendors | (67,262,509) | (3,573,285) | (5,653,164) | (5,960,098) |
| Cash paid to employees for services | (6,115,611) | (1,632,965) | (1,428,756) | (1,359,675) |
| Net cash flows from operating activities | 7,043,685 | 1,954,032 | 7,398,190 | 3,466,593 |
| Cash flows from noncapital financing activities | | | | |
| Transfers to City of Morristown (tax equivalent payments) | (1,290,258) | (36,120) | (582,356) | - |
| Net interfund advances (repayments) | 1,463,456 | 41,666 | 170,258 | (1,675,380) |
| Net cash flows from noncapital financing activities | 173,198 | 5,546 | (412,098) | (1,675,380) |
| Cash flows from capital and related financing activities | | | | |
| Principal payments on capital lease obligation | - | - | - | (16,954) |
| Net additions to capital assets | (3,940,720) | (971,514) | (6,568,956) | (3,391,332) |
| Contributions | - | 65,150 | 165,000 | - |
| Principal payments on long-term debt and contractual obligation | (1,196,125) | (911,544) | (3,879,610) | (240,421) |
| Interest paid on long-term debt | (274,309) | (363,274) | (1,888,558) | (105,403) |
| Financing costs paid on long-term debt | - | - | (181,770) | (29,052) |
| Proceeds from long-term borrowings | - | - | 6,222,413 | 2,000,000 |
| Net cash flows from capital and related financing activities | (5,411,154) | (2,181,182) | (6,131,481) | (1,783,162) |
| Cash flows from investing activities | | | | |
| Interest received on cash and cash equivalents | 37,567 | 15,570 | 13,906 | 1,214 |
| Increase (decrease) in cash and cash equivalents | 1,843,296 | (206,034) | 868,517 | 9,265 |
| Cash and cash equivalents at beginning of year | 10,210,346 | 5,403,440 | 12,874,352 | 3,100,902 |
| Cash and cash equivalents at end of year | \$ 12,053,642 | \$ 5,197,406 | \$ 13,742,869 | \$ 3,110,167 |
| Cash and cash equivalents are classified as: | | | | |
| Current assets | \$ 12,053,642 | \$ 3,029,564 | \$ 7,153,118 | \$ 3,110,167 |
| Restricted assets | - | 2,167,842 | 6,589,751 | - |
| Total cash and cash equivalents at end of year | \$ 12,053,642 | \$ 5,197,406 | \$ 13,742,869 | \$ 3,110,167 |

Morristown Utilities Commission
Statement of Cash Flows (continued)
Year ended June 30, 2017

| | Power System | Water System | Wastewater System | Broadband System |
|--|---------------------|---------------------|----------------------|---------------------|
| Reconciliation of operating income to net cash flows from operating activities | | | | |
| Operating income | \$ 2,223,560 | \$ 411,549 | \$ 4,030,171 | \$ 2,819,701 |
| Adjustments to reconcile operating income to net cash flows from operating activities: | | | | |
| Depreciation and amortization | 5,152,087 | 1,649,667 | 4,294,905 | 598,614 |
| Changes in operating assets and liabilities: | | | | |
| Accounts receivable | (74,893) | (1,230) | 4,038 | 7,372 |
| Accrual for unbilled/unearned revenues | 27,454 | (7,480) | (51,607) | - |
| Materials and supplies inventories | (146,019) | 40,896 | (82,464) | - |
| Other assets | (34,464) | 1,938 | (3,421) | (32,280) |
| Trade accounts payable | (272,696) | (172,380) | (899,491) | (85,290) |
| Customer deposits and prepayments | 142,787 | - | - | 17,600 |
| Other liabilities | 25,869 | 31,072 | 106,059 | 140,876 |
| Net cash flows from operating activities | <u>\$ 7,043,685</u> | <u>\$ 1,954,032</u> | <u>\$ 7,398,190</u> | <u>\$ 3,466,593</u> |
| Noncash disclosure: | | | | |
| Acquisition of capital assets | \$ - | \$ - | \$ 1,207,780 | \$ - |

See accompanying Notes to Financial Statements.

Morristown Utilities Commission

Notes to Financial Statements

June 30, 2017

1. Significant Accounting Policies

General

The Morristown Utilities Commission (the Commission) is an administrative unit of the City of Morristown, Tennessee (the City). The Commission is comprised of the Power System, Water System, Wastewater System and Broadband System (the Systems), which are reported as separate enterprise funds of the City.

An enterprise fund is used to account for the financing of services to the general public on a continuing basis with costs recovered primarily through user charges. The Commission is managed and controlled by commissioners who are appointed for five year terms by the mayor and members of City Council. The Commission manages, operates and maintains the power, water, wastewater and broadband systems servicing the citizens of the City and surrounding areas. The Commission issues an annual financial report which is combined with other funds in the City's comprehensive annual financial report.

The financial statements are presented on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America and general practices in the power, water, wastewater and broadband industries. Operating revenues and expenses generally result from providing power, water, wastewater and broadband services in connection with the Systems' ongoing operations. Operating expenses include the cost of personnel and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Net position is classified into the following three components, as applicable:

- *Net investment in capital assets* – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds or deferred inflows of resources at year-end, the portion of the debt or deferred inflows of resources attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt or deferred inflows of resources is included in the same net position component as the unspent proceeds.
- *Restricted* – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.
- *Unrestricted* – This component of net position is the net amount of the assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

Morristown Utilities Commission
Notes to Financial Statements (continued)

1. Significant Accounting Policies (continued)

Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Systems' operations are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the enterprise funds are included in the balance sheet. Fund equity (i.e. total net position) consists of capital contributed by the City and retained earnings. Operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in total net position.

Fiscal Year-End

The Systems operate on a fiscal year ending June 30. All references in these notes refer to the fiscal year-end unless otherwise specified.

Deposits and Investments

The Systems consider all demand deposits, non-negotiable certificates of deposit and short-term, highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

The Systems have not formally adopted an investment policy and place no limit on the amount that may be deposited with any one issuer.

The Systems have no formal policy regarding interest rate risk. Deposits are structured in a manner that ensures sufficient cash is available to meet anticipated liquidity needs. Selection of deposit maturities must be consistent with the cash requirements of the Systems in order to avoid the forced redemption of deposits prior to maturity.

As authorized by statutes of the State of Tennessee (the State), the Systems may only invest in obligations of the United States Treasury, its agencies and instrumentalities; money market funds; the Local Government Investment Pool or in obligations which are rated in either of the two highest rated categories by a nationally recognized rating agency.

Restricted Assets

Restricted assets include funds limited by bond indentures for construction projects. When both restricted and unrestricted resources are available for use, it is the System's policy to use restricted resources first, then unrestricted resources as they are needed.

Morristown Utilities Commission
Notes to Financial Statements (continued)

1. Significant Accounting Policies (continued)

Material and Supplies Inventories

Materials and supplies inventories are valued at the lower of cost or market, utilizing the moving average method of determining cost.

Income Taxes

The Power, Water and Wastewater Systems are exempt from federal and state income taxes; accordingly, no provision for income taxes has been recorded in the accompanying financial statements. The Broadband System is exempt from federal income taxes; however, it is required by Tennessee Code Annotated Section 7-52-606 to pay franchise and excise tax to the State of Tennessee.

Capital Assets

Capital assets are carried at historical cost, including applicable general and administrative costs and payroll related costs such as pensions, taxes and other employee benefits. All material renewals and betterments are capitalized in accordance with the Systems' capitalization policy. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed, if material. When property is retired or otherwise disposed of, its average cost, together with its cost of removal less salvage, is charged to accumulated depreciation and no gain or loss is recognized.

Capital assets, excluding land and construction in progress, are depreciated using the straight-line method over the estimated useful lives of the assets, which are as follows:

| | |
|---|----------------|
| Transmission equipment, fixtures and devices | 25 to 50 years |
| Distribution transformers, meters, fixtures and devices | 5 to 50 years |
| Buildings and improvements | 50 years |
| Furniture, fixtures and equipment | 5 to 25 years |

Plant Acquisition Adjustments

Plant acquisition adjustments represent the excess of cost over net book value of utility properties acquired from other utility districts. Such excess is amortized over the estimated useful life of the related property (periods of up to 20 years).

Morristown Utilities Commission
Notes to Financial Statements (continued)

1. Significant Accounting Policies (continued)

Compensated Absences

The Systems recognize the cost of vacation pay and sick leave benefits when earned by the employees. In the event of termination or retirement, an employee is reimbursed for accumulated vacation days. In general, accumulated vacation days are limited to thirty days. Employees are reimbursed for accumulated sick leave upon retirement or termination at an equivalent salary rate of 100%, 50% or 33⅓%, depending on the date earned. Sick leave accumulation is limited to ninety days.

Use of Estimates

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

Interest on Indebtedness

Interest is charged to expense, as incurred, except for interest related to borrowings used for construction projects which is capitalized, if material.

Subsequent Events

In preparation of the accompanying financial statements, management has evaluated events and transactions that have occurred since the balance sheet date through October 26, 2017, the date these financial statements were available for issuance.

Subsequent Pronouncements

In June 2015, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 75 (Statement No. 75), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* that affect accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). Statement No. 75 addresses reporting by governments that provide OPEB to their employees and is effective for fiscal year 2018.

The Commission has not elected early implementation of this standard and has not completed the process of evaluating the impact of this statement on its financial statements.

Morristown Utilities Commission

Notes to Financial Statements (continued)

2. Deposits and Investments

All of the Systems' deposits, as of June 30, 2017, are covered by the bank collateral pool administered by the State Treasurer. Banks participating in the pool report the aggregate balance of their public fund accounts to the State. Collateral to secure these deposits must be pledged to the State Treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in aggregate rather than against each individual account. Public fund accounts covered by the pool are considered entirely insured or collateralized.

As of June 30, 2017, the Water System and Wastewater System have restricted cash and cash equivalents totaling \$2,167,842 and \$6,589,751, respectively. The restricted assets consist of construction retainage in escrow and unspent bond proceeds described in Note 6.

3. Power Contract

The Power System has a power contract with the Tennessee Valley Authority (TVA) whereby the Power System purchases all of its electric power from TVA and is subject to certain restrictions and conditions as provided in the contract.

4. Retirement Plan

The Systems share in a defined contribution retirement plan, Morristown Utilities Retiree Benefit Plan (the Plan), covering substantially all employees. The Commission is the administrator of the Plan and is responsible for establishing or amending the Plan provisions and contribution requirements.

| System | Total Payroll | Covered Payroll | Employer Contributions | % of Covered Payroll | Employee Contributions | % of Covered Payroll |
|-------------------|----------------------|------------------------|-------------------------------|-----------------------------|-------------------------------|-----------------------------|
| Power | \$6,111,363 | \$5,881,850 | \$705,822 | 15% | \$377,248 | 6% |
| Water | 1,618,187 | 1,591,175 | 190,941 | 15% | 108,231 | 7% |
| Wastewater | 1,460,078 | 1,410,292 | 169,235 | 15% | 98,289 | 7% |
| Broadband | 1,388,146 | 1,325,350 | 159,042 | 15% | 56,142 | 4% |

Under the Plan terms, the Systems will match participant contributions up to 3% of the participant's salary and may also contribute an additional amount to the Plan at its discretion. During 2017, the discretionary contribution amounted to 12% of the participants' salary. Participants are not required but may contribute up to a total of 75% of their salary subject to IRS limitations. All employees who have completed six months of service as defined by the Plan and who have attained the age of 21 are eligible to participate in the Plan. Participants are 100% vested in the employer contributions when they are made.

Morristown Utilities Commission
Notes to Financial Statements (continued)

5. Capital Assets

The following is a schedule of changes in major classes of the Power System plant and equipment:

| | Balance July 1, 2016 | Increases/ Transfers- In | Decreases/ Transfers- Out | Balance June 30, 2017 |
|---|-------------------------|--------------------------------|---------------------------------|--------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 1,010,932 | \$ – | \$ – | \$ 1,010,932 |
| Construction in progress | 1,396,174 | 3,983,351 | 4,904,536 | 474,989 |
| Total capital assets not being depreciated | 2,407,106 | 3,983,351 | 4,904,536 | 1,485,921 |
| Capital assets being depreciated: | | | | |
| Transmission equipment, fixtures and devices | 8,663,232 | – | – | 8,663,232 |
| Distribution transformers, meters, fixtures and devices | 62,344,200 | 2,862,347 | 566,316 | 64,640,231 |
| Buildings and improvements | 6,604,791 | 232,644 | – | 6,837,435 |
| Furniture, fixtures and equipment | 34,549,439 | 1,580,346 | 227,332 | 35,902,453 |
| Total capital assets being depreciated | 112,161,662 | 4,675,337 | 793,648 | 116,043,351 |
| Less accumulated depreciation: | | | | |
| Transmission equipment, fixtures and devices | 5,828,771 | 237,069 | – | 6,065,840 |
| Distribution transformers, meters fixtures and devices | 25,001,513 | 2,465,924 | 799,868 | 26,667,569 |
| Buildings and improvements | 1,858,406 | 123,009 | – | 1,981,415 |
| Furniture, fixtures and equipment | 18,218,522 | 2,236,317 | 157,088 | 20,297,751 |
| Total accumulated depreciation | 50,907,212 | 5,062,319 | 956,956 | 55,012,575 |
| Net capital assets being depreciated | 61,254,450 | (386,982) | (163,308) | 61,030,776 |
| Net capital assets | \$ 63,661,556 | \$3,596,369 | \$4,741,228 | \$ 62,516,697 |

Morristown Utilities Commission
Notes to Financial Statements (continued)

5. Capital Assets (continued)

The following is a schedule of changes in major classes of the Water System plant and equipment:

| | Balance July 1, 2016 | Increases/ Transfers- In | Decreases/ Transfers- Out | Balance June 30, 2017 |
|--|---------------------------------|---|--|----------------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 400,600 | \$ – | \$ – | \$ 400,600 |
| Construction in progress | 1,345,835 | 1,002,744 | 1,016,404 | 1,332,175 |
| Total capital assets not being depreciated | 1,746,435 | 1,002,744 | 1,016,404 | 1,732,775 |
| Capital assets being depreciated: | | | | |
| Transmission equipment, fixtures and devices | 7,893,494 | 101,411 | – | 7,994,905 |
| Distribution meters, fixtures and devices | 40,108,031 | 690,334 | 6,948 | 40,791,417 |
| Buildings and improvements | 16,163,232 | 93,630 | – | 16,256,862 |
| Furniture, fixtures and equipment | 2,252,172 | 98,285 | 104,730 | 2,245,727 |
| Total capital assets being depreciated | 66,416,929 | 983,660 | 111,678 | 67,288,911 |
| Less accumulated depreciation: | | | | |
| Transmission equipment, fixtures and devices | 4,468,490 | 252,562 | – | 4,721,052 |
| Distribution meters, fixtures and devices | 16,786,217 | 1,021,475 | 21,712 | 17,785,980 |
| Buildings and improvements | 5,363,863 | 276,272 | – | 5,640,135 |
| Furniture, fixtures and equipment | 1,887,402 | 99,358 | 91,480 | 1,895,280 |
| Total accumulated depreciation | 28,505,972 | 1,649,667 | 113,192 | 30,042,447 |
| Net capital assets being depreciated | 37,910,957 | (666,007) | (1,514) | 37,246,464 |
| Net capital assets | <u>\$39,657,392</u> | <u>\$ 336,737</u> | <u>\$1,014,890</u> | <u>\$38,979,239</u> |

Morristown Utilities Commission
Notes to Financial Statements (continued)

5. Capital Assets (continued)

The following is a schedule of changes in major classes of the Wastewater System plant and equipment:

| | Balance July 1, 2016 | Increases/ Transfers- In | Decreases/ Transfers- Out | Balance June 30, 2017 |
|---|---------------------------------|---|--|----------------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 1,195,234 | \$ – | \$ – | \$ 1,195,234 |
| Construction in progress | 18,138,149 | 7,844,865 | 16,272,726 | 9,710,288 |
| Total capital assets not being depreciated | 19,333,383 | 7,844,865 | 16,272,726 | 10,905,522 |
| Capital assets being depreciated: | | | | |
| Collection facilities, fixtures and devices | 72,054,466 | 160,794 | – | 72,215,260 |
| Treatment facilities, fixtures and devices | 36,636,052 | 15,670,344 | – | 52,306,396 |
| Pumping facilities, fixtures and devices | 4,688,566 | 212,187 | – | 4,900,753 |
| General facilities, fixtures and devices | 4,502,473 | 197,838 | 433,039 | 4,267,272 |
| Total capital assets being depreciated | 117,881,557 | 16,241,163 | 433,039 | 133,689,681 |
| Less accumulated depreciation: | | | | |
| Collection facilities, fixtures and devices | 26,969,797 | 1,788,660 | – | 28,758,457 |
| Treatment facilities, fixtures and devices | 18,169,477 | 1,270,771 | – | 19,440,248 |
| Pumping facilities, fixtures and devices | 1,674,237 | 784,648 | – | 2,458,885 |
| General facilities, fixtures and devices | 2,636,050 | 450,826 | 396,473 | 2,690,403 |
| Total accumulated depreciation | 49,449,561 | 4,294,905 | 396,473 | 53,347,993 |
| Net capital assets being depreciated | 68,431,996 | 11,946,258 | 36,566 | 80,341,688 |
| Net capital assets | \$ 87,765,379 | \$19,791,123 | \$16,309,292 | \$ 91,247,210 |

Morristown Utilities Commission
Notes to Financial Statements (continued)

5. Capital Assets (continued)

The following is a schedule of changes in major classes of the Broadband System plant and equipment:

| | Balance July 1, 2016 | Increases/ Transfers- In | Decreases/ Transfers- Out | Balance June 30, 2017 |
|---|---------------------------------|---|--|----------------------------------|
| Capital assets not being depreciated-construction in progress | \$ 119,475 | \$3,418,433 | \$1,231,824 | \$ 2,306,084 |
| Capital assets being depreciated: | | | | |
| Transmission equipment, fixtures and devices | 4,182,769 | 482,808 | 65,585 | 4,599,992 |
| Distribution fixtures and devices | 8,053,367 | 674,600 | 388,148 | 8,339,819 |
| Furniture, fixtures and equipment | 843,415 | 55,416 | 22,628 | 876,203 |
| Total capital assets being depreciated | 13,079,551 | 1,212,824 | 476,361 | 13,816,014 |
| Less accumulated depreciation: | | | | |
| Transmission equipment, fixtures and devices | 1,196,089 | 282,268 | 59,085 | 1,419,272 |
| Distribution fixtures and devices | 3,735,264 | 308,068 | 388,148 | 3,655,184 |
| Furniture, fixtures and equipment | 837,665 | 8,278 | 21,027 | 824,916 |
| Total accumulated depreciation | 5,769,018 | 598,614 | 468,260 | 5,899,372 |
| Net capital assets being depreciated | 7,310,533 | 614,210 | 8,101 | 7,916,642 |
| Net capital assets | \$7,430,008 | \$4,032,643 | \$1,239,925 | \$10,222,726 |

The provision for depreciation does not include depreciation on transportation equipment. Those amounts are reported as operations expense in the Statements of Revenues, Expenses and Changes in Net Position. The cost of maintenance and repairs is charged to expense as incurred. The following represents the depreciation on transportation equipment not included in depreciation expense previously noted:

| Power System | Water System | Wastewater System |
|-------------------------|-------------------------|------------------------------|
| \$24,245 | \$88,881 | \$127,518 |

Morristown Utilities Commission
Notes to Financial Statements (continued)

6. Long-Term Liabilities

The following is a summary of long-term liabilities:

| | Balance July 1, 2016 | Additions | Retirements | Balance June 30, 2017 |
|--|---------------------------------|------------------|--------------------|----------------------------------|
| Power System: | | | | |
| 2003 Promissory Note | \$ 500,000 | \$ – | \$ 250,000 | \$ 250,000 |
| 2008 Promissory Note | 13,027,642 | – | 426,579 | 12,601,063 |
| 2013 Promissory Note | 4,947,438 | – | 393,100 | 4,554,338 |
| Cooperative Notes, non-interest bearing, due in annual installments ranging from \$68,272 in 2018 to \$2,076 in 2026 | 234,127 | 20,758 | 82,059 | 172,826 |
| | <u>18,709,207</u> | <u>\$20,758</u> | <u>\$1,151,738</u> | <u>17,578,227</u> |
| Less current portion | 1,149,561 | | | 1,176,501 |
| Long-term portion | <u>\$17,559,646</u> | | | <u>\$16,401,726</u> |
| Water System: | | | | |
| 2002 DWSRF Promissory Note | \$ 5,895,251 | \$ – | \$ 530,856 | \$ 5,364,395 |
| 2009 Promissory Note | 5,765,000 | – | 330,000 | 5,435,000 |
| 2011 DWSRF Promissory Note | 1,010,964 | – | 50,688 | 960,276 |
| | <u>12,671,215</u> | <u>\$ –</u> | <u>\$ 911,544</u> | <u>11,759,671</u> |
| Less current portion | 910,944 | | | 936,403 |
| Long-term portion | <u>\$11,760,271</u> | | | <u>\$10,823,268</u> |

Morristown Utilities Commission
Notes to Financial Statements (continued)

6. Long-Term Liabilities (continued)

| | Balance July 1, 2016 | Additions | Retirements | Balance June 30, 2017 |
|--|-------------------------|--------------------|--------------------|--------------------------|
| Wastewater System: | | | | |
| 2008 – 50518 Promissory Note | \$ 2,844,500 | \$ – | \$ 178,500 | \$ 2,666,000 |
| 2008 – 50532 Promissory Note | 7,681,278 | – | 482,542 | 7,198,736 |
| 2008 – 50536 Promissory Note | 1,265,250 | – | 78,750 | 1,186,500 |
| 2008 – 50545 Promissory Note | 1,289,340 | – | 72,960 | 1,216,380 |
| 2007 CWSRF Promissory Note | 8,082,784 | – | 444,360 | 7,638,424 |
| 2009 CWSRF Promissory Note | 1,106,791 | – | 54,528 | 1,052,263 |
| 2013 CWSRF Promissory Note | 4,946,357 | – | 216,600 | 4,729,757 |
| General Obligation Bonds, Series 2012 | 22,739,967 | – | 1,086,117 | 21,653,850 |
| 2009 – Promissory Note | 1,568,719 | – | 62,948 | 1,505,771 |
| 2013 Promissory Note | 15,142,587 | 2,857,413 | 1,000,000 | 17,000,000 |
| 2015 Promissory Note | 60,000 | 3,275,000 | 60,000 | 3,275,000 |
| 2016 Promissory Note | – | 90,000 | – | 90,000 |
| | <u>66,727,573</u> | <u>6,222,413</u> | <u>3,737,305</u> | <u>69,212,681</u> |
| Unamortized bond premium | 1,079,069 | – | 53,345 | 1,025,724 |
| | <u>67,806,642</u> | <u>\$6,222,413</u> | <u>\$3,790,650</u> | <u>70,238,405</u> |
| Less current portion | 3,737,305 | | | 4,218,212 |
| Long-term portion | <u>\$64,069,337</u> | | | <u>\$66,020,193</u> |
| Broadband System: | | | | |
| 2008 Promissory Note | \$ 4,227,358 | \$ – | \$ 138,421 | \$ 4,088,937 |
| Interfund loan from the Power System | 5,216,498 | – | 1,800,000 | 3,416,498 |
| 2014 Promissory Note | 900,000 | – | 102,000 | 798,000 |
| 2016 Promissory Note | – | 2,000,000 | – | 2,000,000 |
| | <u>10,343,856</u> | <u>\$2,000,000</u> | <u>\$2,040,421</u> | <u>10,303,435</u> |
| Less current portion | 893,989 | | | 1,125,077 |
| Long-term portion | <u>\$9,449,867</u> | | | <u>\$ 9,178,358</u> |

Power System

The Power System has a promissory note (2003 Promissory Note) with the City in the original principal amount of \$2,500,000. The note was issued to the Commission with proceeds from the City's loan agreement with the Public Building Authority of Sevier County Bonds. Principal is payable in annual installments of \$250,000 through 2018. Interest is payable quarterly at variable rates for 30 day commercial paper with a AA bond rating as determined by Standard and Poor (1.523% per annum as of June 30, 2017).

Morristown Utilities Commission
Notes to Financial Statements (continued)

6. Long-Term Liabilities (continued)

Power System (continued)

The City has an outstanding promissory note (2008 Promissory Note) with the Public Building Authority of the City of Clarksville, Tennessee, at a variable interest rate as defined in the agreement, payable in annual installments ranging between \$595,000 and \$1,360,000 through May 2035. The note provides for a variable interest rate (0.94% as of June 30, 2017), which is determined by the Remarketing Agent for the securities. In its sole discretion, the Remarketing Agent resets the minimum rate of interest that is necessary to remarket all of the outstanding bonds at par plus accrued interest if settled on a non-interest payment date, based on market conditions. Many factors are considered when determining the interest rates, and there is no standard formula used to determine them. The City has allocated the responsibility of the 2008 Promissory Note between the Power System and the Broadband System based upon their proportionate assets acquired with proceeds from the note.

The City has a loan agreement (2013 Promissory Note) with the Public Building Authority of the City of Clarksville in a principal amount not to exceed \$7,000,000. Interest is payable monthly at variable rates (0.80% as of June 30, 2017) as determined by the Trustee. Principal is payable annually in varying amounts ranging from \$409,000 in 2018 to \$605,000 in 2028 (if fully drawn).

Periodically, the Power System acquires additional service areas from local electric cooperatives servicing Hamblen County residents. As a result of the acquisitions of service areas, the Power System pays the cooperatives a calculated fee (Cooperative Notes) over a ten-year period based on lost revenues of the cooperatives.

Future debt service requirements of Power System long-term debt as of June 30, 2017, are as follows:

| | Promissory Notes | | Cooperative | Total |
|-----------|-------------------------|---------------------|--------------------|---------------------|
| | Interest | Principal | Notes | Requirements |
| 2018 | \$ 132,049 | \$ 1,108,229 | \$ 68,272 | \$ 1,308,550 |
| 2019 | 122,487 | 896,879 | 46,050 | 1,065,416 |
| 2020 | 114,430 | 936,529 | 46,050 | 1,097,009 |
| 2021 | 106,029 | 977,180 | 2,076 | 1,085,285 |
| 2022 | 97,271 | 1,021,605 | 2,076 | 1,120,952 |
| 2023-2027 | 340,993 | 5,496,266 | 8,302 | 5,845,561 |
| 2028-2032 | 158,046 | 4,031,737 | - | 4,189,783 |
| 2033-2035 | 34,708 | 2,936,976 | - | 2,971,684 |
| Total | \$1,106,013 | \$17,405,401 | \$172,826 | \$18,684,240 |

Morristown Utilities Commission
Notes to Financial Statements (continued)

6. Long-Term Liabilities (continued)

Water System

The City has an outstanding loan agreement (2009 Promissory Note) with the Public Building Authority of the City of Clarksville in the original principal amount of \$7,500,000. Proceeds from the loan agreement were used for various capital projects of the Water System. Interest is payable quarterly at a fixed rate of 2.52%. Principal is payable in varying amounts from \$340,000 in December 2017 to \$505,000 in December 2029.

The City has a revolving fund loan agreement (2002 DWSRF Promissory Note) with the State for the repayment of a principal amount up to \$10.5 million for the purpose of expanding an existing water treatment facility of the Water System. The Water System drew a total of \$10,492,582 before closing out the project during 2007. Interest is payable monthly at an annual percentage rate of 2.61% on the outstanding balance. Principal is payable monthly in varying amounts from \$45,406 in July 2017 to \$55,815 in April 2026. The note is payable from revenues derived from the operations of the Water System.

The City has a \$2,000,000 promissory note (2011 DWSRF Promissory Note) between the Tennessee Department of Environment and Conservation and the Tennessee Local Development Authority to fund a remote-read water meter project. Of the proceeds, \$800,000 was provided as a grant via loan forgiveness through the State. Interest is payable monthly at an annual percentage rate of 2.83% on the outstanding balance. Principal is payable monthly in varying amounts from \$4,289 in July 2017 to \$6,382 in June 2032. The note is payable from revenues derived from operations of the Water System.

The future debt service requirements on Water System long-term debt as of June 30, 2017, are as follows:

| | <u>Interest</u> | <u>Principal</u> | <u>Total Requirements</u> |
|-----------|--------------------|---------------------|-------------------------------|
| 2018 | \$ 292,743 | \$ 936,403 | \$ 1,229,146 |
| 2019 | 268,177 | 962,275 | 1,230,452 |
| 2020 | 242,937 | 988,569 | 1,231,506 |
| 2021 | 216,948 | 1,020,297 | 1,237,245 |
| 2022 | 190,137 | 1,052,469 | 1,242,606 |
| 2023-2027 | 530,773 | 4,963,517 | 5,494,290 |
| 2028-2032 | 83,258 | 1,836,141 | 1,919,399 |
| Total | <u>\$1,824,973</u> | <u>\$11,759,671</u> | <u>\$13,584,644</u> |

Morristown Utilities Commission
Notes to Financial Statements (continued)

6. Long-Term Liabilities (continued)

Wastewater System

The City has an outstanding loan agreement (2008 - 50518 Promissory Note) with the Public Building Authority of the City of Clarksville in the original principal amount of \$8,000,000 of which 50% is attributed to the Wastewater System. Proceeds from the loan agreement were used for the construction and equipping of extensions and improvements to the Wastewater System and refunding of prior debt. Interest is payable monthly at variable rates (0.94% as of June 30, 2017) as determined by the Remarketing Agent. Principal is payable annually in varying amounts from \$187,500 in May 2018 to \$305,500 in May 2028.

The City has an outstanding loan agreement (2008 - 50545 Promissory Note) with the Public Building Authority of the City of Clarksville in the original principal amount of \$3,000,000 of which 57% is attributed to the Wastewater System. Proceeds from the loan agreement were used for the installation of energy conservation measures and related upgrades to reduce energy costs in public facilities. Interest is payable monthly at variable rates (0.94% as of June 30, 2017) as determined by the Remarketing Agent. Principal is payable annually in varying amounts from \$76,380 in May 2018 to \$130,530 in May 2029.

The City has an outstanding loan agreement (2008 - 50532 Promissory Note) with the Public Building Authority of the County of Montgomery, Tennessee in the original principal amount of \$20,000,000 of which 53.98% is attributed to the Wastewater System. Proceeds from the loan agreement were used for the purpose of prepaying outstanding indebtedness. Interest is payable monthly at variable rates (0.94% as of June 30, 2017) as determined by the Remarketing Agent. Principal is payable annually in varying amounts from \$506,832 in May 2018 to \$825,289 in May 2028.

The City has an outstanding loan agreement (2008 - 50536 Promissory Note) with the Public Building Authority of the City of Clarksville in the original principal amount of \$5,035,000 of which 35% is attributed to the Wastewater System. Proceeds from the loan agreement were used for the purpose of prepaying outstanding indebtedness. Interest is payable monthly at variable rates (0.94% as of June 30, 2017) as determined by the Remarketing Agent. Principal is payable annually in varying amounts from \$84,000 in May 2018 to \$136,500 in May 2028.

The City has an outstanding loan agreement (2009 - Promissory Note) between the Public Building Authority of the City of Clarksville and First Tennessee Bank in the original principal amount of \$5,000,000 of which 38.15% is attributed to the Wastewater System. Proceeds from the loan agreement were used for the purpose of prepaying outstanding indebtedness and construction, extension, renovation and improvement of the Wastewater System, including the acquisition of certain equipment. Interest is payable quarterly at a fixed rate of 2.91%. Principal is payable annually in varying amounts from \$64,855 in December 2017 to \$105,669 in December 2034.

Morristown Utilities Commission
Notes to Financial Statements (continued)

6. Long-Term Liabilities (continued)

Wastewater System (continued)

The City has a revolving fund loan agreement (2007 CWSRF Promissory Note) between the Tennessee Department of Environment and Conservation and the Tennessee Local Development Authority for the repayment of a principal amount up to \$12,500,000 for the purpose of rehabilitation and site work at the wastewater treatment plant. The City drew a total of \$10,016,558 before closing out the project in 2012. Interest is payable monthly at a fixed rate of 2.06% on the outstanding balance. Principal is payable monthly in varying amounts from \$37,800 in July 2017 to \$50,476 in January 2032. The note is payable from revenues derived from the operations of the System.

The City has a revolving fund loan agreement (2009 CWSRF Promissory Note) between the Tennessee Department of Environment and Conservation and the Tennessee Local Development Authority for the repayment of a principal amount up to \$1,600,000 for the purpose of rehabilitation and site work at various pump stations. The City drew a total of \$1,287,983 before closing out the project during 2014. Interest is payable monthly at a fixed rate of 2.73% on the outstanding balance. Principal is payable monthly in varying amounts from \$4,669 in July 2017 to \$7,102 in October 2032. The note is payable from revenues derived from the operations of the System.

The City has a revolving fund loan agreement (2013 CWSRF Promissory Note) between the Tennessee Department of Environment and Conservation and the Tennessee Local Development Authority for the repayment of a principal amount of \$5,000,000 for the purpose of rehabilitation and site work at the wastewater treatment plant. Interest is payable monthly at a fixed rate of 1.51% on the outstanding balance. Principal is also payable monthly in varying amounts from \$18,325 in July 2017 to \$24,241 in October 2036. The note is payable from revenues derived from the operations of the System.

During 2012, the City issued \$31,000,000 of General Obligations Bonds, Series 2012, \$26,000,000 of which related to the Wastewater System. The bonds were issued for the purpose of financing the cost of constructing, improving and extending the Wastewater System. The bonds consist of serial maturities that mature in increasing amounts ranging from \$1,086,117 in October 2017 to \$1,076,336 in October 2036. Interest is payable semi-annually at rates ranging between 3% and 4%. The bonds are subject to redemption at the direction of the City prior to maturity. The bonds mature on October 1, 2022, and thereafter are subject to redemption as a whole or in part at any time at the direction of the City. The bonds are payable from and secured by income and revenues from the operation of the Wastewater System.

During 2014, the City entered into a loan agreement (2013 Promissory Note) with the Public Building Authority of the City of Clarksville in the principal amount not to exceed \$20,000,000. Proceeds from the loan agreement were used for the extension, construction, improvement and equipping the Wastewater System. Interest is payable semiannually at a fixed rate of 3.65%. Principal of \$1,000,000 is payable annually, with final maturity in September 2033.

Morristown Utilities Commission
Notes to Financial Statements (continued)

6. Long-Term Liabilities (continued)

Wastewater System (continued)

During 2016, the City entered into a loan agreement (2015 Promissory Note) with the Public Building Authority of the City of Clarksville in the principal amount not to exceed \$10,000,000. Proceeds from the loan agreement are being used for the extension, construction, improvement and equipping of the Wastewater System. Interest is payable semiannually at a fixed rate of 2.74%. Principal is payable annually in varying amounts from \$382,000 in August 2017 to \$639,000 in August 2035.

During 2017, the City entered into a loan agreement (2016 Promissory Note) with the Public Building Authority of the City of Clarksville in the principal amount not to exceed \$15,000,000. Proceeds from the loan agreement will be used for the extension, construction, improvement and equipping of the Wastewater System. Interest is payable semiannually at fixed rate of 2.27%. Principal is payable annually in varying amounts from \$601,000 in December 2017 to \$921,000 in December 2036 (if fully drawn).

Bonds payable are reported net of the applicable premium.

The future debt service requirements on Wastewater long-term debt as of June 30, 2017, are as follows:

| | Bonds | | Promissory Notes | | Total Requirements |
|--------------|--------------------|---------------------|-------------------------|---------------------|---------------------------|
| | Interest | Principal | Interest | Principal | |
| 2018 | \$ 702,759 | \$ 1,086,117 | \$1,176,970 | \$ 3,132,095 | \$ 6,097,941 |
| 2019 | 670,176 | 1,086,117 | 1,058,744 | 3,110,677 | 5,925,714 |
| 2020 | 637,592 | 1,086,117 | 985,436 | 3,183,888 | 5,893,033 |
| 2021 | 605,009 | 1,086,117 | 911,023 | 3,258,769 | 5,860,918 |
| 2022 | 572,425 | 1,086,117 | 835,496 | 3,336,349 | 5,830,387 |
| 2023-2027 | 2,324,499 | 5,430,585 | 3,026,428 | 16,804,825 | 27,586,337 |
| 2028-2032 | 1,310,112 | 5,405,424 | 1,314,204 | 11,340,381 | 19,370,121 |
| 2033-2036 | 449,143 | 5,387,256 | 154,647 | 3,391,847 | 9,382,893 |
| Total | \$7,271,715 | \$21,653,850 | \$9,462,948 | \$47,558,831 | \$85,947,344 |

The Wastewater System has agreed to establish and revise rates such that revenues will be sufficient to pay all costs of maintaining, operating, repairing and ensuring the Wastewater System has the amounts necessary for the payment of principal and interest on the bonds.

Morristown Utilities Commission
Notes to Financial Statements (continued)

6. Long-Term Liabilities (continued)

Wastewater System (continued)

During 2009, the City entered into an asset purchase agreement for the acquisition of a wastewater treatment plant located in Hamblen County, Tennessee. The agreement provided for an initial down payment of \$750,000 plus ongoing Flow Fees generally ranging between \$182,500 (minimum Flow Fee if annual volume fails to exceed the average of 500,000 gallons per day) and \$736,125 annually through 2034 depending on the volume of discharges. The City recorded the acquisition (and related contractual obligation) at the then estimated fair value of the wastewater treatment plant. The obligation (\$2,230,902 outstanding as of June 30, 2017) is payable monthly at \$15,208, which includes interest at the imputed rate of 4.10%. Flow Fees in excess of \$15,208, if any, will be charged to expense as incurred.

Broadband System

The Broadband System was allocated a portion of the 2008 Promissory Note (Power System) based on the assets acquired from the proceeds of the note. In addition, the Broadband System has an interfund note payable to the Power System which is more fully described in Note 10.

During 2014, the City entered into a loan agreement (2014 - Promissory Note) with First Tennessee Bank in the principal amount of \$1,000,000. Proceeds from the loan agreement were used for the purchase, installation integration and bringing into operational status a phone switch. Interest is payable semi-annually at a fixed rate of 2.59%. Principal is payable annually in varying amounts from \$105,000 in June 2018 to \$123,000 in June 2024.

During 2017, the City entered into a loan agreement (2016 - Promissory Note) with First Tennessee Bank in the principal amount of \$2,000,000. Proceeds from the loan agreement are for the purpose of improving the telecommunications system. Interest is payable semi-annually at a fixed rate of 2.00%. Principal is payable annually in varying amounts from \$384,000 in December 2017 to \$416,000 in December 2021.

Future debt service requirements on Broadband System long-term debt (including its interfund note payable) as of June 30, 2017 are as follows:

| | Interest | Principal | Total Requirements |
|-----------|------------------|---------------------|-------------------------------|
| 2018 | \$ 87,227 | \$ 1,125,077 | \$ 1,212,304 |
| 2019 | 74,634 | 1,144,654 | 1,219,288 |
| 2020 | 61,757 | 1,164,235 | 1,225,992 |
| 2021 | 48,597 | 1,183,817 | 1,232,414 |
| 2022 | 35,154 | 1,204,628 | 1,239,782 |
| 2023-2027 | 92,918 | 2,219,737 | 2,312,655 |
| 2028-2032 | 51,283 | 1,308,263 | 1,359,546 |
| 2033-2035 | 11,263 | 953,024 | 964,287 |
| Total | <u>\$462,833</u> | <u>\$10,303,435</u> | <u>\$10,766,268</u> |

Morristown Utilities Commission
Notes to Financial Statements (continued)

7. Leases

The Broadband System leases certain equipment with an original cost of \$98,112, under a capital lease agreement expiring in 2019. Amortization of the asset is included with depreciation expense in the accompanying financial statements. Accumulated amortization totals \$69,761 as of June 30, 2017.

Future minimum lease payments under the capital lease, together with the net present value of the minimum lease payments, is as follows:

| | |
|--|----------|
| 2018 | \$18,877 |
| 2019 | 12,584 |
| Total future minimum lease payments | 31,461 |
| Less amounts representing interest | 3,328 |
| Present value of future minimum lease payments (including \$18,877 classified as current) | \$28,133 |

8. Tennessee Valley Authority Home Insulation Program

The Power System participates in the TVA *energy right*® Residential Program which provides interest-bearing loans to the Power System’s customers for energy-efficient equipment and other weatherization measures. Under the program, the Power System collects payments on previously existing loans and forwards payments to a financial institution pursuant to guidelines established by TVA.

9. Concentration of Credit Risk

The Systems provide electric, water, wastewater and broadband services to customers in the City and Hamblen County, Tennessee. Customers include residential, commercial and heavy industrial users. Residential customers for the Power and Broadband Systems are required to place deposits that approximate one month’s account balance. Loss experience has not been significant to the Systems’ operations.

10. Related Party and Interfund Activities

As described in Note 1, the Commission is an administrative unit of the City. The Systems provide electrical, water, wastewater and broadband service to the City, which generated revenues of approximately \$1,309,000 in 2017. The Electric System also bills and collects stormwater and garbage fees for the City. Administrative charges for these services were approximately \$231,000 in 2017. Payment is due within approximately 30 days of the billing.

Morristown Utilities Commission
Notes to Financial Statements (continued)

10. Related Party and Interfund Activities (continued)

Interfund receivables and payables consist of the following as of June 30, 2017:

| | |
|--|----------------------|
| Power System | |
| Interfund loan to Broadband System, (including \$490,306 classified as current) | \$ 3,416,498 |
| Due from Broadband System | 197,648 |
| Due from Water System | 110,705 |
| Due from Wastewater System | 297,421 |
| Total interfund receivable | <u>\$ 4,022,272</u> |
| Water System | |
| Due to Power System | <u>\$ (110,705)</u> |
| Total interfund payable | <u>\$ (110,705)</u> |
| Wastewater System | |
| Due to Power System | <u>\$ (297,421)</u> |
| Total interfund payable | <u>\$ (297,421)</u> |
| Broadband System | |
| Interfund loan from Power System, (including \$490,306 classified as current) | \$(3,416,498) |
| Due to Power System | (197,648) |
| Total interfund payable | <u>\$(3,614,146)</u> |

In accordance with Tennessee Code Annotated 7-52-603(b), a line of credit was executed allowing the Broadband System to borrow up to \$7,000,000 from the Power System at an interest rate equal to the highest rate earned on Power System investments (0.86% at June 30, 2017). Interest incurred on the loan amounted to \$12,043 in 2017. The agreement was approved by TVA as required by the Power Contract and provides for the repayment of all advances along with accumulated interest by January 2025.

The Power System allocates operating and maintenance costs to the Water and Broadband Systems based upon its usage of fiber lines in the Power System and the number of customers.

Morristown Utilities Commission
Notes to Financial Statements (continued)

10. Related Party and Interfund Activities (continued)

Operating and maintenance costs allocated between the Systems based on these methods are summarized as follows:

| | Services Provided | Services Used |
|------------|------------------------------|--------------------------|
| Power | \$1,375,014 | \$1,914,097 |
| Water | 517,040 | 444,540 |
| Wastewater | – | 531,852 |
| Broadband | 2,056,250 | 1,057,815 |
| Total | \$3,948,304 | \$3,948,304 |

Other amounts reflected as due to/from other funds in the accompanying balance sheets represent temporary operating cash advances between the Power, Water, Wastewater and Broadband Systems.

The tax equivalent payments made to the City based on the Systems' capital assets along with average operating revenue, less power costs are \$1,287,000 for the Power System, \$36,120 for the Water System and \$582,356 for the Wastewater System.

11. Post-Employment Benefits

The Systems provide post-employment benefits (OPEB), in accordance with its employee benefits plan, to all eligible retirees.

Liabilities for OPEB are recognized over the employment of participants rather than as premiums are paid. The Power, Water, Wastewater and Broadband Systems recognized \$56,450, \$25,510, \$12,000 and \$22,000, respectively, for these benefits in 2017.

The Systems' OPEB is a single employer defined benefit plan and is not required to issue a separate financial report.

Morristown Utilities Commission
Notes to Financial Statements (continued)

11. Post-Employment Benefits (continued)

Plan Description

The Systems provide medical, dental and life insurance benefits to retirees. Employees who retire at age 55 with 10 years of service are eligible to participate for five years or until age 65. The Systems pay the same monthly premium amount that is paid for active employees of the retiree's medical, dental and life insurance premiums.

In addition, the Systems pay 60% of the monthly premium amount that is paid for active employees of the retiree's dependent's medical premiums. The retiree's spouse is also eligible for medical benefits (same as retiree) as long as the retiree is eligible (there are no surviving spouse benefits). The life insurance benefit available to retirees is \$5,000.

Funding Policy

The Systems funds the Plan on a pay-as-you-go basis and do not intend to contribute in excess of the annual premiums. The annual required contribution (ARC) is an actuarially determined amount that represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

Annual OPEB and Net OPEB Obligation

| | Power | Water | Wastewater | Broadband |
|--|------------------|------------------|-------------------|------------------|
| Annual required contribution | \$104,246 | \$ 30,506 | \$22,950 | \$ 26,121 |
| Interest on net OPEB obligation | 21,095 | 4,623 | 432 | 7,903 |
| Adjustment to ARC | (26,500) | (5,808) | (542) | (9,927) |
| Annual OPEB cost | 98,841 | 29,321 | 22,840 | 24,097 |
| Contribution made | (42,391) | (3,811) | (10,840) | (2,097) |
| Increase (decrease) in net OPEB obligation | 56,450 | 25,510 | 12,000 | 22,000 |
| Net OPEB obligation, beginning of year | 527,375 | 115,584 | 10,794 | 197,566 |
| Net OPEB obligation, end of year | \$583,825 | \$141,094 | \$22,794 | \$219,566 |

Morristown Utilities Commission
Notes to Financial Statements (continued)

11. Post-Employment Benefits (continued)

Annual OPEB and Net OPEB Obligation (continued)

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation are as follows:

| Fund | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligations |
|-------------------|------------------------|--|-------------------------|
| 2017: | | | |
| Power System | \$ 98,841 | 42.9% | \$583,825 |
| Water System | 29,321 | 13.0% | 141,094 |
| Wastewater System | 22,840 | 47.5% | 22,794 |
| Broadband System | 24,097 | 8.7% | 219,566 |
| 2016: | | | |
| Power System | \$ 95,013 | 43.4% | \$527,375 |
| Water System | 27,969 | 35.1% | 115,584 |
| Wastewater System | 22,767 | 148.2% | 10,794 |
| Broadband System | 22,922 | 1.0% | 197,566 |
| 2015: | | | |
| Power System | \$108,124 | 49.6% | \$473,633 |
| Water System | 35,055 | 53.0% | 97,439 |
| Wastewater System | 17,446 | 27.0% | 21,778 |
| Broadband System | 31,534 | – | 174,877 |

Funding Status and Funding Progress

| System | Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded AAL (UAAL) | Funded Ratio | Covered Payroll | UAAL as a % of Covered Payroll |
|------------|--------------------------------|---------------------------------|--|---------------------------|-----------------|--------------------|---|
| Power | 7/1/15 | \$– | \$866,799 | \$866,799 | –% | \$5,209,672 | 16.6% |
| Water | 7/1/15 | – | 275,407 | 275,407 | –% | 1,427,421 | 19.3% |
| Wastewater | 7/1/15 | – | 198,181 | 198,181 | –% | 760,323 | 26.1% |
| Broadband | 7/1/15 | – | 100,906 | 100,906 | –% | 1,047,800 | 9.6% |

Morristown Utilities Commission
Notes to Financial Statements (continued)

11. Post-Employment Benefits (continued)

Actuarial Methods and Assumptions

The actuarial methods and assumptions used were applied consistently for the Power, Water, Wastewater and Broadband Systems and were as follows:

| | |
|--|-------------------------|
| Funding Interest Rate | 4% |
| 2015 Medical/Rx Trend Rate | 9% |
| Ultimate Medical/Rx Trend Rate | 5% |
| Year Ultimate Trend Rate Reached | 2019 |
| Actuarial Cost Method | Entry Age Normal |
| Annual Payroll Growth Rate | 2.5% |
| Remaining Amortization Period at June 30, 2017 | 23.12 years |

The required schedule of funding progress immediately following the notes to the financial statements presents multi-year trend information about the change in actuarial value of plan assets relative to the actuarial accrued liabilities for benefits.

The mortality rates are from the RP-2000 Combined Fully Generational Mortality Table with projection scale AA. It was assumed that the following percentages of eligible employees would retire each year:

| <u>Age</u> | <u>Rate</u> |
|--------------|-------------|
| 55-59 | 3% |
| 60-64 | 20% |
| 65-69 | 15% |
| 70+ | 100% |

It was also assumed that employees would terminate employment with the rate in the following table:

| <u>Age</u> | <u>Male</u> | <u>Female</u> |
|------------|-------------|---------------|
| 20 | 6.3% | 7.5% |
| 25 | 5.0% | 6.0% |
| 30 | 3.6% | 4.4% |
| 35 | 2.3% | 2.9% |
| 40 | 1.0% | 1.4% |
| 45 | 0.9% | 1.2% |
| 50 | 0.8% | 1.0% |
| 55 | 0.6% | 0.7% |

Morristown Utilities Commission
Notes to Financial Statements (continued)

11. Post-Employment Benefits (continued)

Actuarial Methods and Assumptions (continued)

It was assumed that health care cost would increase in accordance with the trend rates in the following table:

| Year | Medical Rates | Dental Rates |
|-------|---------------|--------------|
| 2015 | 9% | 5% |
| 2016 | 8% | 5% |
| 2017 | 7% | 5% |
| 2018 | 6% | 5% |
| 2019+ | 5% | 5% |

It was assumed that 100% of the current active employees covered under the active plan on the day before retirement would enroll in the retiree medical plan upon retirement. It was also assumed that 10% of the male and 10% of the female employees who elect retiree health coverage for themselves would also elect coverage for their spouse upon retirement. It was assumed that male spouses are three years older than their wives and female spouses are three years younger than the retiree. For current retirees, actual census information was used.

Actuarial calculations reflect a long-term perspective. Actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities.

The preparation of the actuarial liabilities calculated requires management to make assumptions discussed above. Due to the use of these assumptions, actual results may differ from the estimates. The discount rate considers inflationary rate adjustments.

12. Risk Management

The Systems are exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; natural disasters; and injuries of employees for which the Systems carry commercial insurance purchased from independent third parties. The Systems have not experienced an insurance settlement in excess of insurance coverage in any of the past three fiscal years. The Systems bear the risk of loss up to the deductible amounts which are disclosed in the accompanying Statistical Section. During the ordinary course of business, the System is subject to various other disputes and claims pertaining to contracts, and there are uncertainties surrounding the ultimate resolution of these matters. Because of these uncertainties, it is at least reasonably possible the amounts recorded will change within the near term.

The Systems are exposed to risks of loss related to active and retiree medical claims. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported.

Morristown Utilities Commission

Required Supplementary Information

Schedule of Funding Progress for
Morristown Utilities Retiree Benefit Plan

June 30, 2017

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Liability (AAL) - Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll [(b-a)\c] |
|---------------------------------|--------------------------------------|--|----------------------------------|---------------------------|----------------------------|--|
| Power | | | | | | |
| 7/1/2015 | \$ - | \$ 866,799 | \$ 866,799 | 0% | \$ 5,209,672 | 17% |
| 7/1/2013 | - | 939,342 | 939,342 | 0% | 4,089,606 | 23% |
| 7/1/2011 | - | 927,036 | 927,036 | 0% | 4,210,185 | 22% |
| Water | | | | | | |
| 7/1/2015 | - | 275,407 | 275,407 | 0% | 1,427,421 | 19% |
| 7/1/2013 | - | 330,210 | 330,210 | 0% | 1,221,906 | 27% |
| 7/1/2011 | - | 288,818 | 288,818 | 0% | 1,137,002 | 25% |
| Wastewater | | | | | | |
| 7/1/2015 | - | 198,181 | 198,181 | 0% | 760,323 | 26% |
| 1/1/2014 | - | 153,876 | 153,876 | 0% | 583,274 | 26% |
| Broadband | | | | | | |
| 7/1/2015 | - | 100,906 | 100,906 | 0% | 1,047,800 | 10% |
| 7/1/2013 | - | 89,022 | 89,022 | 0% | 1,076,414 | 8% |
| 7/1/2011 | - | 64,160 | 64,160 | 0% | 927,632 | 7% |

Note 1: The Commission assumed the assets, liabilities and operations of the Wastewater System as of December 30, 2013.

Morristown Utilities Commission

Required Supplementary Information

Schedule of Employer Contributions for
Morristown Utilities Retiree Benefit Plan

June 30, 2017

| | <u>Fiscal Year</u> | <u>Annual Required Contribution</u> | <u>Contribution Made</u> | <u>Percentage Contributed</u> |
|--------------------------|--------------------|---|------------------------------|-----------------------------------|
| Power System | 2017 | \$ 104,246 | \$ 42,391 | 41% |
| | 2016 | 99,302 | 41,271 | 42% |
| | 2015 | 110,994 | 53,376 | 48% |
| Water System | 2017 | \$ 30,506 | \$ 3,811 | 12% |
| | 2016 | 28,851 | 9,824 | 34% |
| | 2015 | 35,609 | 18,562 | 52% |
| Wastewater System | 2017 | \$ 22,950 | \$ 10,840 | 47% |
| | 2016 | 22,964 | 33,751 | 147% |
| | 2015 | 17,508 | 4,714 | 27% |
| Broadband System | 2017 | \$ 26,121 | \$ 2,097 | 8% |
| | 2016 | 24,506 | 233 | 1% |
| | 2015 | 32,515 | - | - |

Morristown Utilities Commission

Schedule of Long-term Debt, Principal and Interest Requirements - Power System

June 30, 2017

| Year Ending June 30, | 2003 Promissory Note | | 2008 Promissory Note | | 2013 Promissory Note | | Total | |
|----------------------------|----------------------|-----------------|----------------------|-------------------|----------------------|-------------------|----------------------|---------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| 2018 | \$ 250,000 | \$ 1,838 | \$ 449,229 | \$ 73,281 | \$ 409,000 | \$ 56,930 | \$ 1,108,229 | \$ 132,049 |
| 2019 | - | - | 471,879 | 70,669 | 425,000 | 51,818 | 896,879 | 122,487 |
| 2020 | - | - | 494,529 | 67,925 | 442,000 | 46,505 | 936,529 | 114,430 |
| 2021 | - | - | 517,180 | 65,049 | 460,000 | 40,980 | 977,180 | 106,029 |
| 2022 | - | - | 543,605 | 62,041 | 478,000 | 35,230 | 1,021,605 | 97,271 |
| 2023 | - | - | 570,030 | 58,880 | 498,000 | 29,255 | 1,068,030 | 88,135 |
| 2024 | - | - | 600,230 | 55,565 | 518,000 | 23,030 | 1,118,230 | 78,595 |
| 2025 | - | - | 630,431 | 52,074 | 538,000 | 16,555 | 1,168,431 | 68,629 |
| 2026 | - | - | 660,631 | 48,408 | 560,000 | 9,830 | 1,220,631 | 58,238 |
| 2027 | - | - | 694,606 | 44,566 | 226,338 | 2,830 | 920,944 | 47,396 |
| 2028 | - | - | 728,582 | 40,527 | - | - | 728,582 | 40,527 |
| 2029 | - | - | 766,332 | 36,290 | - | - | 766,332 | 36,290 |
| 2030 | - | - | 804,082 | 31,833 | - | - | 804,082 | 31,833 |
| 2031 | - | - | 845,608 | 27,157 | - | - | 845,608 | 27,157 |
| 2032 | - | - | 887,133 | 22,239 | - | - | 887,133 | 22,239 |
| 2033 | - | - | 932,433 | 17,080 | - | - | 932,433 | 17,080 |
| 2034 | - | - | 977,734 | 11,657 | - | - | 977,734 | 11,657 |
| 2035 | - | - | 1,026,809 | 5,971 | - | - | 1,026,809 | 5,971 |
| | \$ 250,000 | \$ 1,838 | \$ 12,601,063 | \$ 791,212 | \$ 4,554,338 | \$ 312,963 | \$ 17,405,401 | \$ 1,106,013 |

Morristown Utility Commission

Schedule of Long-term Debt, Principal and Interest Requirements - Water System

June 30, 2017

| Year Ending June 30, | 2002 DWSRF Promissory Note | | 2009 DWSRF Promissory Note | | 2011 DWSRF Promissory Note | | Total | |
|----------------------------|-------------------------------|-------------------|-------------------------------|-------------------|-------------------------------|-------------------|----------------------|---------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| 2018 | \$ 544,258 | \$ 133,562 | \$ 340,000 | \$ 132,678 | \$ 52,145 | \$ 26,503 | \$ 936,403 | \$ 292,743 |
| 2019 | 558,635 | 119,185 | 350,000 | 123,984 | 53,640 | 25,008 | 962,275 | 268,177 |
| 2020 | 573,391 | 104,429 | 360,000 | 115,038 | 55,178 | 23,470 | 988,569 | 242,937 |
| 2021 | 588,537 | 89,283 | 375,000 | 105,777 | 56,760 | 21,888 | 1,020,297 | 216,948 |
| 2022 | 604,082 | 73,738 | 390,000 | 96,138 | 58,387 | 20,261 | 1,052,469 | 190,137 |
| 2023 | 620,039 | 57,781 | 400,000 | 86,184 | 60,061 | 18,587 | 1,080,100 | 162,552 |
| 2024 | 636,417 | 41,403 | 415,000 | 75,915 | 61,783 | 16,865 | 1,113,200 | 134,183 |
| 2025 | 653,228 | 24,592 | 430,000 | 65,268 | 63,554 | 15,094 | 1,146,782 | 104,954 |
| 2026 | 585,808 | 7,332 | 445,000 | 54,243 | 65,376 | 13,272 | 1,096,184 | 74,847 |
| 2027 | - | - | 460,000 | 42,840 | 67,251 | 11,397 | 527,251 | 54,237 |
| 2028 | - | - | 475,000 | 31,059 | 69,179 | 9,469 | 544,179 | 40,528 |
| 2029 | - | - | 490,000 | 18,900 | 71,162 | 7,486 | 561,162 | 26,386 |
| 2030 | - | - | 505,000 | 6,363 | 73,202 | 5,446 | 578,202 | 11,809 |
| 2031 | - | - | - | - | 75,301 | 3,347 | 75,301 | 3,347 |
| 2032 | - | - | - | - | 77,297 | 1,188 | 77,297 | 1,188 |
| | \$ 5,364,395 | \$ 651,305 | \$ 5,435,000 | \$ 954,387 | \$ 960,276 | \$ 219,281 | \$ 11,759,671 | \$ 1,824,973 |

Morristown Utility Commission

Schedule of Long-term Debt, Principal and Interest Requirements - Wastewater System

June 30, 2017

| Year Ending June 30, | 2008-50518 Promissory Note | | 2008-50532 Promissory Note | | 2008-50536 Promissory Note | | 2008-50545 Promissory Note | |
|----------------------------|-------------------------------|-------------------|-------------------------------|-------------------|-------------------------------|------------------|-------------------------------|------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| 2018 | \$ 187,500 | \$ 25,060 | \$ 506,832 | \$ 67,668 | \$ 84,000 | \$ 11,153 | \$ 76,380 | \$ 11,434 |
| 2019 | 197,000 | 23,298 | 532,200 | 62,904 | 87,500 | 10,364 | 80,370 | 10,716 |
| 2020 | 207,000 | 21,446 | 558,648 | 57,901 | 92,750 | 9,541 | 84,360 | 9,961 |
| 2021 | 217,500 | 19,500 | 586,716 | 52,650 | 96,250 | 8,669 | 88,350 | 9,168 |
| 2022 | 228,000 | 17,456 | 615,862 | 47,135 | 101,500 | 7,764 | 92,910 | 8,337 |
| 2023 | 239,500 | 15,313 | 646,629 | 41,346 | 106,750 | 6,810 | 97,470 | 7,464 |
| 2024 | 251,500 | 13,061 | 679,014 | 35,267 | 112,000 | 5,807 | 102,600 | 6,547 |
| 2025 | 264,000 | 10,697 | 713,018 | 28,885 | 117,250 | 4,754 | 107,730 | 5,583 |
| 2026 | 277,500 | 8,216 | 748,643 | 22,182 | 122,500 | 3,652 | 112,860 | 4,570 |
| 2027 | 291,000 | 5,607 | 785,885 | 15,145 | 129,500 | 2,500 | 118,560 | 3,509 |
| 2028 | 305,500 | 2,872 | 825,289 | 7,758 | 136,500 | 1,283 | 124,260 | 2,395 |
| 2029 | - | - | - | - | - | - | 130,530 | 1,227 |
| 2030 | - | - | - | - | - | - | - | - |
| 2031 | - | - | - | - | - | - | - | - |
| 2032 | - | - | - | - | - | - | - | - |
| 2033 | - | - | - | - | - | - | - | - |
| 2034 | - | - | - | - | - | - | - | - |
| 2035 | - | - | - | - | - | - | - | - |
| 2036 | - | - | - | - | - | - | - | - |
| 2037 | - | - | - | - | - | - | - | - |
| | <u>\$ 2,666,000</u> | <u>\$ 162,526</u> | <u>\$ 7,198,736</u> | <u>\$ 438,841</u> | <u>\$ 1,186,500</u> | <u>\$ 72,297</u> | <u>\$ 1,216,380</u> | <u>\$ 80,911</u> |

Morristown Utility Commission

Schedule of Long-term Debt, Principal and Interest Requirements - Wastewater System (continued)

June 30, 2017

| Year Ending June 30, | 2007 CWSRF Promissory Note | | 2009 CWSRF Promissory Note | | 2013 CWSRF Promissory Note | | General Obligation Bonds, Series 2012 | |
|----------------------------|-------------------------------|---------------------|-------------------------------|-------------------|-------------------------------|-------------------|--|---------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| 2018 | \$ 453,600 | \$ 153,018 | \$ 56,028 | \$ 28,026 | \$ 219,900 | \$ 69,897 | \$ 1,086,117 | \$ 702,759 |
| 2019 | 463,032 | 143,584 | 57,576 | 26,477 | 223,236 | 66,554 | 1,086,117 | 670,176 |
| 2020 | 472,656 | 133,955 | 59,172 | 24,885 | 226,632 | 63,159 | 1,086,117 | 637,592 |
| 2021 | 482,496 | 124,125 | 60,804 | 23,249 | 230,076 | 59,714 | 1,086,117 | 605,009 |
| 2022 | 492,528 | 114,091 | 62,484 | 21,568 | 233,580 | 56,215 | 1,086,117 | 572,425 |
| 2023 | 502,764 | 103,849 | 64,212 | 19,841 | 237,132 | 52,663 | 1,086,117 | 539,842 |
| 2024 | 513,228 | 93,393 | 65,988 | 18,066 | 240,732 | 49,058 | 1,086,117 | 507,258 |
| 2025 | 523,896 | 82,720 | 67,812 | 16,241 | 244,392 | 45,397 | 1,086,117 | 469,244 |
| 2026 | 534,792 | 71,825 | 69,684 | 14,367 | 248,112 | 41,681 | 1,086,117 | 425,800 |
| 2027 | 545,916 | 60,703 | 71,616 | 12,440 | 251,880 | 37,909 | 1,086,117 | 382,355 |
| 2028 | 557,268 | 49,350 | 73,596 | 10,460 | 255,720 | 34,079 | 1,086,117 | 338,910 |
| 2029 | 568,860 | 37,761 | 75,636 | 8,425 | 259,608 | 30,191 | 1,086,117 | 295,466 |
| 2030 | 580,680 | 25,930 | 77,724 | 6,334 | 263,556 | 26,243 | 1,077,730 | 257,577 |
| 2031 | 592,764 | 13,854 | 79,872 | 4,186 | 267,564 | 22,236 | 1,077,730 | 225,245 |
| 2032 | 353,944 | 2,414 | 82,080 | 1,978 | 271,632 | 18,167 | 1,077,730 | 192,914 |
| 2033 | - | - | 27,979 | 159 | 275,760 | 14,037 | 1,077,730 | 159,908 |
| 2034 | - | - | - | - | 279,948 | 9,844 | 1,077,730 | 125,555 |
| 2035 | - | - | - | - | 284,208 | 5,588 | 1,077,730 | 90,529 |
| 2036 | - | - | - | - | 216,089 | 1,362 | 1,077,730 | 54,829 |
| 2037 | - | - | - | - | - | - | 1,076,336 | 18,322 |
| | \$ 7,638,424 | \$ 1,210,572 | \$ 1,052,263 | \$ 236,702 | \$ 4,729,757 | \$ 703,994 | \$ 21,653,850 | \$ 7,271,715 |

Morristown Utility Commission

Schedule of Long-term Debt, Principal and Interest Requirements - Wastewater System (continued)

June 30, 2017

| Year Ending June 30, | 2009 Promissory Note | | 2013 Promissory Note | | 2015 Promissory Note | | 2016 Promissory Note | | Total | |
|----------------------------|-------------------------|-------------------|-------------------------|---------------------|-------------------------|-------------------|-------------------------|-----------------|----------------------|----------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| 2018 | \$ 64,855 | \$ 42,875 | \$ 1,000,000 | \$ 628,549 | \$ 393,000 | \$ 137,247 | \$ 90,000 | \$ 2,043 | \$ 4,218,212 | \$ 1,879,729 |
| 2019 | 66,763 | 40,959 | 1,000,000 | 593,922 | 403,000 | 79,966 | - | - | 4,196,794 | 1,728,920 |
| 2020 | 68,670 | 38,999 | 1,000,000 | 556,805 | 414,000 | 68,784 | - | - | 4,270,005 | 1,623,028 |
| 2021 | 70,577 | 36,963 | 1,000,000 | 519,688 | 426,000 | 57,297 | - | - | 4,344,886 | 1,516,032 |
| 2022 | 72,485 | 34,881 | 1,000,000 | 482,572 | 437,000 | 45,477 | - | - | 4,422,466 | 1,407,921 |
| 2023 | 74,774 | 32,739 | 1,000,000 | 445,455 | 449,000 | 33,352 | - | - | 4,504,348 | 1,298,674 |
| 2024 | 77,063 | 30,530 | 1,000,000 | 408,338 | 462,000 | 20,893 | - | - | 4,590,242 | 1,188,218 |
| 2025 | 79,352 | 28,254 | 1,000,000 | 371,221 | 291,000 | 8,074 | - | - | 4,494,567 | 1,071,070 |
| 2026 | 81,641 | 25,911 | 1,000,000 | 334,104 | - | - | - | - | 4,281,849 | 952,308 |
| 2027 | 83,930 | 23,502 | 1,000,000 | 296,987 | - | - | - | - | 4,364,404 | 840,657 |
| 2028 | 86,218 | 21,026 | 1,000,000 | 259,870 | - | - | - | - | 4,450,468 | 728,003 |
| 2029 | 88,889 | 18,479 | 1,000,000 | 222,754 | - | - | - | - | 3,209,640 | 614,303 |
| 2030 | 91,559 | 15,853 | 1,000,000 | 185,637 | - | - | - | - | 3,091,249 | 517,574 |
| 2031 | 94,231 | 13,150 | 1,000,000 | 148,520 | - | - | - | - | 3,112,161 | 427,191 |
| 2032 | 96,901 | 10,369 | 1,000,000 | 111,403 | - | - | - | - | 2,882,287 | 337,245 |
| 2033 | 99,571 | 7,510 | 1,000,000 | 74,286 | - | - | - | - | 2,481,040 | 255,900 |
| 2034 | 102,623 | 4,568 | 1,000,000 | 35,755 | - | - | - | - | 2,460,301 | 175,722 |
| 2035 | 105,669 | 1,538 | - | - | - | - | - | - | 1,467,607 | 97,655 |
| 2036 | - | - | - | - | - | - | - | - | 1,293,819 | 56,191 |
| 2037 | - | - | - | - | - | - | - | - | 1,076,336 | 18,322 |
| | \$ 1,505,771 | \$ 428,106 | \$ 17,000,000 | \$ 5,675,866 | \$ 3,275,000 | \$ 451,090 | \$ 90,000 | \$ 2,043 | \$ 69,212,681 | \$ 16,734,663 |

Morristown Utility Commission

Schedule of Long-term Debt, Principal and Interest Requirements-Broadband System

June 30, 2017

| Year Ending June 30, | 2008 Promissory Note | | Interfund Loan from Power System | | 2014 Promissory Note | | 2016 Promissory Note | | Total | |
|----------------------------|----------------------|-------------------|-------------------------------------|------------------|----------------------|------------------|----------------------|-------------------|----------------------|-------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| 2018 | \$ 145,771 | \$ 23,779 | \$ 490,306 | \$ 7,980 | \$ 105,000 | \$ 19,308 | \$ 384,000 | \$ 36,160 | \$ 1,125,077 | \$ 87,227 |
| 2019 | 153,121 | 22,931 | 491,533 | 6,753 | 108,000 | 16,550 | 392,000 | 28,400 | 1,144,654 | 74,634 |
| 2020 | 160,471 | 22,041 | 492,764 | 5,522 | 111,000 | 13,714 | 400,000 | 20,480 | 1,164,235 | 61,757 |
| 2021 | 167,820 | 21,108 | 493,997 | 4,289 | 114,000 | 10,800 | 408,000 | 12,400 | 1,183,817 | 48,597 |
| 2022 | 176,395 | 20,132 | 495,233 | 3,053 | 117,000 | 7,809 | 416,000 | 4,160 | 1,204,628 | 35,154 |
| 2023 | 184,970 | 19,106 | 496,473 | 1,813 | 120,000 | 4,740 | - | - | 801,443 | 25,659 |
| 2024 | 194,770 | 18,030 | 456,192 | 570 | 123,000 | 1,593 | - | - | 773,962 | 20,193 |
| 2025 | 204,569 | 16,897 | - | - | - | - | - | - | 204,569 | 16,897 |
| 2026 | 214,369 | 15,708 | - | - | - | - | - | - | 214,369 | 15,708 |
| 2027 | 225,394 | 14,461 | - | - | - | - | - | - | 225,394 | 14,461 |
| 2028 | 236,418 | 13,150 | - | - | - | - | - | - | 236,418 | 13,150 |
| 2029 | 248,668 | 11,776 | - | - | - | - | - | - | 248,668 | 11,776 |
| 2030 | 260,918 | 10,329 | - | - | - | - | - | - | 260,918 | 10,329 |
| 2031 | 274,392 | 8,812 | - | - | - | - | - | - | 274,392 | 8,812 |
| 2032 | 287,867 | 7,216 | - | - | - | - | - | - | 287,867 | 7,216 |
| 2033 | 302,567 | 5,542 | - | - | - | - | - | - | 302,567 | 5,542 |
| 2034 | 317,266 | 3,783 | - | - | - | - | - | - | 317,266 | 3,783 |
| 2035 | 333,191 | 1,938 | - | - | - | - | - | - | 333,191 | 1,938 |
| | \$ 4,088,937 | \$ 256,739 | \$ 3,416,498 | \$ 29,980 | \$ 798,000 | \$ 74,514 | \$ 2,000,000 | \$ 101,600 | \$ 10,303,435 | \$ 462,833 |

Morristown Utilities Commission

Schedule of Net Position by Fund (Last Ten Years)

Fiscal Years 2017 - 2008 (in thousands)

| | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|----------------------------------|------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Power System: | | | | | | | | | | |
| Net investment in capital assets | \$ 44,873 | \$ 44,822 | \$ 42,597 | \$ 41,510 | \$ 39,421 | \$ 37,913 | \$ 34,586 | \$ 32,756 | \$ 32,023 | \$ 31,914 |
| Unrestricted | 14,619 | 13,928 | 16,020 | 17,305 | 18,076 | 16,560 | 17,235 | 15,634 | 13,275 | 11,210 |
| Total net position | \$ 59,492 | \$ 58,750 | \$ 58,617 | \$ 58,815 | \$ 57,497 | \$ 54,473 | \$ 51,821 | \$ 48,390 | \$ 45,298 | \$ 43,124 |
| Water System: | | | | | | | | | | |
| Net investment in capital assets | \$ 29,387 | \$ 30,054 | \$ 28,406 | \$ 26,909 | \$ 26,730 | \$ 26,034 | \$ 25,841 | \$ 24,597 | \$ 23,359 | \$ 22,356 |
| Restricted | - | - | - | - | - | - | - | 585 | 561 | 301 |
| Unrestricted | 2,820 | 2,060 | 3,546 | 4,523 | 4,385 | 4,465 | 3,794 | 2,625 | 2,406 | 2,450 |
| Total net position | \$ 32,207 | \$ 32,114 | \$ 31,952 | \$ 31,432 | \$ 31,115 | \$ 30,499 | \$ 29,635 | \$ 27,807 | \$ 26,326 | \$ 25,107 |
| Wastewater System: | | | | | | | | | | |
| Net investment in capital assets | \$ 25,368 | \$ 26,416 | \$ 24,851 | \$ 18,009 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Unrestricted | 5,489 | 2,889 | 1,879 | 5,796 | - | - | - | - | - | - |
| Total net position | \$ 30,857 | \$ 29,305 | \$ 26,730 | \$ 23,805 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Broadband System: | | | | | | | | | | |
| Net investment in capital assets | \$ 3,308 | \$ 2,689 | \$ 1,984 | \$ 2,192 | \$ 1,275 | \$ 1,159 | \$ 773 | \$ 149 | \$ 728 | \$ 758 |
| Unrestricted deficit | (1,638) | (3,704) | (5,489) | (7,034) | (7,149) | (7,281) | (6,804) | (6,181) | (6,233) | (5,649) |
| Total net position | \$ 1,670 | \$ (1,015) | \$ (3,505) | \$ (4,842) | \$ (5,874) | \$ (6,122) | \$ (6,031) | \$ (6,032) | \$ (5,505) | \$ (4,891) |

Note 1: Information is summarized from the audited financial statements for the year indicated.

Note 2: In 2012, the Commission implemented GASB 65 which changed the accounting for bond issue costs. This resulted in a restatement of net position for Power, Water, and Broadband of \$527,518, \$74,382, and \$170,225, respectively as of July 1, 2011.

Note 3: The Commission assumed the assets, liabilities and operations of the Wastewater System as of December 30, 2013.

Morristown Utilities Commission

Schedule of Power System Revenues and Expenses (Last Ten Years)

Fiscal Years 2017 - 2008 (in thousands)

| | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Operating revenues: | | | | | | | | | | |
| Residential | \$ 17,252 | \$ 16,058 | \$ 17,001 | \$ 16,878 | \$ 16,472 | \$ 15,645 | \$ 17,235 | \$ 15,022 | \$ 15,941 | \$ 13,418 |
| Commercial | 5,622 | 5,333 | 5,319 | 5,296 | 5,248 | 5,199 | 5,328 | 5,001 | 5,450 | 4,746 |
| Industrial | 53,122 | 51,352 | 51,648 | 52,096 | 51,961 | 52,499 | 51,678 | 44,811 | 48,565 | 42,996 |
| Street and security lighting | 1,248 | 1,222 | 1,184 | 1,155 | 1,170 | 1,232 | 1,197 | 1,114 | 1,183 | 1,054 |
| Total metered revenue | 77,244 | 73,965 | 75,152 | 75,425 | 74,851 | 74,575 | 75,438 | 65,948 | 71,139 | 62,214 |
| Interfund services | 1,375 | 1,300 | 1,316 | 1,190 | 963 | 773 | 546 | 685 | - | - |
| Other revenues | 1,742 | 1,750 | 1,434 | 1,545 | 1,323 | 1,215 | 1,182 | 1,048 | 1,144 | 1,137 |
| Total operating revenues | 80,361 | 77,015 | 77,902 | 78,160 | 77,137 | 76,563 | 77,166 | 67,681 | 72,283 | 63,351 |
| Operating expenses: | | | | | | | | | | |
| Power purchased | 62,673 | 60,624 | 62,678 | 62,661 | 62,088 | 61,324 | 62,799 | 54,288 | 60,370 | 52,594 |
| Operations | 5,316 | 5,333 | 5,399 | 5,408 | 4,941 | 5,008 | 4,882 | 4,653 | 4,415 | 4,292 |
| Maintenance | 2,732 | 2,569 | 2,483 | 2,161 | 2,000 | 1,804 | 1,764 | 1,737 | 1,709 | 1,596 |
| Interfund services used | 1,914 | 1,720 | 1,111 | 847 | 867 | 560 | - | 342 | 737 | - |
| Depreciation and amortization | 5,128 | 4,888 | 4,789 | 4,573 | 4,190 | 3,485 | 3,211 | 2,661 | 1,973 | 2,310 |
| Taxes | 374 | 356 | 336 | 305 | 318 | 260 | 226 | 204 | 204 | 204 |
| Miscellaneous | - | - | - | - | 42 | - | 29 | 12 | 52 | 21 |
| Total operating expenses | 78,137 | 75,490 | 76,796 | 75,955 | 74,446 | 72,441 | 72,911 | 63,897 | 69,460 | 61,017 |
| Operating income | 2,224 | 1,525 | 1,106 | 2,205 | 2,691 | 4,122 | 4,255 | 3,784 | 2,823 | 2,334 |
| Other (expense) income | (237) | (166) | (147) | (131) | (108) | (46) | (47) | 11 | 54 | 156 |
| Income before reimbursement, contributions and transfers | 1,987 | 1,359 | 959 | 2,074 | 2,583 | 4,076 | 4,208 | 3,795 | 2,877 | 2,490 |
| TVA load control/capacity reimbursement | - | - | - | 331 | 1,501 | - | - | - | - | - |
| Contributions | - | - | - | - | - | - | 1,501 | - | - | - |
| Plant costs recovered through contributions | - | - | - | - | - | - | (1,501) | - | - | - |
| Transfers out (tax equivalent payments to City of Morristown) | (1,287) | (1,226) | (1,157) | (1,087) | (1,061) | (896) | (777) | (703) | (703) | (699) |
| Increase (decrease) in net position | \$ 700 | \$ 133 | \$ (198) | \$ 1,318 | \$ 3,023 | \$ 3,180 | \$ 3,431 | \$ 3,092 | \$ 2,174 | \$ 1,791 |

Note 1: Information is summarized from the audited financial statements for the years indicated.

Morristown Utilities Commissior

Schedule of Water System Revenues and Expenses (Last Ten Years

Fiscal Years 2017 - 2008 (in thousands)

| | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|--|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Operating revenues: | | | | | | | | | | |
| General | \$ 6,360 | \$ 6,129 | \$ 6,163 | \$ 6,182 | \$ 6,161 | \$ 6,330 | \$ 6,590 | \$ 6,444 | \$ 6,015 | \$ 5,261 |
| Public authorities | 61 | 55 | 57 | 58 | 80 | 81 | 88 | 66 | 61 | 52 |
| Private fire protection | 169 | 167 | 164 | 180 | 180 | 165 | 162 | 162 | 161 | 161 |
| Public fire protection | 26 | 26 | 27 | 30 | 29 | 27 | 26 | 31 | 34 | 33 |
| Total metered sales | 6,616 | 6,377 | 6,411 | 6,450 | 6,450 | 6,603 | 6,866 | 6,703 | 6,271 | 5,507 |
| Interfund services provided | 517 | 470 | 441 | 187 | - | - | - | - | - | - |
| Other operating revenues | 36 | 33 | 33 | 226 | 21 | 45 | 70 | 66 | 60 | 65 |
| Total operating revenues | 7,169 | 6,880 | 6,885 | 6,863 | 6,471 | 6,648 | 6,936 | 6,769 | 6,331 | 5,572 |
| Operating expenses: | | | | | | | | | | |
| Operations | 4,021 | 3,748 | 3,531 | 3,622 | 3,176 | 3,144 | 3,186 | 2,931 | 3,165 | 2,872 |
| Maintenance | 731 | 720 | 561 | 674 | 594 | 541 | 589 | 518 | 488 | 568 |
| Interfund services used | 445 | 396 | 319 | 288 | 189 | - | 79 | - | - | - |
| Depreciation and amortization | 1,561 | 1,537 | 1,610 | 1,552 | 1,416 | 1,680 | 1,439 | 1,403 | 1,157 | 1,220 |
| Miscellaneous | - | - | - | - | 26 | 8 | 40 | 45 | 41 | 40 |
| Total operating expenses | 6,758 | 6,401 | 6,021 | 6,136 | 5,401 | 5,373 | 5,333 | 4,897 | 4,851 | 4,700 |
| Operating income | 411 | 479 | 864 | 727 | 1,070 | 1,275 | 1,603 | 1,872 | 1,480 | 872 |
| Other income (expense): | | | | | | | | | | |
| Interest income | 16 | 11 | 8 | 12 | 15 | 17 | 20 | 21 | 37 | 111 |
| Interest expense | (363) | (389) | (415) | (439) | (477) | (482) | (507) | (408) | (321) | (355) |
| Net other expense | (347) | (378) | (407) | (427) | (462) | (465) | (487) | (387) | (284) | (244) |
| Income before contributions and transfers | 64 | 101 | 457 | 300 | 608 | 810 | 1,116 | 1,485 | 1,196 | 628 |
| Contributions | 65 | 97 | 100 | 53 | 43 | 165 | 747 | 28 | 54 | 56 |
| Transfers out (tax equivalent payments to City of Morristown) | (36) | (36) | (36) | (36) | (36) | (36) | (36) | (32) | (32) | (32) |
| Increase in net position | \$ 93 | \$ 162 | \$ 521 | \$ 317 | \$ 615 | \$ 939 | \$ 1,827 | \$ 1,481 | \$ 1,218 | \$ 652 |

Note 1: Information is summarized from the audited financial statements for the years indicated.

Morristown Utilities Commission

Schedule of Wastewater System Revenues and Expenses (Last Four Years)

Fiscal Years 2017 - 2014 (in thousands)

| | 2017 | 2016 | 2015 | 2014 |
|--|-----------------|-----------|-----------|-----------|
| Operating revenues: | | | | |
| General | \$ 13,453 | \$ 12,585 | \$ 12,083 | \$ 12,547 |
| Public authorities | 329 | 270 | 164 | 110 |
| Total metered sales | <u>13,782</u> | 12,855 | 12,247 | 12,657 |
| Other operating revenues | 746 | 839 | 809 | 420 |
| Total operating revenues | <u>14,528</u> | 13,694 | 13,056 | 13,077 |
| Operating expenses: | | | | |
| Operations | 4,455 | 3,844 | 3,996 | 4,663 |
| Maintenance | 1,344 | 1,019 | 848 | 766 |
| Interfund services used | 532 | 481 | 443 | 201 |
| Depreciation and amortization | 4,167 | 3,741 | 3,276 | 2,510 |
| Total operating expenses | <u>10,498</u> | 9,085 | 8,563 | 8,140 |
| Operating income | 4,030 | 4,609 | 4,493 | 4,937 |
| Other income (expense): | | | | |
| Interest income | 14 | 5 | 21 | 158 |
| Financing cost | (182) | (162) | (90) | (222) |
| Interest expense | (1,888) | (1,695) | (1,174) | (905) |
| Net other expense | <u>(2,056)</u> | (1,852) | (1,243) | (969) |
| Income before contributions and transfers | 1,974 | 2,757 | 3,250 | 3,968 |
| Contributions | 165 | 325 | 51 | 139 |
| Transfers out (tax equivalent payments to City of Morristown) | <u>(583)</u> | (507) | (376) | (305) |
| Increase in net position | <u>\$ 1,556</u> | \$ 2,575 | \$ 2,925 | \$ 3,802 |

Note 1: Information is summarized from the audited financial statements for the year indicated.

Note 2: The Commission assumed the operations of the Wastewater System as of December 30, 2013.

Morristown Utilities Commission

Schedule of Broadband System Revenues and Expenses (Last Ten Years)

Fiscal Years 2017 - 2008 (in thousands)

| | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|-------------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|------------|
| Operating revenues: | | | | | | | | | | |
| Video | \$ 3,861 | \$ 3,823 | \$ 3,483 | \$ 2,876 | \$ 2,802 | \$ 2,729 | \$ 2,555 | \$ 2,544 | \$ 2,214 | \$ 1,790 |
| Internet | 3,039 | 2,832 | 2,638 | 2,657 | 2,307 | 2,105 | 1,702 | 1,536 | 1,390 | 1,124 |
| Voice | 1,702 | 1,854 | 2,118 | 2,096 | 2,086 | 1,981 | 1,935 | 1,934 | 1,867 | 1,511 |
| Total broadband sales | 8,602 | 8,509 | 8,239 | 7,629 | 7,195 | 6,815 | 6,192 | 6,014 | 5,471 | 4,425 |
| Interfund services provided | 2,056 | 1,830 | 1,173 | 921 | 937 | 560 | - | 342 | 737 | - |
| Other revenue | 103 | 210 | 311 | 387 | 217 | 225 | 130 | 146 | 85 | 79 |
| Total operating revenues | 10,761 | 10,549 | 9,723 | 8,937 | 8,349 | 7,600 | 6,322 | 6,502 | 6,293 | 4,504 |
| Operating expenses: | | | | | | | | | | |
| Operations | 5,756 | 6,014 | 6,395 | 6,182 | 6,121 | 5,579 | 4,874 | 4,717 | 4,568 | 3,908 |
| Maintenance | 337 | 357 | 303 | 239 | 199 | 208 | 135 | 212 | 204 | 197 |
| Interfund services used | 1,058 | 1,003 | 1,057 | 962 | 845 | 773 | 467 | 685 | - | - |
| Depreciation and amortization | 599 | 515 | 482 | 372 | 821 | 860 | 757 | 1,282 | 1,532 | 1,489 |
| Taxes | 192 | 87 | 64 | 88 | 53 | 52 | 41 | 36 | 65 | 73 |
| Total operating expenses | 7,942 | 7,976 | 8,301 | 7,843 | 8,039 | 7,472 | 6,274 | 6,932 | 6,369 | 5,667 |
| Operating income (loss) | 2,819 | 2,573 | 1,422 | 1,094 | 310 | 128 | 48 | (430) | (76) | (1,163) |
| Other income (expense): | | | | | | | | | | |
| Interest income | 1 | 2 | 2 | 2 | 2 | 2 | 1 | 1 | 8 | 30 |
| Financing cost | (29) | (29) | (29) | (32) | - | - | - | - | - | - |
| Interest expense | (105) | (55) | (58) | (32) | (63) | (51) | (48) | (99) | (545) | (1,241) |
| Total other expense | (133) | (82) | (85) | (62) | (61) | (49) | (47) | (98) | (537) | (1,211) |
| Increase (decrease) in net position | \$ 2,686 | \$ 2,491 | \$ 1,337 | \$ 1,032 | \$ 249 | \$ 79 | \$ 1 | \$ (528) | \$ (613) | \$ (2,374) |

Note 1: Information is summarized from the audited financial statements for the years indicated.

Note 2: In 2009, the Broadband System began charging the Power System for outage and System management.

Note 3: In 2010, the Power System began charging the Broadband System for network usage.

Morristown Utilities Commission

Schedule of Purchased Power, Consumption and Active Service Statistics (Last Ten Years)

Fiscal Years 2017 - 2008

| | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|----------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| PURCHASED POWER - (Megawatt Hours) | | | | | | | | | | |
| Purchased from TVA | 939,622 | 929,150 | 930,256 | 918,686 | 901,805 | 909,825 | 925,207 | 892,562 | 851,958 | 926,326 |
| CONSUMPTION - (Megawatt Hours) | | | | | | | | | | |
| Residential | 156,476 | 154,310 | 165,278 | 167,038 | 161,666 | 153,060 | 173,555 | 166,887 | 164,160 | 165,828 |
| Commercial | 47,096 | 46,642 | 46,991 | 47,068 | 46,611 | 46,417 | 48,299 | 49,233 | 50,978 | 53,632 |
| Industrial | 707,411 | 697,274 | 681,164 | 672,250 | 663,585 | 676,897 | 676,441 | 640,236 | 605,244 | 674,587 |
| Street and athletic | 5,099 | 5,261 | 5,309 | 5,070 | 4,979 | 5,039 | 5,088 | 4,856 | 4,790 | 4,892 |
| Outdoor lighting | 4,756 | 4,765 | 4,678 | 4,761 | 4,730 | 4,860 | 4,909 | 4,766 | 4,825 | 4,960 |
| Internal use | 2,574 | 2,285 | 1,184 | 986 | 965 | 786 | 1,100 | 1,230 | 1,205 | 1,092 |
| Total consumption | 923,412 | 910,537 | 904,604 | 897,173 | 882,536 | 887,059 | 909,392 | 867,208 | 831,202 | 904,991 |
| Line losses and megawatt hours unaccounted for | 16,210 | 18,613 | 25,652 | 21,513 | 19,269 | 22,766 | 15,815 | 25,354 | 20,756 | 21,335 |
| Percentage of line losses and megawatt hours unaccounted for to purchased power | 1.73% | 2.00% | 2.76% | 2.34% | 2.14% | 2.50% | 1.71% | 2.84% | 2.44% | 2.30% |
| ACTIVE SERVICE (number of customers) | | | | | | | | | | |
| Residential | 11,995 | 11,862 | 11,826 | 11,721 | 11,764 | 11,752 | 11,683 | 11,819 | 11,545 | 11,687 |
| Commercial | 2,163 | 2,160 | 2,141 | 2,120 | 2,121 | 2,105 | 2,085 | 2,109 | 2,166 | 2,210 |
| Industrial | 458 | 446 | 439 | 458 | 449 | 447 | 467 | 464 | 455 | 465 |
| Street and athletic | 76 | 75 | 76 | 73 | 70 | 71 | 69 | 69 | 69 | 70 |
| Outdoor lighting | 34 | 33 | 33 | 34 | 34 | 31 | 32 | 35 | 35 | 37 |
| Total active service | 14,726 | 14,576 | 14,515 | 14,406 | 14,438 | 14,406 | 14,336 | 14,496 | 14,270 | 14,469 |

Note 1: Information is compiled from internally generated statistical reports.

Morristown Utilities Commission

Schedule of Water Production, Consumption and Active Service Statistics (Last Ten Years)

Fiscal Years 2017 - 2008

| | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| PRODUCTION - (Thousands of gallons) | | | | | | | | | | |
| Produced | 3,276,264 | 3,087,467 | 3,094,732 | 3,177,165 | 3,179,415 | 3,211,089 | 3,391,595 | 3,244,465 | 3,249,905 | 3,391,690 |
| CONSUMPTION - (Thousands of gallons) | | | | | | | | | | |
| General | 2,699,046 | 2,707,815 | 2,742,287 | 2,770,846 | 2,760,419 | 2,815,744 | 2,981,110 | 2,871,614 | 2,927,487 | 3,082,407 |
| Public authorities | 46,628 | 42,822 | 44,679 | 41,529 | 42,055 | 42,939 | 48,268 | 35,163 | 35,207 | 37,057 |
| Public fire protection | - | - | - | - | - | - | - | 2,917 | 5,000 | 5,000 |
| Internal use | 1,216 | 2,267 | 1,513 | 32,352 | 33,646 | 33,981 | 36,387 | 36,616 | 20,922 | 21,382 |
| Total consumption | 2,746,890 | 2,752,904 | 2,788,479 | 2,844,727 | 2,836,120 | 2,892,664 | 3,065,765 | 2,946,310 | 2,988,616 | 3,145,846 |
| Gallons unaccounted for | 529,374 | 334,563 | 306,253 | 332,438 | 343,295 | 318,425 | 325,830 | 298,155 | 261,289 | 245,844 |
| Percent of gallons unaccounted for to production | 16.16% | 10.84% | 9.90% | 10.46% | 10.80% | 9.92% | 9.61% | 9.19% | 8.04% | 7.25% |
| ACTIVE SERVICE (number of customers) | | | | | | | | | | |
| General | 12,327 | 12,310 | 12,255 | 12,221 | 12,242 | 12,224 | 12,179 | 12,241 | 12,183 | 12,617 |
| Public authorities | 44 | 44 | 45 | 44 | 44 | 44 | 42 | 43 | 44 | 43 |
| Private fire protection | 300 | 295 | 289 | 284 | 283 | 285 | 280 | 283 | 278 | 276 |
| Public fire protection | - | - | - | - | - | - | - | - | 1 | 1 |
| Total active service | 12,671 | 12,649 | 12,589 | 12,549 | 12,569 | 12,553 | 12,501 | 12,567 | 12,506 | 12,937 |

Note 1: Information is compiled from internally generated statistical reports.

Morristown Utilities Commission

Schedule of Wastewater Treated, Consumption and Active Service Statistics (Last Four Years)

Fiscal Years 2017 - 2014

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--------------------------------------|------------------|-------------|-------------|-------------|
| TREATED - (Thousands of gallons) | | | | |
| Treated | 1,368,995 | 1,627,823 | 1,518,723 | 1,714,921 |
| CONSUMPTION - (Thousands of gallons) | | | | |
| General | 1,173,074 | 1,217,364 | 1,239,402 | 1,256,780 |
| Public authorities | 11,529 | 9,633 | 10,200 | 9,726 |
| Total consumption | 1,184,603 | 1,226,997 | 1,249,602 | 1,266,506 |
| ACTIVE SERVICE (number of customers) | | | | |
| General | 10,594 | 10,605 | 10,565 | 10,567 |
| Public authorities | 9 | 9 | 9 | 9 |
| Total active service | 10,603 | 10,614 | 10,574 | 10,576 |

Note 1: Information is compiled from internally generated statistical reports.

Note 2: The Commission assumed operations of the Wastewater System in December 2013.

Morristown Utilities Commission

Schedule of Broadband Active Service Statistics (Last Ten Years)

Fiscal Years 2017 - 2008

| | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|--------------------------------------|---------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| ACTIVE SERVICE (number of customers) | | | | | | | | | | |
| Video | 3,779 | 3,998 | 4,227 | 4,097 | 4,143 | 4,085 | 3,738 | 3,687 | 3,771 | 3,525 |
| Internet | 5,046 | 4,828 | 4,654 | 4,165 | 4,010 | 3,800 | 3,397 | 3,298 | 3,100 | 2,757 |
| Voice | 2,510 | 2,675 | 2,833 | 2,835 | 2,908 | 2,911 | 2,784 | 2,830 | 2,881 | 2,741 |
| Total active service | 11,335 | 11,501 | 11,714 | 11,097 | 11,061 | 10,796 | 9,919 | 9,815 | 9,752 | 9,023 |

Note 1: Information is compiled from internally generated statistical reports.

Morristown Utilities Commission

Schedule of Outstanding Long-Term Debt by Type (Last Ten Years)

Fiscal Years 2017 - 2008

| Power | | | | |
|--------------------|-------------------------|--------------------------|----------------------|---------------------|
| Fiscal Year | Promissory Notes | Cooperative Notes | Total | Per Customer |
| 2017 | \$ 17,405,401 | \$ 172,826 | \$ 17,578,227 | \$ 1,194 |
| 2016 | 18,475,080 | 234,127 | 18,709,207 | 1,284 |
| 2015 | 18,810,190 | 314,108 | 19,124,298 | 1,318 |
| 2014 | 18,331,536 | 394,089 | 18,725,625 | 1,230 |
| 2013 | 15,687,238 | 474,073 | 16,161,311 | 1,119 |
| 2012 | 15,937,655 | 554,056 | 16,491,711 | 1,145 |
| 2011 | 16,419,859 | 675,453 | 17,095,312 | 1,192 |
| 2010 | 16,886,961 | 796,852 | 17,683,813 | 1,220 |
| 2009 | 1,825,000 | 447,618 | 2,272,618 | 159 |
| 2008 | 1,950,000 | 538,123 | 2,488,123 | 174 |

| Water | | | | |
|--------------------|----------------------|-------------------------|----------------------|---------------------|
| Fiscal Year | Revenue Bonds | Promissory Notes | Total | Per Customer |
| 2017 | \$ - | \$ 11,759,671 | \$ 11,759,671 | \$ 928 |
| 2016 | - | 12,671,215 | 12,671,215 | 1,002 |
| 2015 | - | 13,552,688 | 13,552,688 | 1,077 |
| 2014 | - | 14,409,471 | 14,409,471 | 1,148 |
| 2013 | - | 15,241,951 | 15,241,951 | 1,213 |
| 2012 | - | 16,221,011 | 16,221,011 | 1,292 |
| 2011 | - | 16,852,375 | 16,852,375 | 1,348 |
| 2010 | 255,000 | 16,800,967 | 17,055,967 | 1,357 |
| 2009 | 730,000 | 9,898,263 | 10,628,263 | 850 |
| 2008 | 730,000 | 10,484,285 | 11,214,285 | 866 |

| Wastewater | | | | |
|--------------------|----------------------|-------------------------|----------------------|---------------------|
| Fiscal Year | Bonds | Promissory Notes | Total | Per Customer |
| 2017 | \$ 21,743,850 | \$ 47,468,831 | \$ 69,212,681 | \$ 6,528 |
| 2016 | 22,739,967 | 43,987,606 | 66,727,573 | 6,287 |
| 2015 | 23,827,767 | 43,782,738 | 67,610,505 | 6,390 |
| 2014 | 24,913,883 | 31,579,901 | 56,493,784 | 5,348 |

| Broadband | | | | |
|--------------------|-----------------------|-------------------------|----------------------|---------------------|
| Fiscal Year | Interfund Note | Promissory Notes | Total | Per Customer |
| 2017 | \$ 3,416,498 | \$ 6,886,937 | \$ 10,303,435 | \$ 1,650 |
| 2016 | 5,216,498 | 5,127,358 | 10,343,856 | 1,701 |
| 2015 | 6,044,728 | 5,358,429 | 11,403,157 | 1,876 |
| 2014 | 6,141,498 | 5,483,376 | 11,624,874 | 2,082 |
| 2013 | 6,372,792 | 4,603,423 | 10,976,215 | 2,016 |
| 2012 | 6,749,697 | 4,717,346 | 11,467,043 | 2,149 |
| 2011 | 6,493,816 | 4,825,142 | 11,318,958 | 3,028 |
| 2010 | 6,077,005 | 4,928,039 | 11,005,044 | 2,985 |
| 2009 | 6,354,668 | 20,115,000 | 26,469,668 | 7,019 |
| 2008 | 5,992,345 | 19,500,000 | 25,492,345 | 7,232 |

Note 1: During 2010, the Power System assumed \$14,726,417 from the Broadband System associated with a transfer of assets.

Note 2: The Commission assumed the assets, liabilities and operations of the Wastewater System as of December 30,

Morristown Utilities Commission

Schedule of Water System Revenue Note Coverage (Last Ten Years)

Fiscal Years 2017 – 2008

(dollar amounts in thousands)

| Fiscal Year | Gross Revenues (1) | Operating Expenses (2) | Net Revenue For Debt Service | Debt Service Requirements | | | Coverage |
|-------------|-----------------------|---------------------------|------------------------------|---------------------------|----------|----------|----------|
| | | | | Principal | Interest | Total | |
| 2017 | \$ 7,169 | \$ 5,197 | \$ 1,972 | \$ 911 | \$ 363 | \$ 1,274 | 1.55 |
| 2016 | 6,880 | 4,864 | 2,016 | 881 | 391 | 1,272 | 1.58 |
| 2015 | 6,885 | 4,411 | 2,474 | 857 | 415 | 1,272 | 1.94 |
| 2014 | 6,863 | 4,584 | 2,279 | 537 | 219 | 756 | 3.01 |
| 2013 | 6,471 | 3,985 | 2,486 | 524 | 233 | 757 | 3.28 |
| 2012 | 6,648 | 3,693 | 2,955 | 478 | 200 | 678 | 4.36 |
| 2011 | 6,936 | 3,895 | 3,041 | 699 | 244 | 943 | 3.22 |
| 2010 | 6,769 | 3,494 | 3,275 | 673 | 268 | 941 | 3.48 |
| 2009 | 6,332 | 3,694 | 2,638 | 651 | 290 | 941 | 2.80 |
| 2008 | 5,573 | 3,480 | 2,093 | 540 | 312 | 852 | 2.46 |

(1) Total Water System operating revenues.

(2) Total Water System operating expenses, excluding depreciation and amortization.

Morristown Utilities Commission

Schedule of Wastewater System Revenue Note Coverage (Last Four Years)

Fiscal years 2017 – 2014

(dollar amounts in thousands)

| Fiscal Year | Gross Revenues (1) | Operating Expenses (2) | Net Revenue For Debt Service | Debt Service Requirements | | | Coverage |
|-------------|-----------------------|---------------------------|------------------------------|---------------------------|----------|----------|----------|
| | | | | Principal | Interest | Total | |
| 2017 | \$ 14,528 | \$ 6,330 | \$ 8,198 | \$ 2,253 | \$ 1,889 | \$ 4,142 | 1.98 |
| 2016 | 13,694 | 5,344 | 8,350 | 1,824 | 1,006 | 2,830 | 2.95 |
| 2015 | 13,056 | 5,287 | 7,769 | 1,019 | 1,174 | 2,193 | 3.54 |
| 2014 | 13,077 | 5,630 | 7,447 | 466 | 221 | 687 | 10.84 |

Note 1: The Commission assumed the assets, liabilities and operations of the Wastewater System as of December 30, 2013.

(1) Total Wastewater System operating revenues.

(2) Total Wastewater System operating expenses, excluding depreciation and amortization.

Morristown Utilities Commission

Schedule of Property, Casualty and Other Insurance

June 30, 2017

| Company | Type of Coverage | Limits | Deductible | Period of Coverage |
|-------------------------|---|--------------|------------|----------------------|
| Distributor's Insurance | Workers' Compensation | \$ 1,000,000 | N/A | 07/01/16 to 06/30/17 |
| Distributor's Insurance | Commercial General Liability | 250,000 | N/A | 07/01/16 to 06/30/17 |
| Distributor's Insurance | Excess General Liability | 750,000 | N/A | 07/01/16 to 06/30/17 |
| Distributor's Insurance | Automobile Liability | 1,000,000 | \$0 | 07/01/16 to 06/30/17 |
| Distributor's Insurance | Umbrella Liability | 2,000,000 | N/A | 07/01/16 to 06/30/17 |
| Distributor's Insurance | Property Damage | 143,275,538 | N/A | 07/01/16 to 06/30/17 |
| Distributor's Insurance | Boiler & Machinery | 50,000,000 | N/A | 07/01/16 to 06/30/17 |
| Distributor's Insurance | Commercial Crime | 1,000,000 | N/A | 07/01/16 to 06/30/17 |
| Distributor's Insurance | Public Officials and Employees' Liability | 5,000,000 | N/A | 07/01/16 to 06/30/17 |
| Distributor's Insurance | Fiduciary Liability | 1,000,000 | N/A | 07/01/16 to 06/30/17 |
| Distributor's Insurance | Pollution Liability | 1,000,000 | N/A | 07/01/16 to 06/30/17 |
| Distributor's Insurance | Cyber and Privacy Protection | 1,000,000 | N/A | 07/01/16 to 06/30/17 |

Note 1: All policies are owned by the Morristown Utility Commission and represent combined single limit coverage of all systems, where applicable.

Morristown Utilities Commission

Schedule of Electric Rates (Last Ten Years)

Fiscal Years 2017 - 2008

| | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Residential | | | | | | | | | | |
| Customer charge per month | \$ 20.27 | \$ 17.00 | \$ 16.71 | \$ 16.71 | \$ 16.71 | \$ 16.71 | \$ 16.71 | \$ 16.71 | \$ 13.21 | \$ 11.50 |
| Energy charge: | | | | | | | | | | |
| First 2,000 kWh | 0.09454 | 0.09104 | 0.09162 | 0.09515 | 0.09097 | 0.09242 | 0.08934 | 0.08175 | 0.07582 | 0.07943 |
| Additional kWh per month | 0.09454 | 0.09104 | 0.09162 | 0.09915 | 0.09097 | 0.09242 | 0.08934 | 0.07968 | 0.07375 | 0.00736 |
| Commercial, Industrial, Governmental and Institutional | | | | | | | | | | |
| GSA-1 (demand of up to 1,000 kW through 2002, 50 kW thereafter) | | | | | | | | | | |
| Customer charge per month - single-phase | \$ 21.87 | \$ 20.00 | \$ 20.00 | \$ 20.00 | \$ 20.00 | \$ 26.00 | \$ 26.00 | \$ 26.00 | \$ 21.50 | \$ 21.50 |
| Customer charge per month - three-phase | 39.19 | 37.00 | 37.00 | 37.00 | 37.00 | 26.00 | 26.00 | 26.00 | 21.50 | 21.50 |
| Energy charge per kWh per month | 0.10648 | 0.10289 | 0.10165 | 0.10502 | 0.10076 | 0.10219 | 0.09899 | 0.09137 | 0.08463 | 0.08787 |
| GSA-2 (demand of 1,001 to 2,500 kW through 2002, 51 to 1,000kW thereafter) | | | | | | | | | | |
| Customer charge per month | \$ 135.50 | \$ 135.50 | \$ 133.00 | \$ 133.00 | \$ 133.00 | \$ 133.00 | \$ 133.00 | \$ 133.00 | \$ 127.00 | \$ 127.00 |
| Demand charge: | | | | | | | | | | |
| First 50 kW per month | - | - | - | - | - | - | - | - | - | - |
| Excess over 50 kW per month | 13.12 | 12.88 | 12.35 | 12.10 | 11.86 | 11.86 | 13.78 | 13.78 | 12.86 | 12.52 |
| Energy charge: | | | | | | | | | | |
| First 15,000 kWh per month | 0.10126 | 0.09766 | 0.09650 | 0.09986 | 0.09559 | 0.09702 | 0.09381 | 0.08570 | 0.07896 | 0.0822 |
| Additional kWh per month | 0.06515 | 0.06236 | 0.06284 | 0.06695 | 0.06350 | 0.06491 | 0.06262 | 0.04861 | 0.04480 | 0.04904 |
| GSA-3 (demand of 2,501 to 5,000 through 2002, 1,001 to 5,000 kW) | | | | | | | | | | |
| Customer charge per month | \$ 275.08 | \$ 275.08 | \$ 270.00 | \$ 270.00 | \$ 270.00 | \$ 270.00 | \$ 270.00 | \$ 270.00 | \$ 266.00 | \$ 266.00 |
| Demand charge: | | | | | | | | | | |
| First 1,000kW per month | 13.32 | 13.06 | 12.50 | 12.24 | 11.98 | 11.98 | 11.68 | 13.88 | 12.90 | 12.54 |
| Excess over 1,000 kW per month | 15.32 | 15.00 | 14.32 | 13.99 | 13.67 | 13.67 | 13.31 | 15.44 | 14.29 | 13.87 |
| Energy charge: | | | | | | | | | | |
| Per kWh per month | 0.06508 | 0.06230 | 0.06279 | 0.06691 | 0.06348 | 0.06489 | 0.06262 | 0.04903 | 0.04522 | 0.04946 |
| TDMSA (Demand > 5,001 kW) | | | | | | | | | | |
| Demand charge: | | | | | | | | | | |
| On peak | \$ 9.74 | \$ 9.52 | \$ 17.24 | \$ 16.84 | \$ 16.45 | \$ 16.45 | \$ - | \$ - | \$ - | \$ - |
| Excess off peak | 3.40 | 3.36 | 4.14 | 4.07 | 4.00 | 4.00 | - | - | - | - |
| Excess over contract | 9.74 | 9.52 | 17.24 | 16.84 | 16.45 | 16.45 | - | - | - | - |
| Energy charge: | | | | | | | | | | |
| On peak | 0.07197 | 0.06940 | 0.09815 | 0.10127 | 0.09683 | 0.09694 | - | - | - | - |
| Off peak (first 425 kWh) | 0.04819 | 0.00000 | 0.06163 | 0.06568 | 0.06215 | 0.06226 | - | - | - | - |
| Off peak (next 195 kWh) | 0.02209 | 0.00000 | 0.04198 | 0.04653 | 0.04349 | 0.04360 | - | - | - | - |
| Off peak (additional kWh) | 0.01966 | 0.00000 | 0.02529 | 0.03026 | 0.02764 | 0.02775 | - | - | - | - |

Morristown Utilities Commission

Schedule of Electric Rates (Last Ten Years) (continued)

Fiscal Years 2017 - 2008

| | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|-------------|-------------|----------|----------|----------|----------|------|------|------|------|
| Commercial, Industrial, Governmental and Institutional (continued) | | | | | | | | | | |
| TDMSA (Demand > 5,001 kW) | | | | | | | | | | |
| Demand charge: | | | | | | | | | | |
| On peak | \$ 9.74 | \$ 9.52 | \$ 17.24 | \$ 16.84 | \$ 16.45 | \$ 16.45 | \$ - | \$ - | \$ - | \$ - |
| Excess off peak | 3.40 | 3.36 | 4.14 | 4.07 | 4.00 | 4.00 | - | - | - | - |
| Excess over contract | 9.74 | 9.52 | 17.24 | 16.84 | 16.45 | 16.45 | - | - | - | - |
| Energy charge: | | | | | | | | | | |
| On peak | 0.07197 | 0.06940 | 0.09815 | 0.10127 | 0.09683 | 0.09694 | - | - | - | - |
| Off peak (first 425 kWh) | 0.04819 | 0.00000 | 0.06163 | 0.06568 | 0.06215 | 0.06226 | - | - | - | - |
| Off peak (next 195 kWh) | 0.02209 | 0.00000 | 0.04198 | 0.04653 | 0.04349 | 0.04360 | - | - | - | - |
| Off peak (additional kWh) | 0.01966 | 0.00000 | 0.02529 | 0.03026 | 0.02764 | 0.02775 | - | - | - | - |
| MSB (demand of 5,001 to 15,000 kW) | | | | | | | | | | |
| Customer charge per month | \$ 1,500.00 | \$ 1,500.00 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Demand charge: | | | | | | | | | | |
| On peak | \$ 9.74 | \$ 9.52 | - | - | - | - | - | - | - | - |
| Excess off peak | 2.16 | 2.14 | - | - | - | - | - | - | - | - |
| Excess over contract | 9.74 | 9.52 | - | - | - | - | - | - | - | - |
| Energy charge: | | | | | | | | | | |
| On peak | 0.07412 | 0.07150 | - | - | - | - | - | - | - | - |
| Off peak (first 200 hours) | 0.05034 | 0.04827 | - | - | - | - | - | - | - | - |
| Off peak (next 200 hours) | 0.02209 | 0.02069 | - | - | - | - | - | - | - | - |
| Off peak (additional kWh) | 0.01966 | 0.01831 | - | - | - | - | - | - | - | - |

Note 1: Compiled from internal records

Note 2: Electric rates require approval by the Tennessee Valley Authority

Morristown Utilities Commission

Schedule of Water Rates (Last Ten Years)

Fiscal years 2017 - 2008

| | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|--------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Inside City Rate | | | | | | | | | | |
| Customer charge per month | \$ 4.65 | \$ 4.65 | \$ 4.65 | \$ 4.65 | \$ 4.65 | \$ 4.65 | \$ 4.65 | \$ 4.65 | \$ 4.65 | \$ 4.65 |
| Commodity charge (per 1,000 gallons) | | | | | | | | | | |
| First 25,000 gallons | - | - | - | - | - | - | - | - | - | - |
| Over 25,000 gallons | - | - | - | - | - | - | - | - | - | - |
| First 50,000 gallons | 2.20 | 2.05 | 2.05 | 2.05 | 2.05 | 2.05 | 2.05 | 2.05 | 1.90 | 1.55 |
| Next 50,000 gallons | 1.95 | 1.80 | 1.80 | 1.80 | 1.80 | 1.80 | 1.80 | 1.80 | 1.65 | 1.30 |
| Over 100,000 gallons | 1.75 | 1.60 | 1.60 | 1.60 | 1.60 | 1.60 | 1.60 | 1.60 | 1.45 | 1.10 |
| Minimum bill | | | | | | | | | | |
| 5/8" meter | 9.05 | 8.75 | 8.75 | 8.75 | 8.75 | 8.75 | 8.75 | 8.75 | 8.45 | 7.75 |
| 3/4" meter | 9.55 | 9.25 | 9.25 | 9.25 | 9.25 | 9.25 | 9.25 | 9.25 | 8.95 | 8.25 |
| 1" meter | 10.30 | 10.00 | 10.00 | 10.00 | 10.00 | 10.00 | 10.00 | 10.00 | 9.70 | 9.25 |
| 1 1/2" meter | 11.80 | 11.50 | 11.50 | 11.50 | 11.50 | 11.50 | 11.50 | 11.50 | 11.20 | 10.75 |
| 2" meter | 16.30 | 16.00 | 16.00 | 16.00 | 16.00 | 16.00 | 16.00 | 16.00 | 15.70 | 15.25 |
| 3" meter | 61.30 | 61.00 | 61.00 | 61.00 | 61.00 | 61.00 | 61.00 | 61.00 | 60.70 | 52.00 |
| 4" meter | 71.30 | 71.00 | 71.00 | 71.00 | 71.00 | 71.00 | 71.00 | 71.00 | 70.70 | 70.00 |
| 6" meter | 101.30 | 101.00 | 101.00 | 101.00 | 101.00 | 101.00 | 101.00 | 101.00 | 100.70 | 100.00 |
| 8" meter | 114.60 | 114.30 | 114.30 | 114.30 | 114.30 | 114.30 | 114.30 | 114.30 | - | - |
| Outside City Rate | | | | | | | | | | |
| Customer charge per month | \$ 4.65 | \$ 4.65 | \$ 4.65 | \$ 4.65 | \$ 4.65 | \$ 4.65 | \$ 4.65 | \$ 4.65 | \$ 4.65 | \$ 4.65 |
| Commodity charge (per 1,000 gallons) | | | | | | | | | | |
| First 25,000 gallons | - | - | - | - | - | - | - | - | - | - |
| Over 25,000 gallons | - | - | - | - | - | - | - | - | - | - |
| First 50,000 gallons | 4.40 | 4.10 | 4.10 | 4.10 | 4.10 | 4.10 | 4.10 | 4.10 | 3.80 | 3.10 |
| Next 50,000 gallons | 3.90 | 3.60 | 3.60 | 3.60 | 3.60 | 3.60 | 3.60 | 3.60 | 3.30 | 2.60 |
| Over 100,000 gallons | 3.50 | 3.20 | 3.20 | 3.20 | 3.20 | 3.20 | 3.20 | 3.20 | 2.90 | 2.20 |

Morristown Utilities Commission

Schedule of Water Rates (Last Ten Years) (continued)

Fiscal years 2017 - 2008

| | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Outside City Rate (continued) | | | | | | | | | | |
| Minimum bill | | | | | | | | | | |
| 5/8" meter | \$ 13.45 | \$ 12.85 | \$ 12.85 | \$ 12.85 | \$ 12.85 | \$ 12.85 | \$ 12.85 | \$ 12.85 | \$ 12.25 | \$ 10.85 |
| 3/4" meter | 13.95 | 13.35 | 13.35 | 13.35 | 13.35 | 13.35 | 13.35 | 13.35 | 12.75 | 11.35 |
| 1" meter | 14.70 | 14.10 | 14.10 | 14.10 | 14.10 | 14.10 | 14.10 | 14.10 | 13.50 | 12.10 |
| 1 1/2" meter | 16.20 | 15.60 | 15.60 | 15.60 | 15.60 | 15.60 | 15.60 | 15.60 | 15.00 | 13.60 |
| 2" meter | 20.70 | 20.10 | 20.10 | 20.10 | 20.10 | 20.10 | 20.10 | 20.10 | 19.50 | 18.10 |
| 3" meter | 65.70 | 65.10 | 65.10 | 65.10 | 65.10 | 65.10 | 65.10 | 65.10 | 64.50 | 63.10 |
| 4" meter | 75.70 | 75.10 | 75.10 | 75.10 | 75.10 | 75.10 | 75.10 | 75.10 | 74.50 | 73.10 |
| 6" meter | 105.70 | 105.10 | 105.10 | 105.10 | 105.10 | 105.10 | 105.10 | 105.10 | 104.50 | 103.10 |
| 8" meter | 119.00 | 118.40 | 118.40 | 118.40 | 118.40 | 118.40 | 118.40 | 118.40 | - | - |
| Monthly private fire protection service charge | | | | | | | | | | |
| 4" | 25.00 | 25.00 | 25.00 | 25.00 | 25.00 | 25.00 | 25.00 | 25.00 | 25.00 | 25.00 |
| 6" | 40.00 | 40.00 | 40.00 | 40.00 | 40.00 | 40.00 | 40.00 | 40.00 | 40.00 | 40.00 |
| 8" | 50.00 | 50.00 | 50.00 | 50.00 | 50.00 | 50.00 | 50.00 | 50.00 | 50.00 | 50.00 |
| 10" | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| 12" | 125.00 | 125.00 | 125.00 | 125.00 | 125.00 | 125.00 | 125.00 | 125.00 | 125.00 | 125.00 |

Note 1: Compiled from internal records

Morristown Utilities Commission

Schedule of Wastewater Rates (Last Four Years)

Fiscal years 2017 - 2014

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--------------------------------------|---------------|-------------|-------------|-------------|
| Inside City Rate | | | | |
| Customer charge per month | \$ - | \$ - | \$ 9.17 | \$ 9.17 |
| Commodity charge (per 1,000 gallons) | | | | |
| 2,001 - 1,000,000 gallons | 11.50 | 10.50 | - | - |
| 1,000,001 - 10,000,000 gallons | 10.00 | 9.25 | - | - |
| Over 10,000,000 gallons | 5.00 | 5.00 | 5.00 | 5.00 |
| Minimum bill | | | | |
| 5/8" meter | 21.00 | 21.00 | - | - |
| 3/4" meter | 23.10 | 23.10 | - | - |
| 1" meter | 29.40 | 29.40 | - | - |
| 1 1/2" meter | 37.80 | 37.80 | - | - |
| 2" meter | 60.90 | 60.90 | - | - |
| 3" meter | 231.00 | 231.00 | - | - |
| 4" meter | 294.00 | 294.00 | - | - |
| 6" meter | 441.00 | 441.00 | - | - |
| 10" meter | 558.00 | 558.00 | - | - |

Morristown Utilities Commission

Schedule of Wastewater Rates (Last Four Years) (continued)

Fiscal years 2017 - 2014

| | 2017 | 2016 | 2015 | 2014 |
|--------------------------------------|---------------|-------------|-------------|-------------|
| Outside City Rate | | | | |
| Customer charge per month | \$ - | \$ - | \$ 36.68 | \$ 18.34 |
| Commodity charge (per 1,000 gallons) | | | | |
| 2,001 - 1,000,000 gallons | 23.00 | 21.00 | - | - |
| 1,000,001 - 10,000,000 gallons | 20.00 | 20.00 | - | - |
| Over 10,000,000 gallons | 10.00 | 10.00 | 10.00 | 10.00 |
| Minimum bill | | | | |
| 5/8" meter | 21.00 | 21.00 | - | - |
| 3/4" meter | 23.10 | 23.10 | - | - |
| 1" meter | 29.40 | 29.40 | - | - |
| 1 1/2" meter | 37.80 | 37.80 | - | - |
| 2" meter | 60.90 | 60.90 | - | - |
| 3" meter | 231.00 | 231.00 | - | - |
| 4" meter | 294.00 | 294.00 | - | - |
| 6" meter | 441.00 | 441.00 | - | - |
| 10" meter | 558.00 | 558.00 | - | - |

Note 1: The Commission assumed the operations of the Wastewater System as of December 30, 2013.

Morristown Utilities Commission

Schedule of Monthly Broadband Rates (Last Ten Years)

Fiscal years 2017 - 2008

| Service | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|----------------------------------|-------------|-------------|-------------|------------|------------|--------------|------------|------------|------------|------------|
| Standard Cable: | | | | | | | | | | |
| Expanded basic | \$ 60.95 | \$ 56.95 | \$ 56.95 | \$ 50.95 | \$ 46.95 | \$ 46.95 | \$ 46.95 | \$ 46.95 | \$ 41.95 | \$ 41.95 |
| Digital basic | 72.95 | 68.95 | 68.95 | 60.95 | 54.95 | 54.95 | 54.95 | 54.95 | 49.95 | 49.95 |
| Digital basic + 1 | 82.95 | 78.95 | 78.95 | 69.95 | 63.95 | 63.95 | 63.95 | 63.95 | 59.95 | 59.95 |
| Digital basic + 2 | 90.95 | 86.95 | 86.95 | 77.95 | 71.95 | 71.95 | 71.95 | 71.95 | 67.95 | 67.95 |
| Digital basic + 4 | 103.95 | 99.95 | 99.95 | 90.95 | 84.95 | 84.95 | 84.95 | 84.95 | 80.95 | 80.95 |
| Premium channels | 11.95-16.35 | 11.95-16.35 | 11.95-16.35 | 9.95-12.95 | 9.95-12.95 | 9.95-12.95 | 9.95-12.95 | 9.95-12.95 | 9.95-11.95 | 9.95-11.95 |
| Internet: | | | | | | | | | | |
| Residential | | | | | | | | | | |
| Tier 1 | 34.95 | 34.95 | 34.95 | 34.95 | 34.95 | 34.95 | 34.95 | 34.95 | 29.95 | 29.95 |
| Tier 2 | 39.95 | 39.95 | 39.95 | 39.95 | 39.95 | 39.95 | 39.95 | 39.95 | 39.95 | 39.95 |
| Tier 3 | 74.95 | 74.95 | 74.95 | 74.95 | 74.95 | 44.95 | 59.95 | 59.95 | 59.95 | 59.95 |
| Tier 4 | 99.95 | 99.95 | 99.95 | 99.95 | 99.95 | 74.95 | 99.95 | 99.95 | 99.95 | 99.95 |
| Tier 5 | - | - | - | - | - | 99.95-199.95 | 159.95 | 159.95 | - | - |
| Commercial | | | | | | | | | | |
| Tier 1 | 49.95 | 49.95 | 49.95 | 44.95 | 44.95 | 44.95 | 44.95 | 44.95 | 39.95 | 39.95 |
| Tier 2 | 79.95 | 79.95 | 79.95 | 74.95 | 74.95 | 74.95 | 74.95 | 74.95 | 74.95 | 74.95 |
| Tier 3 | 104.95 | 104.95 | 104.95 | 99.95 | 99.95 | 99.95 | 99.95 | 99.95 | 99.95 | 99.95 |
| Tier 4 | 154.95 | 154.95 | 154.95 | 149.90 | 149.95 | 149.95 | 149.95 | 149.95 | 149.95 | 149.95 |
| Tier 5 | 199.95 | 199.95 | 199.95 | 199.95 | 199.95 | 199.95 | 199.95 | 199.95 | 199.95 | 199.95 |
| Tier 6 | - | - | - | - | 299.95 | - | - | - | - | - |
| Telephone: | | | | | | | | | | |
| Residential | | | | | | | | | | |
| BasicPack | 22.95 | 22.95 | 22.95 | 22.95 | 22.95 | 22.95 | 22.95 | 22.95 | 22.95 | 22.95 |
| PreferredPack | 25.00 | 25.00 | 25.00 | 25.00 | 25.00 | 25.00 | 25.00 | 25.00 | 25.00 | 25.00 |
| Additional services | 3.79-11.95 | 3.79-11.95 | 3.79-11.95 | 3.75-11.95 | 3.75-11.95 | 3.75-11.95 | 3.75-8.95 | 3.75-8.95 | 3.75-8.95 | 3.75-8.95 |
| Long distance rate per minute | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 |
| Commercial | | | | | | | | | | |
| Access Line | 25.95 | 25.95 | 25.95 | 25.95 | 25.95 | 25.95 | 25.95 | 25.95 | 25.95 | 25.95 |
| Business Local Telephone Service | 36.95 | 36.95 | 36.95 | 36.95 | 36.95 | 36.95 | 36.95 | 36.95 | 36.95 | 36.95 |
| Additional services | 7.95-27.95 | 7.95-27.95 | 7.95-27.95 | 7.95-27.95 | 7.95-27.95 | 7.95-27.95 | 6.95-25.95 | 6.95-25.95 | 6.95-25.95 | 6.95-25.95 |
| Long distance rate per minute | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 |

Note 1: Compiled from internal records.

Morristown Utilities Commission

Schedule of Power System Principal Customers

Current Year and Nine Years Prior

| Name | 2017 | | | 2008 | | |
|---|-----------------|------|------------------------------|-----------------|------|------------------------------|
| | Annual Revenues | Rank | Percentage of Gross Revenues | Annual Revenues | Rank | Percentage of Gross Revenues |
| Inteplast Bags & Film Corp (formerly Vifan USA, Inc.) | \$ 3,695,222 | 1 | 4.78% | \$ 2,133,612 | 3 | 3.38% |
| Mahle Manufacturing Co. | 3,274,169 | 2 | 4.24% | 3,037,085 | 1 | 4.82% |
| JTEKT Automotive Morristown-Tennessee Inc. | 2,857,585 | 3 | 3.70% | 2,183,271 | 2 | 3.46% |
| Rich Products Corporation | 2,839,978 | 4 | 3.68% | - | - | - |
| Howmet Corp | 2,156,154 | 5 | 2.79% | 1,475,452 | 5 | 2.33% |
| Meritor Automotive | 2,117,081 | 6 | 2.74% | 1,909,149 | 4 | 3.02% |
| ColorTech | 1,677,484 | 7 | 2.17% | - | - | - |
| Koch Foods LLC | 1,193,576 | 8 | 1.55% | - | - | - |
| Otics USA Inc | 1,149,664 | 9 | 1.49% | - | - | - |
| Colgate Palmolive | 1,144,767 | 10 | 1.48% | - | - | - |
| MacDermid Graphic Arts | - | - | - | 1,141,312 | 6 | 1.80% |
| JW Allen Co. | - | - | - | 1,062,191 | 7 | 1.68% |
| Lear Seigler, Inc. | - | - | - | 991,659 | 8 | 1.57% |
| Vacumet Corp. | - | - | - | 893,319 | 9 | 1.41% |
| Berkline BenchCraft, LLC | - | - | - | 816,019 | 10 | 1.30% |

Note 1: Compiled from internal records.

Morristown Utilities Commission

Schedule of Water System Principal Customers

Current Year and Nine Years Prior

| Name | 2017 | | | 2008 | | |
|--|-----------------|------|------------------------------|-----------------|------|------------------------------|
| | Annual Revenues | Rank | Percentage of Gross Revenues | Annual Revenues | Rank | Percentage of Gross Revenues |
| Alpha Talbott Utility District | \$ 861,974 | 1 | 13.03% | \$ 520,437 | 1 | 9.22% |
| Russellville-Whitesburg Utility District | 790,916 | 2 | 11.95% | 506,829 | 2 | 8.98% |
| Bean Station Utility District | 541,876 | 3 | 8.19% | 315,870 | 4 | 5.60% |
| Koch Foods | 495,075 | 4 | 7.48% | 367,525 | 3 | 6.51% |
| Mahle | 134,432 | 5 | 2.03% | 53,959 | 7 | 0.92% |
| Colgate Palmolive | 120,596 | 6 | 1.82% | 44,727 | 8 | 0.76% |
| Rich Products | 90,404 | 7 | 1.37% | - | - | - |
| Morristown Wastewater System | 90,223 | 8 | 1.36% | - | - | - |
| City of Morristown | 69,198 | 9 | 1.05% | - | - | - |
| JTEKT Automotive Morristown-Tennessee Inc. | 54,520 | 10 | 0.82% | 27,207 | 10 | 0.47% |
| South Morristown Utility District | - | - | - | 108,366 | 5 | 1.92% |
| J.W. Allen | - | - | - | 62,071 | 6 | 1.06% |
| Morristown Housing Authority | - | - | - | 30,873 | 9 | 0.52% |

Note 1: Compiled from internal records.

Morristown Utilities Commission

Schedule of Wastewater System Principal Customers

Current Year and Three Years Prior

| Name | 2017 | | | 2014 | | |
|--|-----------------|------|------------------------------|-----------------|------|------------------------------|
| | Annual Revenues | Rank | Percentage of Gross Revenues | Annual Revenues | Rank | Percentage of Gross Revenues |
| Koch Foods | \$ 2,184,473 | 1 | 15.85% | \$ 2,500,776 | 1 | 19.12% |
| Colgate Palmolive | 632,403 | 2 | 4.59% | 378,625 | 3 | 2.90% |
| Mahle Manufacturing Co. | 615,611 | 2 | 4.47% | - | - | - |
| Rich Products Corporation | 434,833 | 3 | 3.16% | 497,132 | 2 | 3.80% |
| Hamblen County Board of Education | 230,180 | 5 | 1.67% | 146,647 | 5 | 1.12% |
| Morristown Housing Authority | 229,828 | 6 | 1.67% | 180,636 | 4 | 1.38% |
| Walters State Community College | 156,394 | 7 | 1.13% | - | - | - |
| Morristown Hamblen Hospital | 152,749 | 8 | 1.11% | 138,646 | 6 | 1.06% |
| City of Morristown | 145,278 | 9 | 1.05% | - | - | - |
| Inteplast Bags & Film Corp (formerly Vifan USA, Inc.) | 121,785 | 10 | 0.88% | - | - | - |
| Meritor Automotive | - | - | - | 85,515 | 7 | 0.65% |
| Hamblen County Justice Center | - | - | - | 81,673 | 8 | 0.62% |
| Lakeway Regional Hospital | - | - | - | 79,686 | 9 | 0.61% |
| Heritage Center | - | - | - | 74,264 | 10 | 0.57% |

Note 1: Compiled from internal records.

Note 2: The Commission assumed the operations of the Wastewater System as of December 30, 2013.

Morristown Utilities Commission

Schedule of Employees by System (Last Ten Years)

Fiscal years 2017 - 2008

| Fiscal Year | Power | Water | Wastewater | Broadband | Total |
|------------------------|--------------|--------------|-------------------|------------------|--------------|
| 2017 | 90 | 21 | 26 | 21 | 158 |
| 2016 | 88 | 21 | 25 | 19 | 153 |
| 2015 | 84 | 21 | 17 | 18 | 140 |
| 2014 | 78 | 21 | 16 | 21 | 136 |
| 2013 | 71 | 22 | - | 24 | 117 |
| 2012 | 73 | 19 | - | 21 | 113 |
| 2011 | 75 | 19 | - | 17 | 111 |
| 2010 | 74 | 18 | - | 15 | 107 |
| 2009 | 67 | 19 | - | 14 | 100 |
| 2008 | 69 | 19 | - | 14 | 102 |

Note 1: Compiled from internal records.

Note 2: The Commission assumed the assets, liabilities and operations of the Wastewater System as of December 30, 2013.



AWWA Free Water Audit Software: Reporting Worksheet

WAS v5.0

American Water Works Association

? Click to access definition
+ Click to add a comment

Water Audit Report for: Morristown Utilities Commission (0000474)
Reporting Year: 2017 7/2016 - 6/2017

Please enter data in the white cells below. Where available, metered values should be used; if metered values are unavailable please estimate a value. Indicate your confidence in the accuracy of the input data by grading each component (n/a or 1-10) using the drop-down list to the left of the input cell. Hover the mouse over the cell to obtain a description of the grades

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

To select the correct data grading for each input, determine the highest grade where the utility meets or exceeds all criteria for that grade and all grades below it.

WATER SUPPLIED

<----- Enter grading in column 'E' and 'J' ----->

| | | | | |
|--------------------------|-----|---|-----------|-------|
| Volume from own sources: | + ? | 9 | 3,236.000 | MG/Yr |
| Water imported: | + ? | | 0.000 | MG/Yr |
| Water exported: | + ? | | 0.000 | MG/Yr |

Master Meter and Supply Error Adjustments

| | | | | |
|--------|---|-------|--|-------|
| Pcmt: | 9 | 2.00% | | MG/Yr |
| Value: | | | | MG/Yr |
| | | | | MG/Yr |
| | | | | MG/Yr |

Enter negative % or value for under-registration
Enter positive % or value for over-registration

WATER SUPPLIED: 3,172.549 MG/Yr

AUTHORIZED CONSUMPTION

| | | | | |
|---------------------|-----|-----|-----------|-------|
| Billed metered: | + ? | 10 | 2,718.570 | MG/Yr |
| Billed unmetered: | + ? | n/a | 0.000 | MG/Yr |
| Unbilled metered: | + ? | 10 | 1.197 | MG/Yr |
| Unbilled unmetered: | + ? | | 39.657 | MG/Yr |

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

AUTHORIZED CONSUMPTION: 2,759.423 MG/Yr

Click here: ?
for help using option buttons below

Pcmt: 1.25% Value: MG/Yr

Use buttons to select percentage of water supplied
OR value

Pcmt: 0.25% Value: MG/Yr

1.00% Value: MG/Yr
0.25% Value: MG/Yr

WATER LOSSES (Water Supplied - Authorized Consumption)

413.126 MG/Yr

Apparent Losses

Unauthorized consumption: + ? 7.931 MG/Yr

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

| | | | | |
|----------------------------------|-----|----|--------|-------|
| Customer metering inaccuracies: | + ? | 10 | 27.472 | MG/Yr |
| Systematic data handling errors: | + ? | | 6.796 | MG/Yr |

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

Apparent Losses: 42.200 MG/Yr

Real Losses (Current Annual Real Losses or CARL)

Real Losses = Water Losses - Apparent Losses: ? **370.925 MG/Yr**

WATER LOSSES: 413.126 MG/Yr

NON-REVENUE WATER

NON-REVENUE WATER: 453.979 MG/Yr

= Water Losses + Unbilled Metered + Unbilled Unmetered

SYSTEM DATA

| | | | | |
|---|-----|---|--------|-----------------|
| Length of mains: | + ? | 5 | 275.0 | miles |
| Number of <u>active AND inactive</u> service connections: | + ? | 7 | 13,800 | |
| Service connection density: | ? | | 50 | conn./mile main |

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

Average length of customer service line: + ? (length of service line, beyond the property boundary, that is the responsibility of the utility)

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

Average operating pressure: + ? 4 65.0 psi

COST DATA

| | | | | |
|---|-----|----|-------------|--|
| Total annual cost of operating water system: | + ? | 10 | \$4,700,240 | \$/Year |
| Customer retail unit cost (applied to Apparent Losses): | + ? | 10 | \$2.20 | \$/1000 gallons (US) |
| Variable production cost (applied to Real Losses): | + ? | 10 | \$533.08 | \$/Million gallons <input type="checkbox"/> Use Customer Retail Unit Cost to value real losses |

WATER AUDIT DATA VALIDITY SCORE:

***** YOUR SCORE IS: 89 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: Volume from own sources
- 2: Unauthorized consumption
- 3: Systematic data handling errors



AWWA Free Water Audit Software: System Attributes and Performance Indicators

WAS v5.0

American Water Works Association.

Water Audit Report for: Morristown Utilities Commission (0000474)
 Reporting Year: 2017 7/2016 - 6/2017

*** YOUR WATER AUDIT DATA VALIDITY SCORE IS: 89 out of 100 ***

System Attributes:

| | | |
|------------------|--|---|
| Apparent Losses: | 42.200 | MG/Yr |
| + | Real Losses: | 370.925 MG/Yr |
| = | Water Losses: | 413.126 MG/Yr |

? Unavoidable Annual Real Losses (UARL): 84.41 MG/Yr

Annual cost of Apparent Losses: \$92,840

Annual cost of Real Losses: \$197,733 Valued at **Variable Production Cost**

Return to Reporting Worksheet to change this assumption

Performance Indicators:

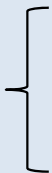
Financial:



Non-revenue water as percent by volume of Water Supplied: 14.3%

Non-revenue water as percent by cost of operating system: 6.6% Real Losses valued at Variable Production Cost

Operational Efficiency:



Apparent Losses per service connection per day: 8.38 gallons/connection/day

Real Losses per service connection per day: 73.64 gallons/connection/day

Real Losses per length of main per day*: N/A

Real Losses per service connection per day per psi pressure: 1.13 gallons/connection/day/psi

From Above, Real Losses = Current Annual Real Losses (CARL): 370.93 million gallons/year

? Infrastructure Leakage Index (ILI) [CARL/UARL]: 4.39

* This performance indicator applies for systems with a low service connection density of less than 32 service connections/mile of pipeline

Report of Independent Auditors 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*

Board of Commissioners
Morristown Utilities Commission

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 Power System, Water System, Wastewater System and Broadband System (collectively, the Systems), enterprise funds of the City of Morristown, Tennessee, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Systems' basic financial statements and have issued our report thereon dated October 26, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Systems' 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 the Systems' internal control. Accordingly, we do not express an opinion on the effectiveness of the Systems' 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 Systems' 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. We did identify the following deficiency in internal control, that we consider to be a significant deficiency:

The Power System's primary bank account is not being reconciled on a timely basis. We recommend management implement procedures to ensure all bank accounts are reconciled and reviewed by a member of management monthly.

Subsequent to June 30, 2017, the Systems management streamlined the bank reconciliation process to facilitate the timely reconciliation and review of all bank accounts.

Board of Commissioners
Morristown Utilities Commission

Compliance and Other Matters

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

The Systems' Response to the Finding

The Systems' response to the findings identified in our audit is described previously. The Systems' 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 Systems' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Systems' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Coulter & Justus, P.C.

October 26, 2017
Knoxville, Tennessee