

CITY OF ELIZABETHTON, TENNESSEE

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

WITH
INDEPENDENT AUDITORS' REPORT

For the Year Ended June 30, 2008

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

	<u>PAGE NUMBER</u>
 I. FINANCIAL SECTION	
Independent Auditors' Report	1
Management's Discussion and Analysis	3
 Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets	11
Statement of Activities	12
Fund Financial Statements	
Balance Sheet - Governmental Funds	13
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	14
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund	17
Statement of Net Assets - Proprietary Funds	25
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds	26
Statement of Cash Flows - Proprietary Funds	27
Statement of Fiduciary Net Assets - Fiduciary Fund	29
Statement of Changes in Fiduciary Net Assets - Fiduciary Fund	30
 Notes to Financial Statements	 31
 Schedule of Funding Progress (Unaudited)	 82
 Combining and Individual Fund Statements and Schedules:	
Combining Balance Sheet - Nonmajor Governmental Funds	83
Combining Balance Sheet - Nonmajor Capital Project Funds	84
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds	85
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Capital Project Funds	86

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

PAGE
NUMBER

I. FINANCIAL SECTION (CONTINUED)

Combining and Individual Fund Statements and Schedules (Continued)
Schedules of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual:

Police Drug Enforcement Fund	87
Police Community Relations Fund	88
Police Equipment Fund	89
Solid Waste/Sanitation Fund	90
East Tennessee Railroad Authority Fund	91
Park and Recreation Capital Projects Fund	92
Joe O'Brien Field Fund	93
Special Capital Projects Fund	94
General Obligation Bond Proceeds Fund	95
Veteran's Walk of Honor Fund	96
Veteran's Walk of Honor Phase II Fund	97
Veteran's War Memorial Fund	98

II. SUPPLEMENTAL SECTION

Supplemental Section

Schedule of Expenditures of Federal Awards	99
Schedule of Expenditures of State Awards	100
Schedule of Interfund Transfers	101
Schedule of Changes in General Bonded Debt and Notes Payable	
- Primary Government	102
Schedule of Bond Principal and Interest Requirements - All Funds	
- Primary Government	103
Schedule of Note Principal and Interest Requirements - All Funds	
- Primary Government	104
Schedule of Note Principal and Interest Requirements - Components Units	105
Net Assets by Component	106
Changes in Net Assets	107
Fund Balances of Governmental Funds	109
Changes in Fund Balances of Governmental Funds	110

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

PAGE
NUMBER

II. SUPPLEMENTAL SECTION (Continued)

Supplemental Section (Unaudited)

Fund Information:

Combined Schedule of Changes in Taxes Receivable	112
Assessed and Estimated Actual Value of Property	113
Computation of Legal Debt Margin	114
Ratio of Net General Obligation Bonded Debt to Assessed Value and Net General Obligation Bonded Debt per Capita	115
Tax Rates and Assessments	116
Utility Rates for Water and Sewer, Number of Customers	117
Schedule of Unaccounted for Water	118
Current Utility Rates and Number of Customers	119

III. INTERNAL CONTROL AND COMPLIANCE SECTION

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	120
Schedule of Findings and Responses	122

FINANCIAL
SECTION

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor, City Council Members
and City Manager
City of Elizabethton, Tennessee 37643

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Elizabethton, Tennessee (the "City") as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Elizabethton Municipal Airport (the Airport), a blended component unit. The financial statements of the Airport represent five percent, five percent and two percent respectively of the assets, net assets and revenues of the enterprise funds. Those financial statements were audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Airport in the business-type activities columns, is based on the reports of the other auditor.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditor provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Elizabethton, Tennessee as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

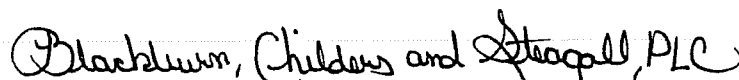
Honorable Mayor, City Council Members
and City Manager
City of Elizabethton, Tennessee

Page 2

In accordance with *Government Auditing Standards* we have also issued our report dated January 12, 2009, on our consideration of the City of Elizabethton, Tennessee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 10 and required supplementary information on page 82 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Elizabethton, Tennessee's basic financial statements. The combining and individual nonmajor fund financial statements and schedules and the supplemental and supplemental (unaudited) sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements of the City. The combining and individual nonmajor fund financial statements and schedules, the schedule of expenditures of federal awards, and, the supplemental section except for the supplemental section (unaudited) have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The supplemental section (unaudited) has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.


BLACKBURN, CHILDERS AND STEAGALL, PLC

January 12, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Elizabethton, Tennessee (the City), we offer readers of the financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2008.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$76,850,734 (*net assets*). Of this amount, \$49,776,847 is invested in capital assets (*net of related debt*).
- The City's total net assets increased by \$2,543,581.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$6,998,573. Of this amount, \$3,651,625 is reserved for specific purposes.
- At the end of the current fiscal year, fund balance for the general fund was \$5,853,001 or 42% of total general fund expenditures including transfers out. This balance included \$3,651,625 committed for specific purposes.
- The City's total debt increased by \$13,3647,624 (40%) during the current fiscal year.

Overview of the Financial Statements.

This narrative overview is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements.

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

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes, licenses and permits, and intergovernmental revenues (governmental activities), from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, public welfare, city services and education. The business-type activities of the City include water and sewer, electric system and airport. The government-wide financial statements can be found on pages 11 through 12 of this report.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and a fiduciary fund.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the focus is on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements. Because the focus of governmental funds is narrower than that of government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains fourteen (14) individual governmental funds. Thirteen (13) of these governmental funds are classified as non-major and are summarized under the heading "Other Governmental Funds" in the governmental fund presentation. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, and non-major governmental funds, all of which are combined into a single, aggregated presentation. Individual fund data for non-major governmental funds is provided in the form of combining statements elsewhere in this report. The basic governmental fund financial statements can be found on pages 13 through 24 of this report.

The City adopts an annual appropriation budget for its general and other major special revenue funds. A budgetary comparison schedule has been provided for these funds to demonstrate compliance with this budget.

Proprietary Funds. The City maintains proprietary funds including enterprise funds to track costs of specific activities that generate their own revenue. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for the water/sewer, airport and electric system.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information of the water and sewer, electric and airport, which (with the exception of the airport fund) are considered to be major funds of the City. Data from the other enterprise funds are combined into a single, aggregated presentation. The basic proprietary fund financial statements can be found on pages 25 through 28 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 31 through 81 of this report.

Other Information. The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 82 through 126 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a City's financial position. In the case of the City, assets exceeded liabilities by \$76,850,734 at the close of the most recent fiscal year.

By far, the largest portion of the City's net assets (65%) reflects its investment in capital assets (e.g. land, buildings, equipment); less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Assets:						
Current Assets	\$ 11,526,271	11,691,870	28,719,831	17,879,008	40,246,102	29,570,878
Bond Issue Cost (Net of Accum. Amortization)	4,064	7,548	1,805,738	1,577,899	1,809,802	1,585,447
Plant and Equipment (Net of Accum. Depreciation)	13,814,637	14,328,126	69,560,565	62,565,070	83,375,202	76,893,196
Total Assets	25,344,972	26,027,544	100,086,134	82,021,977	125,431,106	108,049,521
Liabilities:						
Current Liabilities	4,136,163	4,505,217	9,145,104	7,588,396	13,281,267	12,093,613
Other Liabilities	2,996,075	3,737,190	32,303,030	17,914,291	35,299,105	21,651,481
Total Liabilities	7,132,238	8,242,407	41,448,134	25,502,687	48,580,372	33,745,094
Net Assets:						
Invested in Capital Assets, Net of Related Debt	11,194,421	10,590,936	38,582,426	45,625,558	49,776,847	56,216,494
Restricted	-	-	-	-	-	-
Unrestricted	7,018,313	7,194,201	20,055,574	10,893,732	27,073,887	18,087,933
Total Net Assets	\$ 18,212,734	17,785,137	58,638,000	56,519,290	76,850,734	74,304,427

At the end of the current fiscal year, the City reports positive balances in all net asset categories.

The government's net assets **increased \$2,543,581** during the current fiscal year. Of the total change governmental activities increased \$427,597 while business type activities increased \$2,115,984.

The following is a summary of financial activities for the City during the 2008 fiscal year:

City of Elizabethton
CHANGE IN NET ASSETS
As of June 30, 2008

	Governmental Activities		Business-Type Activities		Total	
Revenues	2008	2007	2008	2007	2008	2007
Program Revenues:						
Charges for Services	\$ 1,980,490	1,572,058	53,113,524	50,749,078	55,094,014	52,321,136
Operating Grants	634,089	180,494	-	257,984	634,089	438,478
Capital Grants	60,697	464,532	652,044	56,040	712,741	520,572
Total Program Revenues	2,675,276	2,217,084	53,765,568	51,063,102	56,440,844	53,280,186
General Revenues:						
Property Taxes	4,061,546	3,766,242	-	-	4,061,546	3,766,242
Other Taxes	4,414,668	4,072,422	-	-	4,414,668	4,072,422
Miscellaneous	2,426,740	2,910,703	601,753	545,493	3,028,493	3,456,196
Total General Revenues	10,902,954	10,749,367	601,753	545,493	11,504,707	11,294,860
Total Revenues	13,578,230	12,966,451	54,367,321	51,608,595	67,945,551	64,575,046
Expenses - Governmental Activities						
General Government	2,312,896	2,092,175	-	-	2,312,896	2,092,175
Public Safety	4,691,754	4,498,229	-	-	4,691,754	4,498,229
Public Works	1,709,253	1,710,488	-	-	1,709,253	1,710,488
Health and Welfare	143,386	133,507	-	-	143,386	133,507
Building Code Enforcement	267,685	236,687	-	-	267,685	236,687
Community Development	150,503	128,559	-	-	150,503	128,559
Culture and Recreation	1,279,218	1,335,822	-	-	1,279,218	1,335,822
Education	2,332,000	-	-	-	2,332,000	-
Other	511,202	1,110,518	-	-	511,202	1,110,518
Interest on Long-Term Debt	120,050	124,408	-	-	120,050	124,408
Total Governmental Activities	13,517,947	11,370,393	-	-	13,517,947	11,370,393
Business-Type Activities:						
Water and Sewer	-	-	6,421,106	6,351,520	6,421,106	6,351,520
Electric Department	-	-	44,584,278	41,233,588	44,584,278	41,233,588
Airport	-	-	1,101,139	737,428	1,101,139	737,428
Total Business-Type Activities	-	-	52,106,523	48,322,536	52,106,523	48,322,536
Total Expenses	13,517,947	11,370,393	52,106,523	48,322,536	65,624,470	59,692,929
Transfers	367,314	(2,045,177)	(367,314)	(286,823)	-	(2,332,000)
Change in Net Assets	427,597	(449,119)	1,893,484	2,999,236	2,321,081	2,550,117
Net Assets, Beginning	17,785,137	18,234,256	56,522,016	53,520,054	74,307,153	71,754,310
Prior period adjustments	-	-	222,500	-	222,500	-
Net Assets, Ending	\$ 18,212,734	17,785,137	58,638,000	56,519,290	76,850,734	74,304,427

Governmental Activities. Governmental activities increased the City's net assets by \$427,597, thereby accounting for 17% of the total growth in the net assets of the City. Notes on this can be found in Note 2 on pages 45 through 46 of this report.

Business-type activities. . Business-type activities increased the City's net assets by \$2,115,984 accounting for 83% of the total growth in the City's net assets. Key elements of this increase are as follows:

- Elizabethton Electric Department achieved a net income and contributed 74% of the total growth in net assets for business-type activities

Financial Analysis of the City's Funds

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

Governmental Funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a City's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$6,998,573. Of this amount, \$3,651,625 is designated to indicate that it has already been committed to: (1) future debt service (\$3,096,317), (2) industrial development (\$7,985), (3) retirement (\$538,969), (4) Police (\$580), (5) Sidewalks (\$7,594), and (6) Christmas Tree (180).

The general fund is the chief operating fund of the City. At the end of the current fiscal year, total fund balance reached \$5,853,001, including \$3,651,625 committed for specific purposes. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures and transfers out. Unreserved fund balance represents 16% of total general fund expenditures and transfers out, while total fund balance represents 42% of that same amount.

Non-major (other) governmental funds have a fund balance of \$1,145,572. The net increase in fund balance during the current year was \$14,404. This net increase is primarily attributed to receipts received for the Walk of Honor Memorial grant funds and donations.

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

Unrestricted net assets of the proprietary funds at the end of the year amounted to \$20,055,574. Other factors concerning the financial position of these funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

Original and Final Budgeted Amounts. Differences between the original budget and the final amended budget represent a \$526,338 increase in appropriations and include the following:

\$ 100,000	Funding to cover increases in fuel costs
100,000	Funding for Elizabethton Municipal Airport
70,000	Funding for Retirement bonus

Of this increase, most of the cost was funded from sales tax revenue.

One measure of a general fund budget is to compare revenue generated by departments with total expenditures of the department to determine the amount of supplement required to fund the department. The following charts do that comparison for the year ending June 30, 2008.

**PROGRAM GENERATED REVENUE
and EXPENSES
(Difference in Revenue Generated & Expenses
are made up from the General Fund Appropriation)**

General Government	2008		General Fund Subsidy
	Expenses	Revenues	
General Government	2,312,896	631,590	1,681,306
Public Safety	4,691,754	379,752	4,312,002
Public Works	1,709,253	1,253,904	455,349
Health & Welfare	143,386	11,993	131,393
Culture & Recreation	1,279,218	398,037	881,181
Total General Fund Subsidy			7,461,231

Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business type activities as of June 30, 2008, amounts to **\$83,375,202** (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, plant in service, equipment and vehicles, paving, transmission and power distribution system, garbage containers, infrastructure and construction in progress.

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

- Construction of electric infrastructure.
- Acquisition of Water and Sewer vehicles.
- Construction of water/sewer lines.
- Acquisition of Electric vehicles.
- Acquisition of new water & sewer telemetry.
- Acquisition of land and building purchases.

**City of Elizabethton
Total Net Capital Assets
as of June 30, 2008**

	Governmental		Business		Total	
	2008	2007	2008	2007	2008	2007
Net Capital Assets						
Land	\$ 2,217,604	2,217,604	1,975,917	1,036,362	4,193,521	3,253,966
Library Infrastructure	574,487	546,651	-	-	574,487	546,651
Construction in Progress	299,346	289,257	8,138,926	3,718,549	8,438,272	4,007,806
Buildings	3,900,166	4,069,642	16,104,002	16,363,399	20,004,168	20,433,041
Lines & Transmissions	-	-	40,505,391	39,471,072	40,505,391	39,471,072
Plant	-	-	278,664	270,432	278,664	270,432
Motor	1,485,778	1,632,064	1,769,076	872,072	3,254,854	2,504,136
Office	355,478	340,486	319,557	397,899	675,035	738,385
Other Improvements	-	-	468,588	434,753	468,588	434,753
Furniture	-	-	444	532	444	532
Infrastructure	4,981,778	5,232,422	-	-	4,981,778	5,232,422
Total Net Capital Assets	\$ 13,814,637	14,328,126	69,560,565	62,565,070	83,375,202	76,893,196

Additional information on the City's capital assets can be found in Note 6 on pages 51 through 54 of this report.

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of **\$35,299,105**. All of this debt is backed by the full faith and credit of the government.

City of Elizabethton
Debt Outstanding
As of June 30, 2008

	Governmental Funds		Business Activities		Total	
	2008	2007	2008	2007	2008	2007
<u>Outstanding Debt</u>						
General Obligation	\$ 685,000	1,215,000	-	-	685,000	1,215,000
Notes Payable	1,939,281	2,127,124	2,998,197	3,209,039	4,937,478	5,336,163
Revenue Bonds	-	-	28,187,114	13,832,414	28,187,114	13,832,414
Total Outstanding Debt	\$ 2,624,281	\$ 3,342,124	31,185,311	17,041,453	33,809,592	20,383,577

The City's total debt **increased \$13,647,624 (40%)** during the current fiscal year. The increase was for the improvement of three (3) electric substations for the Electric Department. The City maintains an 'A3' rating from Moody's Investors Service and Standard & Poor's rating of A+, for its General Obligation Debt.

The City is **not** subject to debt limitations imposed by its Charter. Additional information on the City's long-term debt can be found in Note 10 on pages 58 through 68 of this report.

Economic Factors and Next Year's Budget and Rates

- The unemployment rate for the metropolitan statistical area is currently **6.8%**, which is an **increase of 1.9%** from a year ago. This compares to the state's average unemployment rate of **6.8%** as of July 31, 2008.
- Inflationary trends in the region are comparable to national indexes.
- New construction permitted and inspected over the previous year, was **\$8.0 million**, including **51 permits issued**.
- Growth in local sales tax collections is expected to approximate **4%** in fiscal year 2008, including new businesses locating in Elizabethton.

All of these factors were considered in preparing the City's budget for fiscal year 2008-09.

During the current fiscal year, unreserved fund balance in the general fund **increased \$120,299**.

As the result of a water and sewer cost rate study by the city finance director, water and sewer rates were recommended to be adjusted up by 3% for fiscal year 2009-10 to fund inflationary costs associated with operations and planned capital improvements. Water rate adjustments were implemented by council with a rate increase of 10% and rate structure change. Residential garbage collection rates, as well as commercial and industrial collection rates, remained steady.

Discretely Presented Component Units

-EDUCATION FUND-

Detailed audit information about the Elizabethton City School System can be obtained by contacting the school system at:

Elizabethton City Schools
804 S. Watauga Avenue
Elizabethton, TN 37643
Phone (423) 547-8000

-GOLF COURSE-

Detailed audit information about the Elizabethton Municipal Golf Course can be obtained by contacting the golf course at:

Elizabethton Municipal Golf Course
PO Box 340
Elizabethton, TN 37643
Phone (423) 542-8051

Other Separately Issued Reports

-AIRPORT-

Detailed audit information about the Elizabethton Municipal Airport can be obtained by contacting the airport at:

Elizabethton Municipal Airport
150 Airport Road
Elizabethton, TN 37643
Phone (423) 543-2801

-ELECTRIC DEPARTMENT-

Detailed audit information about the Elizabethton Electric Department can be obtained by contacting the electric department at:

City of Elizabethton
136 S. Sycamore St.
Elizabethton, TN 37643
Phone (423) 542-1516

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in such. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Elizabethton, Director of Finance, 136 South Sycamore Street, Elizabethton, TN 37643.

CITY OF ELIZABETHTON, TENNESSEE
STATEMENT OF NET ASSETS
June 30, 2008

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Elizabethton Board of Education	Elizabethton Municipal Golf Course
ASSETS					
Cash	\$ 900,883	3,605,308	4,506,191	830,696	93,464
Cash on Hand	6,204	16,328	22,532	-	1,400
Certificates of Deposit - Long - Term	1,973,300	3,797,273	5,770,573	-	-
Investments	812,593	13,967,799	14,780,392	-	-
Receivables (Net of allowances for uncollectibles)					
Taxes	4,243,942	-	4,243,942	2,156,020	-
Accounts	31,319	3,614,181	3,645,500	28,792	-
Notes	241,589	-	241,589	-	-
Internal Balances	(116,622)	116,622	-	-	-
Due from Other Governments	1,166,145	12,165	1,178,310	446,478	-
Inventories	53,568	1,022,468	1,076,036	20,340	9,953
Prepaid Expense	2,813	8,925	11,738	-	291
Restricted Assets					
Investments	2,210,537	-	2,210,537	-	-
Cash	-	2,558,762	2,558,762	-	-
Bond Issue Cost (Net of Accumulated Amortization)	4,064	1,805,738	1,809,802	-	-
Capital Assets					
Land	2,217,604	1,975,917	4,193,521	216,170	-
Construction In Progress	299,346	8,138,926	8,438,272	756	-
Library Infrastructure	574,487	-	574,487	-	-
Buildings and Improvements	6,450,759	26,092,306	32,543,065	15,265,969	72,334
Motor Equipment	4,543,761	6,790,858	11,334,619	955,481	596,293
Office Equipment	1,845,969	896,195	2,742,164	-	13,442
Infrastructure	10,804,297	68,285,005	79,089,302	-	1,424,926
Less Accumulated Depreciation	(12,921,586)	(42,618,642)	(55,540,228)	(8,206,624)	(1,332,372)
Total Assets	25,344,972	100,086,134	125,431,106	11,714,078	879,731
LIABILITIES					
Accounts Payable	92,416	4,114,819	4,207,235	385,994	18,003
Cash Overdraft	80,746	-	80,746	49,646	-
Matured Bonds and Interest	3,783	-	3,783	-	-
Customer Deposits	-	2,558,787	2,558,787	-	-
Advance from TVA	-	1,221,192	1,221,192	-	-
Accrued Expenses	13,491	892,468	905,959	25,697	11,521
Due to Other Governments	24,350	-	24,350	-	-
Other Liabilities	12,311	277,993	290,304	147	-
Unearned Revenues	3,909,066	79,845	3,988,911	1,753,207	136,886
Long-term Liabilities					
Due within one year	983,305	1,476,251	2,459,556	1,342	61,558
Due within more than one year	2,012,770	30,826,779	32,839,549	31,300	294,839
Total Liabilities	7,132,238	41,448,134	48,580,372	2,247,333	522,807
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	11,194,421	38,582,426	49,776,847	8,231,752	418,226
Unrestricted	7,018,313	20,055,574	27,073,887	1,234,993	(61,302)
TOTAL NET ASSETS	<u>\$ 18,212,734</u>	<u>58,638,000</u>	<u>76,850,734</u>	<u>9,466,745</u>	<u>356,924</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ELIZABETHTON, TENNESSEE
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2008

Functions/Programs	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units	
					Governmental Activities	Business-Type Activities	Total	Elizabethton School Board	Municipal Golf Course
Primary Government									
Governmental Activities									
General Government	\$ 2,312,896	631,590	-	-	(1,681,306)	-	(1,681,306)	-	-
Public Safety	4,691,754	281,203	93,550	4,999	(4,312,002)	-	(4,312,002)	-	-
Public Works	1,709,253	743,426	507,478	3,000	(455,349)	-	(455,349)	-	-
Health and Welfare	143,386	11,993	-	-	(131,393)	-	(131,393)	-	-
Building Code Enforcement	267,685	-	-	-	(267,685)	-	(267,685)	-	-
Community Development	150,503	-	-	-	(150,503)	-	(150,503)	-	-
Culture and Recreation	1,279,218	312,278	33,061	52,698	(881,181)	-	(881,181)	-	-
Education	2,332,000	-	-	-	(2,332,000)	-	(2,332,000)	-	-
Other	511,202	-	-	-	(511,202)	-	(511,202)	-	-
Interest on Long-Term Debt	120,050	-	-	-	(120,050)	-	(120,050)	-	-
Total Governmental Activities	13,517,947	1,980,490	634,089	60,697	(10,842,671)	-	(10,842,671)	-	-
Business-Type Activities									
Water and Sewer	6,421,106	6,121,114	-	242,016	-	(57,976)	(57,976)	-	-
Electric System	44,584,278	46,038,644	-	-	-	1,454,366	1,454,366	-	-
Airport	1,101,139	953,766	-	410,028	-	262,655	262,655	-	-
Total Business-Type Activities	52,106,523	53,113,524	-	652,044	-	1,659,045	1,659,045	-	-
Total Primary Government	\$ 65,624,470	55,094,014	634,089	712,741	(10,842,671)	1,659,045	(9,183,626)	-	-
Component Units									
Education - School Board	\$ 17,095,238	768,411	4,432,640	5,764	-	-	-	(11,888,423)	-
Golf Course	670,219	597,917	-	-	-	-	-	-	(72,302)
Total Component Units	\$ 17,765,457	1,366,328	4,432,640	5,764	-	-	-	(11,888,423)	(72,302)
General Revenues									
Taxes									
Property Taxes					\$ 4,061,546	-	4,061,546	1,725,347	-
Sales Taxes					4,127,085	-	4,127,085	1,152,701	-
In-Lieu of Taxes					36,733	-	36,733	30,023	-
Business Taxes					250,850	-	250,850	-	-
Other Taxes					-	-	-	19,979	-
Other Local Governments					93,987	-	93,987	4,039	-
State Aid					1,649,418	-	1,649,418	8,815,649	-
Federal Aid					414,820	-	414,820	-	-
Unrestricted Investment Earnings					232,933	601,753	834,686	44,152	664
Miscellaneous					35,582	-	35,582	11,127	-
Special Items					-	-	-	242,134	-
Loss on Sale of Assets					-	-	-	(600)	-
Transfers					367,314	(367,314)	-	-	-
Total General Revenues, Special Items and Transfers					11,270,268	234,439	11,504,707	12,044,551	664
Change in Net Assets					427,597	1,893,484	2,321,081	156,128	(71,638)
Net Assets - Beginning					17,785,137	56,522,016	74,307,153	9,310,617	428,562
Prior Period Adjustment					-	222,500	222,500	-	-
Net Assets - Ending					\$ 18,212,734	58,638,000	76,850,734	9,466,745	356,924

The notes to the financial statements are an integral part of this statement.

CITY OF ELIZABETHTON, TENNESSEE
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2008

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash	\$ 330,486	576,601	907,087
Certificates of Deposit	1,973,300	-	1,973,300
Investments	734,654	77,939	812,593
Receivables (Net of Allowances for Uncollectibles)			
Taxes	4,243,942	-	4,243,942
Accounts	5,495	25,824	31,319
Notes	241,589	-	241,589
Due From Other Funds	5,622	568	6,190
Due From Other Governments	1,155,466	10,679	1,166,145
Inventory	53,568	-	53,568
Prepaid Expenses	2,813	-	2,813
Restricted Assets			
Investments	1,669,971	540,566	2,210,537
TOTAL ASSETS	\$ 10,416,906	1,232,177	11,649,083
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts Payable	\$ 89,904	2,512	92,416
Cash Overdraft	-	80,746	80,746
Matured Bonds	1,500	-	1,500
Matured Bond Interest	2,283	-	2,283
Due to Other Governments	24,350	-	24,350
Other Liabilities	12,311	-	12,311
Deferred Revenues	4,314,092	-	4,314,092
Due to Other Funds	119,465	3,347	122,812
TOTAL LIABILITIES	4,563,905	86,605	4,650,510
FUND BALANCES			
Unreserved - Designated for Sidewalk	7,594	-	7,594
Unreserved - Designated for Retirement	538,969	-	538,969
Unreserved - Designated for Debt Service	3,096,317	-	3,096,317
Unreserved - Designated for Industrial Development	7,985	-	7,985
Unreserved - Designated for Police	580	-	580
Unreserved - Designated for Christmas Tree	180	-	180
Unreserved - Undesignated Reported in Special Revenue Funds	-	199,524	199,524
Unreserved - Undesignated Reported in Capital Project Funds	-	916,396	916,396
Unreserved - Undesignated Reported in Permanent Fund	-	29,652	29,652
Unreserved - Undesignated Reported in General Fund	2,201,376	-	2,201,376
TOTAL FUND BALANCES	5,853,001	1,145,572	6,998,573
TOTAL LIABILITIES AND FUND BALANCES	\$ 10,416,906	1,232,177	11,649,083

The notes to the financial statements are an integral part of this statement.

CITY OF ELIZABETHTON, TENNESSEE
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2008

Total Fund Balances - Governmental Funds	\$ 6,998,573
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and; therefore, are not reported as assets in governmental funds. The cost of the assets is \$26,736,223 and the accumulated depreciation is \$(12,921,586)	13,814,637
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Revenue, for amounts not received during the period of availability, is not considered "available" and has been deferred in the funds.	405,026
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Accrued interest is not due and payable in the current period and; therefore, is not reported as a liability in the funds.	(13,491)
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Governmental funds report the effect of debt issuance costs when debt is issued. These amounts are amortized over the life of the debt for the statement of net assets.	4,064
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Long-term liabilities are not due and payable in the current period and; therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of bonds payable, notes payable, and compensated absences.	<u>(2,996,075)</u>
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Total Net Assets - Governmental Activities	<u>\$18,212,734</u>
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The notes to the financial statements are an integral part of this statement.

CITY OF ELIZABETHTON, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2008

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes	\$ 8,429,613	-	8,429,613
Licenses and Permits	95,095	-	95,095
Intergovernmental	2,192,700	-	2,192,700
Charges for Services	1,889,108	544,781	2,433,889
Donations	-	141,807	141,807
Grant Income	-	134,028	134,028
Fines and Forfeitures	160,444	99,991	260,435
Miscellaneous	481,964	5,114	487,078
Interest Earned	206,315	27,142	233,457
TOTAL REVENUES	<u>13,455,239</u>	<u>952,863</u>	<u>14,408,102</u>
EXPENDITURES			
General Government	2,185,716	900,998	3,086,714
Public Safety	4,403,539	89,760	4,493,299
Public Works	1,355,854	-	1,355,854
Health and Welfare	142,785	-	142,785
Building Code Enforcement	268,427	-	268,427
Community Development	151,174	-	151,174
Culture and Recreation	1,174,843	-	1,174,843
Education	2,332,000	-	2,332,000
Special Appropriations	285,114	-	285,114
Debt Service	836,516	-	836,516
Other Operating Expenses	-	232,927	232,927
Capital Outlay	166,286	114,774	281,060
TOTAL EXPENDITURES	<u>13,302,254</u>	<u>1,338,459</u>	<u>14,640,713</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	517,314	412,000	929,314
Transfers Out	<u>(550,000)</u>	<u>(12,000)</u>	<u>(562,000)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(32,686)</u>	<u>400,000</u>	<u>367,314</u>
Net Change in Fund Balances	120,299	14,404	134,703
Fund Balances - Beginning	<u>5,732,702</u>	<u>1,131,168</u>	<u>6,863,870</u>
Fund Balances - Ending	<u>\$ 5,853,001</u>	<u>1,145,572</u>	<u>6,998,573</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ELIZABETHTON, TENNESSEE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2008

Total Net Change in Fund Balances - Governmental Funds	\$ 134,703
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense of \$794,549 exceeds capital outlay of \$281,060.	(513,489)
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Because some property taxes and grants will not be collected for several months after the City's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds. Deferred tax revenues increased by this amount for the current year.	70,130
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In the statement of activities, certain operating expenses such as compensated absences, are measured by the amounts earned during the year. In the governmental funds; however, expenditures for these items are measured by the amount of financial resources used. Compensated absences decreased by this amount for the current year.	23,272
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Repayment of bond and note principal and leases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	717,843
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Interest expense reported in the statement of activities does not require the use of current financial resources. Therefore, it is not reported as an expenditure in the governmental funds.	(1,377)
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Governmental funds report debt issuance cost when debt is first issued. These amounts are deferred and amortized in the statement of activities. This amount is the net effect of the treatment of long-term debt items.	<u>(3,485)</u>
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Change in Net Assets of Governmental Activities	<u>\$ 427,597</u>
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The notes to the financial statements are an integral part of this statement.

CITY OF ELIZABETHTON, TENNESSEE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts Budgetary & GAAP Basis	Variance with Final Budget- Favorable (Unfavorable)
	Original	Final		
REVENUES				
Taxes				
General Property Taxes				
Current Property Taxes	\$ 3,782,520	3,782,520	3,688,191	(94,329)
Delinquent Property Taxes	373,000	373,000	286,788	(86,212)
Interest, Penalty and Attorney Fees	90,000	90,000	39,967	(50,033)
Total General Property Taxes	4,245,520	4,245,520	4,014,946	(230,574)
General Sales Tax				
Local Option Sales Tax	3,536,910	3,693,910	3,685,756	(8,154)
Selective Use and Sales Tax				
Local Beer Tax 17%	400,000	430,000	441,328	11,328
In-Lieu of Taxes				
Elizabethton Housing Authority	18,631	18,631	18,889	258
AY McDonald	6,000	6,000	6,000	-
Brookhaven Homes for Elderly	3,300	3,300	3,210	(90)
Star Industry	8,000	8,000	8,000	-
Sycamore Shoals State Park	634	634	634	-
Total In-Lieu of Taxes	36,565	36,565	36,733	168
Gross Receipts and Business Licenses				
Gross Receipts Taxes	250,000	250,000	250,850	850
Total Taxes	\$ 8,468,995	8,655,995	8,429,613	(226,382)

(Continued)

CITY OF ELIZABETHTON, TENNESSEE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts Budgetary & GAAP Basis	Variance with Final Budget- Favorable (Unfavorable)
	Original	Final		
REVENUES (CONTINUED)				
Licenses and Permits				
Licenses				
Business License	\$ 7,500	7,500	9,495	1,995
Interest and Penalty	3,050	3,050	3,489	439
Beer License	4,125	4,125	4,520	395
Recording Fee	3,100	3,100	3,345	245
Electric, Gas and Plumbing	1,300	1,300	825	(475)
Mixed Drinks Sales Permit	-	800	-	(800)
Total Licenses	19,075	19,875	21,674	1,799
Special Permits				
Electrical	7,500	7,500	16,142	8,642
Building	44,000	44,000	44,269	269
Plumbing	2,670	2,670	6,913	4,243
Gas	750	750	1,560	810
Demolition	500	500	650	150
Curb Cuts	90	90	-	(90)
Street Cuts	300	300	(683)	(983)
Miscellaneous Permits	50	50	2,060	2,010
Pool	-	-	410	410
Fireworks	1,200	1,200	2,100	900
Total Special Permits	57,060	57,060	73,421	16,361
Total Licenses and Permits	76,135	76,935	95,095	18,160
Intergovernmental Revenue				
Federal through State				
Bullet Proof Vest Grant	22,450	22,450	-	(22,450)
FEMA Fire Grant	-	57,000	57,000	-
Byrne/Justice Police Grant	-	11,521	12,346	825
Total Federal through State	\$ 22,450	90,971	69,346	(21,625)

(Continued)

CITY OF ELIZABETHTON, TENNESSEE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts Budgetary & GAAP Basis	Variance with Final Budget- Favorable (Unfavorable)
	Original	Final		
REVENUES (CONTINUED)				
Intergovernmental Revenue (Continued)				
State Awards				
TN Dept. of Tran.-Highway Maint.	\$ 56,000	56,000	56,050	50
TN Dept. of Transportation	-	2,500	2,569	69
Historical Zoning Survey Grant	-	10,500	10,500	-
LSTA Library Matching Grant	4,200	4,200	-	(4,200)
Library Enhancement Grant	-	20,000	20,000	-
Total State Awards	60,200	93,200	89,119	(4,081)
State Shared Revenues				
City Streets	33,000	33,000	30,609	(2,391)
Public Safety Supplemental Pay	33,000	33,000	39,000	6,000
Mixed Drink Tax	40,000	40,000	28,776	(11,224)
Income Tax	130,000	195,000	196,896	1,896
Sales Tax	999,100	999,100	1,004,308	5,208
State Street Aid	439,400	439,400	397,922	(41,478)
Beer Tax	12,000	12,000	7,667	(4,333)
TVA Replacement Tax	105,000	131,000	134,868	3,868
Excise Tax	130,000	130,000	110,175	(19,825)
Telecommunications Tax	2,410	2,410	1,699	(711)
Total State Shared Revenues	1,923,910	2,014,910	1,951,920	(62,990)
Local Government Revenue				
HIDTA	-	10,220	20,135	9,915
Carter County-Animal Shelter	42,000	42,000	8,030	(33,970)
Carter County-Library	31,588	31,588	31,587	(1)
Carter County-Park & Recreation	100,250	100,250	22,563	(77,687)
Total Local Government Revenue	173,838	184,058	82,315	(101,743)
Total Intergovernmental Revenue	\$ 2,180,398	2,383,139	2,192,700	(190,439)

(Continued)

CITY OF ELIZABETHTON, TENNESSEE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts Budgetary & GAAP Basis	Variance with Final Budget- Favorable (Unfavorable)
	Original	Final		
REVENUES (CONTINUED)				
Charges for Services				
Various General Government Charges				
Garage Services	\$ 558,918	657,718	734,216	76,498
Elizabethton Water and Sewer Division	900,000	900,000	900,000	-
Special Police Services	31,250	36,250	36,441	191
East TN Railroad Authority	400	400	-	(400)
Total Various General Government Charges	1,490,568	1,594,368	1,670,657	76,289
Health				
Dog Tags	1,950	1,950	1,383	(567)
Animal Control and Shelter Fees	13,000	13,000	10,610	(2,390)
Total Health	14,950	14,950	11,993	(2,957)
Culture and Recreation				
Swimming Pool-Season Tickets	3,346	3,346	1,425	(1,921)
Swimming Pool-Daily Tickets	28,347	28,347	28,136	(211)
Swimming Pool-Concessions	6,857	6,857	9,211	2,354
Swimming Lessons	3,013	3,013	-	(3,013)
Baseball-Season Tickets	5,536	5,536	6,894	1,358
Baseball-Daily Tickets	9,368	9,368	15,733	6,365
Baseball-Souvenir Sales	12,465	12,465	17,053	4,588
Baseball-Baseball Cards	15,000	15,000	1,106	(13,894)
Baseball-Advertising	3,450	15,650	24,620	8,970
Parks-Concession Sales	24,552	43,552	43,572	20
Other Miscellaneous -Park & Recreation	13,596	13,596	18,634	5,038
Vendor Fees	400	400	374	(26)
League Entrance Fees	21,495	21,495	26,440	4,945
Rental	10,527	10,527	13,260	2,733
Total Culture and Recreation	157,952	189,152	206,458	17,306
Total Charges for Services	\$ 1,663,470	1,798,470	1,889,108	90,638

(Continued)

CITY OF ELIZABETHTON, TENNESSEE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts Budgetary & GAAP Basis	Variance with Final Budget- Favorable (Unfavorable)
	Original	Final		
REVENUES (CONTINUED)				
Fines and Forfeitures				
Non-Moving Traffic Violations	\$ 9,950	9,950	1,437	(8,513)
Moving Traffic Fines	88,325	88,325	58,193	(30,132)
Fines - Defense Driving School	50,150	50,150	28,080	(22,070)
Fines - Impounded Vehicle Fees	300	300	-	(300)
Court Fines	19,725	52,325	55,814	3,489
Illegal Beer Sales	2,000	2,000	-	(2,000)
Sex Offender	-	-	400	400
Library Fines	15,000	16,000	16,020	20
Storm Water	-	-	500	500
Total Fines and Forfeitures	185,450	219,050	160,444	(58,606)
Interest Earnings				
Investments	201,200	201,200	206,315	5,115
Total Interest Earnings	201,200	201,200	206,315	5,115
Miscellaneous Revenue				
Rents and Royalties				
TV Cable Franchise	140,000	149,975	149,975	-
Natural Gas Franchise	290,000	290,000	178,407	(111,593)
FBI Radio Equipment	-	-	682	682
City Property	-	-	10	10
Tennessee Vocational Training Ctr	78,960	78,960	85,540	6,580
Total Rents and Royalties	508,960	518,935	414,614	(104,321)
Other				
Miscellaneous	114,450	132,810	63,708	(69,102)
Donations	3,000	3,000	3,240	240
Sale of Real Estate	101,000	101,000	-	(101,000)
Sale of Scrap Metal	-	-	402	402
Total Other Revenue	218,450	236,810	67,350	(169,460)
Total Miscellaneous Revenue	727,410	755,745	481,964	(273,781)
TOTAL REVENUES	\$ 13,503,058	14,090,534	13,455,239	(635,295)

(Continued)

CITY OF ELIZABETHTON, TENNESSEE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts Budgetary & GAAP Basis	Variance with Final Budget- Favorable (Unfavorable)
	Original	Final		
EXPENDITURES				
General Government				
City Council	\$ 64,077	64,077	59,671	4,406
City Judge	15,797	16,397	16,346	51
City Manager	304,953	304,953	252,072	52,881
Financial	530,554	521,654	440,535	81,119
Fleet Maintenance	677,311	786,211	719,344	66,867
Management Information Systems	219,599	119,599	111,102	8,497
Purchasing	230,630	230,630	128,973	101,657
City Attorney	62,720	69,320	68,779	541
Personnel	162,032	190,032	189,280	752
Capital Outlay	2,400	2,400	-	2,400
Electric Department Services	-	205,000	199,614	5,386
Total General Government	2,270,073	2,510,273	2,185,716	324,557
Public Safety				
Police Patrol	2,620,159	2,625,159	2,599,299	25,860
Fire Prevention	1,723,369	1,843,369	1,804,240	39,129
Capital Outlay	-	117,000	115,778	1,222
Total Public Safety	4,343,528	4,585,528	4,519,317	66,211
Public Works				
Street Maintenance	788,155	744,155	661,052	83,103
Parks and Special Events	4,500	4,500	3,889	611
Engineering	388,061	355,561	195,474	160,087
Total Public Works	1,180,716	1,104,216	860,415	243,801
State Street Aid				
Crushed Stone and Gravel	5,600	5,600	-	5,600
Concrete Products	7,000	7,000	7,085	(85)
Salt/Sodium Chloride	35,000	5,000	-	5,000
Asphalt-Hot Mix	8,500	8,500	9,830	(1,330)
Electricity	364,500	364,500	347,288	17,212
Maintenance	150,000	150,000	131,236	18,764
Total State Street Aid	\$ 570,600	540,600	495,439	45,161

(Continued)

CITY OF ELIZABETHTON, TENNESSEE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts Budgetary & GAAP Basis	Variance with Final Budget- Favorable (Unfavorable)
EXPENDITURES (CONTINUED)	Original	Final		
Health and Welfare				
Animal Shelter Operations	\$ 63,890	63,890	58,830	5,060
Contributions to Non-Profit Organizations	76,455	83,955	83,955	-
Total Health and Welfare	140,345	147,845	142,785	5,060
Building Code Enforcement				
Enforcement	261,939	278,139	268,427	9,712
Total Building Code Enforcement	261,939	278,139	268,427	9,712
Community Development				
Administration	134,633	157,633	151,174	6,459
Total Community Development	134,633	157,633	151,174	6,459
Culture and Recreation				
Administration	73,971	73,378	72,585	793
Swimming Pools	61,211	84,266	86,239	(1,973)
Athletic Fields and Parks	421,019	417,880	376,224	41,656
Recreation Center	108,694	108,844	105,751	3,093
Leagues	111,314	139,196	144,660	(5,464)
Public Library	391,880	424,880	389,384	35,496
Capital Outlay	-	22,833	50,508	(27,675)
Total Culture and Recreation	1,168,089	1,271,277	1,225,351	45,926
Education	2,332,000	2,332,000	2,332,000	-
Debt Service				
Principal	717,844	717,844	717,843	1
Interest	117,289	117,289	117,289	-
Paying Agent Fees	1,500	1,500	1,384	116
Total Debt Service	\$ 836,633	836,633	836,516	117

(Continued)

CITY OF ELIZABETHTON, TENNESSEE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts Budgetary & GAAP Basis	Variance with Final Budget- Favorable (Unfavorable)
	Original	Final		
EXPENDITURES (CONTINUED)				
Special Appropriations to Other Governmental Entities	\$ 284,382	285,132	285,114	18
TOTAL EXPENDITURES	13,522,938	14,049,276	13,302,254	747,022
Excess (Deficiency) of Revenues over Expenditures	(19,880)	41,258	152,985	111,727
TRANSFERS				
Elizabethton Electric - In Lieu of Taxes	689,366	689,366	517,314	(172,052)
Sanitation/Solid Waste Fund	(280,624)	(400,624)	(400,000)	624
Elizabethton Municipal Airport	(50,000)	(150,000)	(150,000)	-
Electric Department	(150,000)	(150,000)	-	150,000
Parks and Recreation	(30,000)	(30,000)	-	30,000
TOTAL TRANSFERS	178,742	(41,258)	(32,686)	8,572
Excess (Deficiency) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	158,862	-	120,299	120,299
Fund Balances, July 1, 2007	5,732,702	5,732,702	5,732,702	-
Fund Balances, June 30, 2008	\$ 5,891,564	5,732,702	5,853,001	120,299

The notes to the financial statements are an integral part of this statement.

CITY OF ELIZABETHTON, TENNESSEE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2008

	Business - Type Activities - Enterprise Funds			
	Elizabethton Water and Sewer Fund	Elizabethton Electric Department	Elizabethton Municipal Airport	Total Enterprise Funds
ASSETS				
Current Assets				
Cash	\$ 516,360	2,705,164	400,112	3,621,636
Certificates of Deposit - Cash Equivalents	-	-	-	-
Certificates of Deposit - Long - Term	-	3,797,273	-	3,797,273
Investments	1,925,162	12,042,637	-	13,967,799
Accounts Receivable-Net	256,096	3,214,362	143,723	3,614,181
Prepaid Expenses	-	-	8,925	8,925
Inventories	452,513	514,953	55,002	1,022,468
Due from Other Funds	-	71,722	-	71,722
Due from Other Governments	2,165	-	10,000	12,165
Total Current Assets	3,152,296	22,346,111	617,762	26,116,169
Capital Assets				
Land	386,524	591,294	998,099	1,975,917
Construction In Progress	1,025,736	5,753,725	1,359,465	8,138,926
Buildings	20,467,281	2,115,978	2,898,972	25,482,231
Lines and Transmission	19,335,364	48,949,641	-	68,285,005
Plant	610,075	-	-	610,075
Motor Equipment	2,296,747	2,226,512	386,494	4,909,753
Office Equipment	311,141	564,355	-	875,496
Other	1,228,516	652,589	-	1,881,105
Furniture	20,699	-	-	20,699
Less Accumulated Depreciation	(20,687,069)	(20,481,329)	(1,450,244)	(42,618,642)
Total Capital Assets	24,995,014	40,372,765	4,192,786	69,560,565
Other Noncurrent Assets				
Restricted Cash	464,026	2,094,736	-	2,558,762
Due from Other Funds	-	85,468	-	85,468
Other Assets	127,405	1,678,333	-	1,805,738
Total Other Noncurrent Assets	591,431	3,858,537	0	4,449,968
TOTAL ASSETS	28,738,741	66,577,413	4,810,548	100,126,702
LIABILITIES AND NET ASSETS				
Liabilities				
Current Liabilities				
Accounts Payable - Net	27,595	3,982,535	104,689	4,114,819
Customer Deposits	464,026	2,094,736	125	2,558,887
Other Current Liabilities	55,394	212,499	3,178	271,071
Accrued Payroll	168	73,693	429	74,290
Accrued Interest	476,025	338,975	-	815,000
Deferred Revenue	15,335	-	64,510	79,845
Due to Other Funds	40,568	-	-	40,568
Bonds Payable	710,000	175,000	-	885,000
Notes Payable	-	-	21,951	21,951
State Loans Payable	88,068	-	-	88,068
Capital Lease	18,740	-	-	18,740
Compensated Absences	76,671	383,471	2,350	462,492
Total Current Liabilities	1,972,590	7,260,909	197,232	9,430,731
Long-Term Liabilities				
Bonds Payable	8,912,414	18,280,000	-	27,192,414
Bond Discount	-	(82,005)	-	(82,005)
Bond Premium	-	191,705	-	191,705
Notes Payable - Net	-	-	1,395,118	1,395,118
State Loans Payable	1,493,060	-	-	1,493,060
Capital Lease	136,657	-	-	136,657
Advance from TVA	-	1,221,192	-	1,221,192
Other	-	-	10,000	10,000
Compensated Absences	25,025	468,687	6,118	499,830
Total Long-Term Liabilities	10,567,156	20,079,579	1,411,236	32,057,971
TOTAL LIABILITIES	12,539,746	27,340,488	1,608,468	41,488,702
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	13,636,075	22,226,537	2,719,814	38,582,426
Unrestricted	2,562,920	17,010,388	482,266	20,055,574
TOTAL NET ASSETS	\$ 16,198,995	\$ 39,236,925	3,202,080	58,638,000

The notes to the financial statements are an integral part of this statement.

CITY OF ELIZABETHTON, TENNESSEE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2008

	Business - Type Activities - Enterprise Funds				
	Elizabethton Water and Sewer Fund	Elizabethton Electric Department	Elizabethton Municipal Airport	Total Enterprise Funds	Electric Internal Service Fund
OPERATING REVENUES					
Charges for Services	\$ 6,086,562	46,038,644	953,766	53,078,972	-
OPERATING EXPENSES					
Wages and Employee Benefits	2,198,140	-	214,439	2,412,579	-
Purchases of Power, Water and Other	-	36,245,964	428,103	36,674,067	-
Other Operating Expenses	1,105,623	3,846,817	205,428	5,157,868	-
Maintenance	91,687	2,025,280	8,082	2,125,049	-
Tax Equivalent	-	552,623	-	552,623	-
Treatment, Transmissions and Utilities	568,915	-	48,017	616,932	-
Administrative	900,000	-	-	900,000	-
Depreciation	1,190,959	1,538,367	125,455	2,854,781	-
TOTAL OPERATING EXPENSES	6,055,324	44,209,051	1,029,524	51,293,899	-
OPERATING INCOME (LOSS)	31,238	1,829,593	(75,758)	1,785,073	-
NONOPERATING REVENUES (EXPENSES)					
Interest Income	128,499	472,415	839	601,753	-
Interest Expense and Fiscal Charges	(318,539)	(360,613)	(71,615)	(750,767)	-
Other Revenue	34,552	-	-	34,552	-
Other Expense	(47,243)	(14,614)	-	(61,857)	-
TOTAL NONOPERATING REVENUES (EXPENSES)	(202,731)	97,188	(70,776)	(176,319)	-
Income (Loss) Before Contributions and Transfers	(171,493)	1,926,781	(146,534)	1,608,754	-
Transfer to General Fund	-	(517,314)	-	(517,314)	2,726
Transfer from General Fund	-	-	150,000	150,000	-
Contributions - Capital Grant Revenue	242,016	-	410,028	652,044	-
Change in Net Assets	70,523	1,409,467	413,494	1,893,484	2,726
NET ASSETS, JULY 1, 2007	16,128,472	37,827,458	2,566,086	56,522,016	(2,726)
PRIOR PERIOD ADJUSTMENT	-	-	222,500	222,500	-
NET ASSETS, JUNE 30, 2008	\$ 16,198,995	39,236,925	3,202,080	58,638,000	0

The notes to the financial statements are an integral part of this statement.

CITY OF ELIZABETHTON, TENNESSEE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2008

	Business-Type Activities - Enterprise Funds				
	Elizabethton Water and Sewer Fund	Elizabethton Electric Department	Elizabethton Municipal Airport	Total Enterprise Funds	Electric Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash Received From Customers	\$ 6,194,153	43,865,925	831,458	50,891,536	-
Cash Received from City of Elizabethton for Services	-	920,362	-	920,362	-
Cash Received from Rentals and Other Sales	-	1,057,081	60,000	1,117,081	-
Cash Received/Payments for Tax Equivalent	-	(382,686)	-	(382,686)	-
Cash Payments for Employee Services & Benefits	(2,211,181)	(55,830)	(181,680)	(2,448,691)	-
Cash Payments for Energy Right Customers	-	(22,237)	-	(22,237)	-
Cash Received for Customer Deposits	-	-	-	-	-
Cash Payments to Suppliers for Goods and Services	(2,835,966)	(40,946,239)	(697,957)	(44,480,162)	-
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	1,147,006	4,436,376	11,821	5,595,203	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition and Construction of Capital Assets	(1,804,817)	(7,399,782)	(326,150)	(9,530,749)	-
Proceeds from bond issue	-	15,000,000	-	15,000,000	-
Proceeds from note issue	-	-	-	-	-
Bond Issue Costs	-	(177,874)	-	(177,874)	-
Payments on Capital Lease	(27,443)	-	-	(27,443)	-
Principal Paid on Bonds	(590,000)	(165,000)	-	(755,000)	-
Principal Paid on Notes Payable	-	-	(27,330)	(27,330)	-
Interest Paid on Bonds and Notes Payable	(233,949)	(69,568)	(71,615)	(375,132)	-
Principal Paid on State Loans	(183,512)	-	-	(183,512)	-
Grant Proceeds	341,232	-	410,028	751,260	-
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	(2,498,489)	7,187,776	(15,067)	4,674,220	-
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES					
Transfers to Other Funds	-	(517,314)	-	(517,314)	(11,125)
Transfers from Other Funds	42,911	-	150,000	192,911	-
NET CASH PROVIDED BY (USED FOR) NON-CAPITAL FINANCING ACTIVITIES	42,911	(517,314)	150,000	(324,403)	(11,125)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of Investments	-	(12,166,085)	-	(12,166,085)	-
Sale of Investments	432,305	-	-	432,305	-
Interest on Investments	128,499	499,930	839	629,268	-
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	560,804	(11,666,155)	839	(11,104,512)	-
Net Increase (Decrease) in Cash	(747,768)	(559,317)	147,593	(1,159,492)	(11,125)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,728,154	5,359,217	252,519	7,339,890	11,125
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 980,386	4,799,900	400,112	6,180,398	0

(Continued)

CITY OF ELIZABETHTON, TENNESSEE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2008

	Business-Type Activities - Enterprise Funds			Total Enterprise Funds
	Elizabethton Water and Sewer Fund	Elizabethton Electric Department	Elizabethton Municipal Airport	
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities				
NET OPERATING INCOME (LOSS)	\$ 31,238	1,829,593	(75,758)	1,785,073
Adjustments				
Depreciation and Amortization	1,190,959	1,621,011	125,455	2,937,425
Other Income and Expense	(5,448)	-	-	(5,448)
Provision for Uncollectibles	-	54,805	-	54,805
Changes in Assets and Liabilities				
(Increase) Decrease in Receivables	73,039	(313,794)	(106,031)	(346,786)
(Increase) Decrease in Inventory	(24,193)	(20,583)	(1,933)	(46,709)
Increase (Decrease) in Accounts Payable - Net	(90,804)	910,733	57,337	877,266
Increase (Decrease) in Customer Deposits	27,876	118,519	-	146,395
Increase (Decrease) in Other				
Liabilities/Accruals	(42,620)	144,222	12,751	114,353
Increase (Decrease) in Accrued Payroll	(1,032)	13,617	-	12,585
Increase (Decrease) in Deferred Revenue	-	(22,237)	-	(22,237)
Increase (Decrease) in Compensated Absences	(12,009)	100,490	-	88,481
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>\$ 1,147,006</u>	<u>4,436,376</u>	<u>11,821</u>	<u>5,595,203</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET ASSETS				
Cash	\$ 516,360	2,705,164	400,112	3,621,636
Cash - Restricted	464,026	2,094,736	-	2,558,762
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 980,386</u>	<u>4,799,900</u>	<u>400,112</u>	<u>6,180,398</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES				
Borrowing Under Capital Leases	\$ 220,840	-	-	220,840
Capital Asset Traded In	38,000	-	-	38,000

The notes to the financial statements are an integral part of this statement.

CITY OF ELIZABETHTON, TENNESSEE
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
June 30, 2008

	Military Family Support Private-Purpose Trust
ASSETS	
Cash	<u>\$ 2,718</u>
NET ASSETS	
Held in Trust for Military Families	<u>\$ 2,718</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ELIZABETHTON, TENNESSEE
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
For the Fiscal Year Ended June 30, 2008

ADDITIONS	
Interest	\$ 6
TOTAL ADDITIONS	<u>6</u>
 DEDUCTIONS	
Benefits to Military Families	-
TOTAL DEDUCTIONS	<u>0</u>
 CHANGE IN NET ASSETS	6
 NET ASSETS, JULY 1, 2007	<u>2,712</u>
 NET ASSETS, JUNE 30, 2008	<u>\$ 2,718</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Elizabethton, Tennessee have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The Financial Reporting Entity

City of Elizabethton, Tennessee is a municipal corporation governed by a Modified City Manager-Council form of government. As required by accounting principles generally accepted in the United States of America, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations; therefore, data from these units are combined with data of the primary government. A discretely presented component unit is reported in separate columns to emphasize it is legally separate from the government. The funds of the Elizabethton Board of Education and the Elizabethton Municipal Golf Course are discretely presented component units. Each component unit has a June 30 year end.

Individual Component Unit Disclosures

In evaluating how to define the government, for financial reporting purposes, the City management has considered all potential component units. A component unit is an organization for which the City is financially accountable, or for which the nature and significance of their relationship with the City is such that exclusion from the City's financial statements would cause them to be misleading or incomplete. The decision to include a potential component unit in the reporting entity was made by applying the criteria as set forth in GAAP. The City is financially accountable if it appoints a voting majority of the Organization's governing body and it is able to impose its will on the organization or there is a potential for the entity to provide specific financial benefit to or impose specific financial burden on the City. Additionally, the primary government is required to consider other entities for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The component units discussed below are included in the City's reporting entity because the City's management has determined that the City is financially accountable to those organizations.

The financial statements are formatted to allow the user to clearly distinguish between the primary government and its component units. Discretely presented component units are reported in separate columns in the government-wide financial statements (see note below for description) to emphasize that those entities are legally separate from the City.

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Discretely Presented Component Units – The component units column in the government-wide financial statements include the financial data of the Elizabethton Board of Education and the Elizabethton Municipal Golf Course. They are reported in separate columns to emphasize that they are legally separate from the City. Both of the discretely presented component units serve the geographic area of Elizabethton and their corporate charter grants them legally separate corporate powers.

Complete financial statements of Elizabethton Municipal Golf Course and Elizabethton Board of Education may be obtained from their administrative offices at:

Elizabethton Municipal Golf Course
185 Buck Van Huss Drive
Elizabethton, TN 37643

Elizabethton Board of Education
804 South Watauga Avenue
Elizabethton, TN 37643-4207

Blended Component Unit

The Elizabethton Municipal Airport Authority was created in accordance with TCA Sec. 42-3-101 through 42-3-103 and Sec. 42-5-101 through 42-5-20-5. The Elizabethton Municipal Airport Authority Commissioners are appointed for five year terms by the Elizabethton City Council. The City is responsible for all Airport indebtedness.

Related Organizations

The City's officials are also responsible for appointing the members of the boards of other organizations, but the City's accountability for these organizations does not extend beyond making the appointments.

The City cannot impose its will on these boards since it does not have the ability to modify or approve their budgets or overrule or modify decisions of the boards. The boards are fiscally independent and there is no financial benefit or burden relationship with the City. Therefore, they are not included in the City's financial statements.

The following organizations are related organizations, which have not been included in the reporting entity.

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Carter County Tomorrow

The City Manager of the City is a continuing appointment along with two City Council member appointments made by the City Council. An annual appropriation is made by the City, but the City has no direct or implied responsibility for indebtedness incurred by the Carter County Tomorrow.

Carter County Emergency 911 Communications District

The board of the Carter County Emergency 911 Communications District includes the City police chief, fire chief and one appointment by the City Council for a five year term. Included in the City annual budget process, a direct appropriation is made for necessary emergency and non-emergency dispatching of public safety and public works functions. The City is not responsible for any direct or indirect debt of the District.

Carter County Equalization Board

The City only appoints one member for a one year term. No assistance is provided to this board, and the City has no responsibility for any debts.

Health and Education Facilities Board

All seven members of the Health and Education Facilities Board are appointed by the City Council for six year terms. The Board is a non-profit corporation. No financial assistance is provided by the City.

Watauga Regional Library Board

The City Council appoints one member for a three year term. No financial assistance is provided by the City.

Solid Waste Regional Board

The City has one appointment to this Board. No financial assistance is provided by the City.

Elizabethton Housing Authority

Commissioners of the Authority are appointed by the Mayor, but the City does not provide funding, has no obligation for the debt issued by the Authority, and cannot impose its will.

Joint Venture

Carter County Solid Waste Disposal System Board

The City appoints two members to the Board and the County appoints two members. A fifth member is jointly approved by both the City Council and the Carter County Commission. Also, the City Manager is an ex-officio member. No appropriation is made by the City to this Board. The City and County have entered into an agreement to jointly and cooperatively operate and maintain a solid waste disposal system for the duration of the life of the Campbell Hollow Solid Waste Sanitary Landfill. The proceeds of the disposal of all land and property purchased jointly will be returned in equal parts to the City and County.

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Discretely Presented Component Units

Elizabethton Municipal Golf Course

The City owns all assets associated with the Elizabethton Municipal Golf Course. The Golf Course was established for the use and benefit of the citizens of Elizabethton and surrounding areas. The City, by resolution in accordance with TCA 48-51-201 (29 et. Seq.), authorized the Municipal Golf Course Board of Directors to incorporate as a non-profit, public benefit corporation. The Board of Directors manages and operates the day to day activities of the Golf Course. Membership on the Board of Directors consists of eight members elected by the membership of the public benefit corporation; three members of the Elizabethton City Council appointed by the City Council; one member elected by the women's golf association; and the director of the City's Park and Recreation Department. The City Council is ultimately responsible for all indebtedness approved for the Golf Course. The Board of Directors has the authority to borrow funds subject to the approval of the Elizabethton City Council. All revenues generated by the Elizabethton Municipal Golf Course are used exclusively for operation, maintenance and expansion of the Golf Course facilities.

The Elizabethton Board of Education

The Elizabethton City School System was created and currently operates in accordance with the provisions set forth in the TCA and the City municipal charter. The five school board members are elected at large for four year terms. The citizens of the City are the primary beneficiaries of the school system. The City's General Fund contributes a sizable appropriation to the General Purpose School Fund. Other school system revenue is provided by state, federal and other statutory sources. Also, the City is responsible for all applicable indebtedness incurred by the System.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-wide and Fund Financial Statements (Continued)

Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied, even though the receivable is recognized in the prior period when the enforceable legal claim arises. Property taxes recognized as receivable before the period of revenue recognition have been reported as deferred revenues. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Grant revenue also has a period of availability of 60 days. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Certain revenues are required to be recognized in the General Fund as a receivable at June 30 and either as revenue or deferred revenue, depending upon revenue recognition policies of the entity. The following items for the City are recorded: property tax, In-Lieu of tax: TVA, State Beer Tax, Telecommunications, Income Tax, Local Beer Tax, Mixed Drink and Gasoline Tax. Circuit Clerk/Clerk & Master Collections, litigation tax, business tax, bank excise tax, fines, forfeitures and penalties and performance bond forfeiture are required to be recognized however, they are not measurable or estimatable and are not generally material to the financial statements. Therefore, they are not recognized as revenue until received.

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

The City reports the following major governmental fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major proprietary funds:

The *Elizabethton Electric Department fund* is used to account for provisions of electric service to residents of the City. All activities necessary to provide such service are accounted for in this fund, including, but not limited to, administration, operations, maintenance, and billing and collection.

The *water and sewer fund* is used to account for the provision of water and sewer service to the residents of the City. All activities necessary to provide such service are accounted for in this fund, including, but not limited to, administration, operations, maintenance, and financing.

Additionally, the government reports the following fund type:

The internal service fund is used to account for the allocation of shared human capital and related benefits of the Electric Department. This fund has been closed.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

The City's fiduciary fund is the Military Family Support - Private Purpose Trust fund. This fund is for the benefit of family members of the local National Guard unit.

Assets, Liabilities and Equity

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand and demand deposits. The certificates of deposit represent those deposits with an original maturity greater than three months and less than one year. The City's investment policy authorizes the City to invest in obligations of the U.S. Treasury, U.S. Government agencies and the State Treasurer's Investment Pool. Certificates of Deposit with original maturities greater than ninety days from commercial banks are also recorded as certificates of deposit.

Investments are stated at fair value. The Local Government Investment Pool operates in accordance with the appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares. All interest earned on investments is recorded in the fund of the investment.

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities and Equity (Continued)

2. Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 180 days comprise the trade accounts receivable allowance for uncollectible. The property tax receivable allowance is equal to 2.5% of current taxes and 8.0% of all other years at June 30, 2008. Estimated uncollectible taxes were based on the prior year's collection experience.

Property taxes are levied as of August 1 on property values assessed on the same date. All real property taxes and personal property taxes are due and payable on the tenth of November. The billings are considered past due on January 1 at which time the applicable property is subject to lien and penalties and interest are assessed. Property taxes recognized as receivable before the period of revenue recognition have been reported as deferred revenues. For the fiscal year ending June 30, 2008 the 2007 calendar year property tax rate was \$1.78 per \$100.00 of assessed value.

3. Inventories and Prepaid Items

Inventories in the General and Water and Sewer Funds are valued at cost using the first-in/first-out (FIFO) method. Inventories of gasoline and vehicle parts are carried during the year with a ten to twenty-five percent mark-up for the purpose of charging out to other funds. These are re-valued to cost at year-end. The costs of inventory are reported as expenditures when consumed rather than when purchased.

Inventory for the Municipal Airport includes gasoline and supplies and are valued at cost basis on a weighted-average cost flow assumption.

Certain payments reflect costs applicable to future accounting periods and are recorded as prepaid items in the government-wide financial statements and on the fund level for the proprietary funds. The payments are being recorded as expenditures on the fund level for the governmental funds. Balances include postage, insurance, finance charges, bond issue costs, and travel advances.

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities and Equity (Continued)

4. Restricted Assets

Certain assets of the General Fund and Capital Projects Fund are classified as restricted by management. Management has restricted the cash and investments for future payment of bond retirement costs and industrial development.

Also, the Water and Sewer Fund has assets restricted for future payment of bonds.

The Water and Sewer and Electric Department's restricted assets consist of cash on deposit which is restricted for the payment of customer deposits.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The City has elected not to capitalize works of art and historical treasures including the historic Covered Bridge and the Veteran's War Memorial. These assets are being held for public display and education and not for financial gain. These assets are cared for and preserved and the City has no plans to sell these assets but plans to maintain them as part of the City's heritage.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities and Equity (Continued)

5. Capital Assets (continued)

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	10-50
Buildings	20-40
Building Improvements	30-40
Large Trucks	10-20
Vehicles	3-10
Computers and Office Equipment	5

The assets of the Elizabethton Electric Department are being depreciated on the straight-line method over the useful lives per guidelines of the T.V.A. When property is retired or otherwise disposed of, its average cost, together with its cost of removal less salvage, is charged to accumulated depreciation; no gain or loss is recognized as per federal energy regulations. \$82,644 of depreciation was charged to operating expense per T.V.A. guidelines.

The estimated useful lives of the utility plant of the Electric Department are as follows:

<u>Class Description</u>	<u>Estimated Useful Life</u>
Buildings	50.2 years
Office Equipment	20.0 years
Transportation Equipment	5.0 to 10.0 years
Other Machinery and Equipment	12.5 to 20.0 years
Power Distribution System	12.5 to 44.44 years

Fixed assets for the Municipal Airport are stated at cost except for the Automated Weather Observation Services (AWOS) and the riding lawn mower donated by a commissioner. Cost for the AWOS was estimated at \$50,000 by a representative of the Tennessee Department of Transportation, Office of Aeronautics. The value of the lawn mower was based on estimated market value. Expenditures for maintenance and repairs, which do not improve or extend the life of the assets, are charged to expense as incurred. Depreciation is recorded using the straight line method with the following useful lives:

	<u>Years</u>
Land Improvements	15
Landscaping	20
Hangar Buildings	30
Hangar Contents	10-15
Equipment	7-15
Office Equipment	5
Vehicles	3

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities and Equity (Continued)

6. Compensated Absences

Policy of the City of Elizabethton

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. No liability is reported for unpaid accumulated sick leave because payment is not made upon termination. Vacation pay is accrued when earned in the government-wide and in proprietary funds financial statements.

The proprietary fund financial statements reflect \$962,322 of vacation benefits payable. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Expected future demands of \$371,794 for vacation benefits have been reflected in the statement of net assets as compensated absences for the governmental activities.

Policy of the Elizabethton Electric Department

Accumulated Sick Leave:

Prior to May 12, 2005, sick leave accumulated at the rate of one day each month after an employee had been on the payroll for ninety days. Also, sick leave accumulated from year to year to a maximum of one hundred and eighty (180) days or 1440 hours. For those employees with more than 180 days or 1440 hours accumulated as of July 1, 1993, the amount accumulated will be the maximum. On date of termination or retirement, an employee will be paid one hundred percent (100%) of accumulated days of sick leave. In fiscal year 1996, the board agreed that employees may transfer sick days to other employees that suffer catastrophic sickness and exhaust their accumulated sick days.

After May 12, 2005, the policy of the City of Elizabethton became effective. The policy is to permit employees to accumulate unused vacation and sick pay benefits. No liability is recorded for unpaid accumulated sick leave earned after May 12, 2005. The sick hours earned and unused after May 12, 2005 are added towards years of service when determining retirement eligibility. Vacation pay is accrued when earned.

Accumulated Vacation:

Employees earn various days of vacation based on the number of years of service. Employees with more than twenty (20) years of service are entitled to a maximum of twenty-five (25) days of vacation per year. A maximum of thirty (30) days of accumulated vacation may be carried to the next calendar year. Vacation time accumulated prior to January 1, 1978 is exempt from the carry-forward limitation. At the end of December 31 of each year, accumulated vacation leave in excess of thirty (30) days may be paid in cash. All accumulated vacation leave will be paid upon separation of service. Also, one additional day will be given each year for a year's service without a lost-time accident or without taking a day of sick leave.

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities and Equity (Continued)

6. Compensated Absences (continued)

A liability for compensated absences and related fringe benefits is reflected on the statement of net assets at June 30, 2008, in the amount of \$852,158. The portion of this liability expected to be paid within one (1) year is classified as a current liability and the remainder as a long-term liability.

7. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discounts. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

8. Fund Equity

Reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

9. Use of Estimates

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

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities and Equity (Continued)

Discretely Presented Component Units

Elizabethton Board of Education

Significant Accounting Policies

1. Inventories

Inventories are stated at lower cost of cost (first-in, first-out) or market (net realizable value). Inventory items are recognized as expenditures when purchased (purchases method). Fund balances have been reserved for the amount of inventories on hand at year end. Donated inventory from USDA (commodities) is not recorded in the cafeteria fund in accordance with generally accepted accounting principles applicable to governmental funds.

Because the cafeteria utilizes the single inventory method for all inventory, whether purchased or donated, the value of ending inventory related to commodities has been estimated based on the assumption that commodities are consumed prior to the use of purchased, inventory, resulting in a \$0 balance for commodities inventory. The value of commodities received and used during the fiscal year is estimated to be \$33,453.

2. Accumulated Unpaid Vacation and Sick Leave

Employees are granted vacation and sick leave based upon the Board's policy. These benefit costs are accrued when earned in the government-wide financial statements. A liability is reported in the governmental funds only if the benefit had been earned at June 30 as a result of a retirement, resignation, or termination, and the benefit is expected to be paid immediately after the start of the new fiscal year. The Board policy allows the carry over of up to ten unused vacation days to the next fiscal year. Any remaining vacation days in excess of ten will be converted into sick leave days at the rate of one-half sick leave day for one vacation leave day. The Board policy was amended June 23, 2005 to allow at termination of employment, the payment of earned vacation days at the rate of pay applicable when the days were granted. A liability is not recorded for sick leave because the Board policy is silent on payment to employees upon termination.

3. Estimates

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

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities and Equity (Continued)

Discretely Presented Component Units (Continued)

Elizabethton Board of Education (Continued)

Significant Accounting Policies (Continued)

4. Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 for vehicles and equipment and \$50,000 for buildings and improvements or more are reported at historical costs or estimated historical cost. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Building and Improvements	40 years
Vehicles and Equipment	3-20 years

Elizabethton Municipal Golf Course

Significant Accounting Policies

1. Property, Plant and Equipment

Property, plant and equipment acquired prior to January 1, 1986 have been reported at the estimated cost because records of acquisition were not maintained. Property, plant and equipment purchased after January 1, 1986 are recorded at cost. The EMGC capitalizes assets that have a life of five years or more and cost more than \$5,000. The land occupied by the EMGC is owned by the City. Expenses for maintenance and repairs which do not improve or extend the life of assets, are charged to expense as incurred.

Depreciation has been computed on the straight-line basis using one-half year convention in the year of acquisition and disposal. Fixed asset lives are as follows:

Major Course Renovation	40 Years
Course Improvements	15 Years
Building Improvements	7 to 15 Years
Machinery and Equipment	5 to 7 Years
Office Equipment	5 to 7 Years

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities and Equity (Continued)

Discretely Presented Component Units (Continued)

Elizabethton Municipal Golf Course, Inc. (Continued)

Significant Accounting Policies (Continued)

2. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and deposits in a local financial institution. The EMGC considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

3. Inventories

Inventories of fertilizer, chemicals, gas, and diesel are stated at the lower of cost or market determined by the first-in, first-out method.

4. 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.

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

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between *fund balance-total governmental funds* and *net assets-governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, notes payable and compensated absences are not due and payable in the current period and therefore are not reported in the funds." The details of this \$(2,996,075) difference are as follows:

Bonds payable	\$ (685,000)
Notes payable	(1,939,281)
Compensated absences	<u>(371,794)</u>
Net adjustment to reduce <i>fund balance-total governmental funds</i> to arrive at <i>net assets-governmental activities</i>	\$ <u>(2,996,075)</u>

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS
(CONTINUED)

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances-total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities.

One element of that reconciliation states that “the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.” The details of this \$717,843 difference is as follows:

Principal repayments:

General Obligation Debt	\$ 530,000
Notes	<u>187,843</u>

Net adjustment to increase *net changes in fund balances - total governmental funds* to arrive at *changes in net assets of governmental activities*

\$ 717,843

Another element of that reconciliation states that “Compensated absences are measured by the amounts earned during the year in the statement of activities. However, expenditures for these items are measured by the amount of financial resources used in the governmental funds.” The details of this \$23,272 are as follows:

Compensated absences for the prior year	\$ 395,066
Compensated absences for the current year	<u>(371,794)</u>

Net adjustment to increase *net changes in fund balances - total governmental funds* to arrive at *changes in net assets of governmental activities*

\$ 23,272

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 3 - BUDGETARY INFORMATION AND COMPLIANCE

A. BUDGETARY REPORTING

The City Council authorizes an annual operating budget ordinance for expenditures and related estimated revenues for the General fund, all Special Revenue funds, and certain Capital Projects funds. The City's financial operations are subject to the comprehensive appropriated budget. Budget amendments are authorized during the year. The Statements of Budget to Actual are as originally adopted or as amended by the City Council. The budgetary basis only differs from accounting principles generally accepted in the United States of America concerning the reporting of property tax collections. The budget is prepared using the actual cash collections expected. The actual amounts reported by the modified accrual basis are immaterially different from the cash basis used for the budget.

NOTE 4 - DEPOSITS AND INVESTMENTS

Cash includes demand deposits, passbook savings accounts and certificates of deposit with original maturities less than ninety days. Certificates of deposit with original maturities greater than ninety days but less than one year are reflected as certificates of deposit.

The City of Elizabethton is responsible for receiving and disbursing funds of the City. Various restrictions on deposits and investments are imposed by state statutes. These restrictions are summarized as follows:

DEPOSITS: All deposits with financial institutions must be collateralized in an amount equal to 105% of the market value of uninsured deposits. The collateral must be placed by the depository bank in an escrow account in a second bank for the benefit of the City of Elizabethton. Deposits with savings and loan associations must be collateralized by one of the following methods: 1) by an amount equal to 110% of the face amount of uninsured deposits if the collateral is of the same character as that required for other financial institutions; 2) by an irrevocable letter of credit issued by the Federal Home Loan Bank; or 3) by providing notes secured by first mortgages or first deeds of trust upon residential real property located in Tennessee. The promissory notes must be in an amount equal to 150% of the amount of uninsured deposits.

INVESTMENTS: State statutes authorize the City to invest in treasury bonds, notes or bills of the United States; nonconvertible debt securities of the Federal Home Loan Bank, the Federal National Mortgage Association, the Federal Farm Credit Bank and the State Loan Marketing Association; other obligations not listed above which are guaranteed as to principal and interest by the United States or any of its agencies; other evidence of deposit at State and Federal chartered banks and Savings and Loan Associations, obligations of the United States or its agencies under a repurchase agreement and money market funds whose portfolios consist of any of the foregoing investments if approved by the State Director of Local Finance and made in accordance with procedures established by the State Funding Board; the State of Tennessee Local Government Investment Pool; obligations of the Public Housing Authority and bonds of the Tennessee Valley Authority.

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 4 - DEPOSITS AND INVESTMENTS (CONTINUED)

Specifically, the LGIP was established under Tennessee Code Annotated Title 9, Chapter 4, Part 7. This investment pool is established for the use of idle funds of local governments located within the State of Tennessee. These funds are placed by the participating entity into accounts that are held and invested by the State Treasurer. The LGIP invests in time deposits, such as certificates of deposit, commercial paper, United States of America agency securities, repurchase agreements, and United States of America treasuries. By law, the LGIP is required to maintain a 90-day or less weighted-average-maturity. The fair value of shares held in the LGIP is the same as the value of the LGIP shares. The TN LGIP has not been rated by a nationally recognized statistical rating organization. The Electric Department does not invest in the Local Government Investment Pool rather its investments are in municipal bonds, government securities and cash equivalents. The Department manages its exposure to interest rate risk by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

The City does not have a policy for interest rate risk or other credit risk other than pledging securities for amounts in excess of FDIC coverage.

Deposits

At year end, the City had \$22,532 of cash on hand which has been included in cash and cash equivalents. The City's carrying amount of deposits was \$12,754,780 and the bank balance was \$14,438,818.

The bank balances' are collateralized or insured as follows:

Amount insured by FDIC or collateralized	
with State of Tennessee Bank Collateral Pool	\$ <u>14,438,818</u>

The City also manages cash for the Military Family Support Private Purpose Trust fund. The City's carrying amount of deposits for the fund was \$2,718 and the bank balance was \$2,718. These deposits have not been reflected in the statement of net assets. The entire amount of the deposits was covered by the State of Tennessee Collateral Pool. The School System and Municipal Golf Course, discretely presented component units, had deposits with a balance per books of \$924,160 and a bank balance of \$1,330,080. The deposits in excess of Federal Deposit Insurance Corporation limits were fully collateralized by the State of Tennessee Collateral Pool.

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 4 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments

As of June 30, 2008, the City had the following investments:

Type of Investment	Fair Value/ Carrying Value	Cost	Average Credit Quality/ Rating	Weighted Average Months to Maturity
Cash and Cash Equivalents	\$ 101,040	101,040		
Municipal Bonds	7,935,000	7,935,000	Aa3	0.07
Government Securities	4,006,597	4,000,000	Aaa	0.07
Local Government Investment Pool	4,948,292	4,948,292	N/A	N/A
	<u>\$ 16,990,929</u>	<u>16,984,332</u>		

Investments in any one issuer that represent 5% or more of the total of the Department's investments are as follows:

Issuer	Investment Type	
Fannie Mae	Fixed Rate Non-Callable	Government Securities
Fannie Mae	Fixed Rate Callable	Government Securities
Sevier County, TN	Taxfree Municipals	Municipal Bonds

These amounts are reflected on the statement of net assets as Investments \$14,780,392 and Restricted Assets: Investments \$2,210,537. The Electric Department is the only entity that investments in something other than the Local Government Investment Pool.

A reconciliation of deposits to the amounts reflected on the statement of net assets is as follows:

<i>Total Deposits:</i>	City of <u>Elizabethton</u>	Discretely Presented Component <u>Units</u>
Carrying Amount of Deposits	\$ <u>12,754,780</u>	<u>924,160</u>
<i>Amounts per Statement of Net Assets:</i>		
Cash	\$ 4,506,191	
Certificates of Deposit	5,770,573	
Cash Overdraft	(80,746)	
Restricted Cash	<u>2,558,762</u>	
Total per Statement of Net Assets	\$ <u>12,754,780</u>	

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 5 - RECEIVABLES

Receivables as of year end for the City's individual major funds and nonmajor, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General	Water and Sewer	Electric Department	Nonmajor and Other Funds	Component Units	Total
Receivables:						
Accounts	\$ 5,495	274,275	3,436,874	169,547	28,792	3,914,983
Taxes	4,263,775	-	-	-	2,156,020	6,419,795
Notes Receivable	241,589	-	-	-	-	241,589
Due from Other Governments	1,155,466	2,165	-	20,679	446,478	1,624,788
Gross Receivables	5,666,325	276,440	3,436,874	190,226	2,631,290	12,201,155
Less: Allowance for Uncollectibles	(19,833)	(18,179)	(222,512)		-	(260,524)
Total Receivables	\$ 5,646,492	258,261	3,214,362	190,226	2,631,290	11,940,631

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

	<u>Unavailable</u>	<u>Unearned</u>
Receivables not received within period of availability:		
Property tax levied for ensuing fiscal year:		
General Fund	\$ -	3,909,066
Property tax levied but not collected in period of availability		-
Other taxes	405,026	-
	<u>\$ 405,026</u>	<u>3,909,066</u>

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008 is as follows:

Primary Government

	Beginning Balance	Increases	Decreases	Adjustments	Ending Balance
Governmental Activities					
Capital assets, not being depreciated:					
Land	\$ 2,217,604	-	-	-	2,217,604
Construction in Progress	289,257	10,089	-	-	299,346
Library Infrastructure	546,651	27,836	-	-	574,487
Total capital assets, not being depreciated	3,053,512	37,925	-	-	3,091,437
Capital assets, being depreciated:					
Buildings and Improvements	6,440,364	10,395	-	-	6,450,759
Motor Equipment	4,703,853	103,980	(264,072)	-	4,543,761
Office Equipment	1,748,442	106,627	(9,100)	-	1,845,969
Infrastructure	10,782,164	22,133	-	-	10,804,297
Total capital assets, being depreciated	23,674,823	243,135	(273,172)	-	23,644,786
Less accumulated depreciation for:					
Buildings and Improvements	(2,370,722)	(179,871)	-	-	(2,550,593)
Motor Equipment	(3,071,789)	(250,266)	264,072	-	(3,057,983)
Office Equipment	(1,407,956)	(91,635)	9,100	-	(1,490,491)
Infrastructure	(5,549,742)	(272,777)	-	-	(5,822,519)
Total accumulated depreciation	(12,400,209)	(794,549)	273,172	-	(12,921,586)
Total capital assets, being depreciated, net	11,274,614	(551,414)	-	-	10,723,200
Governmental activities, Capital assets, net	\$ 14,328,126	(513,489)	0	0	13,814,637

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 6 - CAPITAL ASSETS (CONTINUED)

Primary Government (continued)

Business-Type Activities

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Adjustments</u>	<u>Ending Balance</u>
Business - Type Activities					
Capital assets, not being depreciated:					
Land	\$ 1,036,362	150,099	-	789,456	1,975,917
Construction in Progress	3,718,549	6,604,124	(2,183,747)	-	8,138,926
Total capital assets, not being depreciated	<u>4,754,911</u>	<u>6,754,223</u>	<u>(2,183,747)</u>	<u>789,456</u>	<u>10,114,843</u>
Capital assets, being depreciated:					
Buildings	25,058,681	423,550	-	-	25,482,231
Lines and Transmission	65,969,463	2,781,921	(477,974)	11,595	68,285,005
Plant	545,059	65,016	-	-	610,075
Motor Equipment	4,412,200	931,426	(433,873)	-	4,909,753
Office Equipment	935,587	13,804	(11,160)	(62,735)	875,496
Other	1,779,724	58,075	(6,007)	49,313	1,881,105
Furniture	20,699	-	-	-	20,699
Total capital assets, being depreciated	<u>98,721,413</u>	<u>4,273,792</u>	<u>(929,014)</u>	<u>(1,827)</u>	<u>102,064,364</u>
Less accumulated depreciation for:					
Buildings	(8,695,282)	(682,947)	-	-	(9,378,229)
Lines and Transmission	(26,498,391)	(1,992,805)	711,582	-	(27,779,614)
Plant	(274,627)	(56,784)	-	-	(331,411)
Motor Equipment	(3,540,127)	(101,838)	501,288	-	(3,140,677)
Office Equipment	(537,689)	(29,410)	11,160	-	(555,939)
Other	(1,344,971)	(73,553)	6,007	-	(1,412,517)
Furniture	(20,167)	(88)	-	-	(20,255)
Total accumulated depreciation	<u>(40,911,254)</u>	<u>(2,937,425)</u>	<u>1,230,037</u>	<u>-</u>	<u>(42,618,642)</u>
Total capital assets, being depreciated, net	<u>57,810,159</u>	<u>1,336,367</u>	<u>301,023</u>	<u>(1,827)</u>	<u>59,445,722</u>
Business - type Activities, Capital assets, net	<u>\$ 62,565,070</u>	<u>8,090,590</u>	<u>(1,882,724)</u>	<u>787,629</u>	<u>69,560,565</u>

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 6 - CAPITAL ASSETS (CONTINUED)

Primary Government (continued)

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

Governmental Activities

General Government	\$ 126,020
Public Safety	209,139
Public Works - including general infrastructure assets	310,435
Health and Welfare	887
Culture and Recreation	99,640
Drug Fund	2,613
Solid Waste/Sanitation	45,814
Total Depreciation Expense - Governmental Activities	<u>\$ 794,549</u>

Business-type Activities

Electric Department	\$ 1,621,011
Water and Sewer	1,190,959
Airport	125,455
Total Depreciation Expense - Business-type Activities	<u>\$ 2,937,425</u>

A total of \$82,644 of depreciation expense for the Electric Department was charged to transportation expense.

Discretely Presented Component Units

Activity for the Municipal Golf Course and Board of Education for the year ended June 30, 2008 are as follows:

Municipal Golf Course	Beginning Balance	Increases	Decreases	Adjustments	Ending Balance
Capital Assets, Being Depreciated:					
Building and Building Improvements	\$ 72,334	-	-	-	72,334
Machinery and Equipment	499,811	85,192	-	-	585,003
Vehicles	4,500	-	-	-	4,500
Office Equipment	13,442	-	-	-	13,442
Course Improvements	1,424,926	-	-	-	1,424,926
Carts, Range and Other	6,790	-	-	-	6,790
Total Capital Assets, Being Depreciated	<u>2,021,803</u>	<u>85,192</u>	<u>0</u>	<u>0</u>	<u>2,106,995</u>

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 6 - CAPITAL ASSETS (CONTINUED)

Discretely Presented Component Units (Continued)

Municipal Golf Course (continued)

Less Accumulated Depreciation For:

Building and Building Improvements	(46,215)	(2,781)	-	-	(48,996)
Machinery and Equipment	(424,180)	(19,304)	-	-	(443,484)
Vehicles	(4,500)	-	-	-	(4,500)
Office Equipment	(13,293)	(60)	-	-	(13,353)
Course Improvements	(784,627)	(30,622)	-	-	(815,249)
Carts, Range and Other	(6,790)	-	-	-	(6,790)
Total Accumulated Depreciation	<u>(1,279,605)</u>	<u>(52,767)</u>	<u>0</u>	<u>0</u>	<u>(1,332,372)</u>
Total Capital Assets, Being Depreciated, Net	<u>\$ 742,198</u>	<u>32,425</u>	<u>0</u>	<u>0</u>	<u>774,623</u>

Board of Education

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated:				
Land	\$ 216,170	-	-	216,170
Construction in Progress	9,660	47,494	(56,398)	756
Total Capital Assets, Not Being Depreciated	<u>225,830</u>	<u>47,494</u>	<u>(56,398)</u>	<u>216,926</u>
Capital Assets, Being Depreciated				
Buildings	15,209,571	56,398	-	15,265,969
Equipment	722,598	244,883	(12,000)	955,481
Total Capital Assets, Being Depreciated	<u>15,932,169</u>	<u>301,281</u>	<u>(12,000)</u>	<u>16,221,450</u>
Less Accumulated Depreciation For:				
Buildings	(7,303,807)	(320,674)	-	(7,624,481)
Equipment	(519,342)	(74,201)	11,400	(582,143)
Total Accumulated Depreciation	<u>(7,823,149)</u>	<u>(394,875)</u>	<u>11,400</u>	<u>(8,206,624)</u>
Total Capital Assets, Being Depreciated, Net	<u>8,109,020</u>	<u>(93,594)</u>	<u>(600)</u>	<u>8,014,826</u>
Total Capital Assets, Net	<u>\$ 8,334,850</u>	<u>(46,100)</u>	<u>(56,998)</u>	<u>8,231,752</u>

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 7 - OPERATING LEASES

Component Unit

The Elizabethton Municipal Golf Course leases property to be used as a driving range. In addition to the \$1,125 monthly lease payment, the golf course is required to pay all utility bills, business taxes or fees and carry public liability insurance on the property. The golf course is also responsible for payment to the lessor one-third (1/3) of all driving range income received above \$22,500 as a lump sum annually. The lease agreement is effective for the period March 1, 2008 through March 1, 2011.

The golf course also leases golf carts from a national financing company. In addition to the \$2,168 monthly lease payment, the golf course is required to pay all related taxes and fees, any insurance and repair the carts.

Future payments required under the operating leases are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Amount</u>
2009	\$ 26,016
2010	<u>6,504</u>
TOTAL	\$ <u>32,520</u>

Total lease expenses during the year ended June 30, 2008 are \$14,905 for the driving range and \$21,750 for the carts.

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 8 - CAPITAL LEASES

Primary Government

The Water and Sewer fund leases machinery and equipment that is part of a capital lease. Amortization of the leased equipment is included in depreciation expense.

The following is an analysis of this leased asset included in the equipment of the Water and Sewer Fund.

Sewer Equipment	\$ 220,840
Less: Accumulated Depreciation	<u>(7,341)</u>
	<u>\$ 213,499</u>

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Sewer Equipment	\$ -	182,840	27,443	155,397	18,740
	<u>\$ 0</u>	<u>182,840</u>	<u>27,443</u>	<u>155,397</u>	<u>18,740</u>

Future payments required under the capital leases are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2009	18,740	8,702	27,442
2010	19,790	7,653	27,443
2011	20,898	6,545	27,443
2012	22,068	5,374	27,442
2013	23,304	4,138	27,442
2014-2016	50,597	4,288	54,885
	<u>\$ 155,397</u>	<u>36,700</u>	<u>192,097</u>

Component Unit

The Elizabethton Municipal Golf Course leases mowing and related turf equipment from several financing companies. The economic substance of the leases is that the Golf Course is financing the acquisition of the assets through the leases and, accordingly, the leases are recorded in the Golf Course's assets and liabilities. Capital leases reflect the transfer of risks and benefits associated with the assets to the lessee. Amortization of the leased equipment is included in depreciation expense.

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 8 - CAPITAL LEASES (CONTINUED)

Component Unit (continued)

The following is an analysis of leased assets included in the equipment of the Golf Course.

Mowing Equipment and Turf Equipment	\$ 215,572
Less: Accumulated Depreciation	<u>(162,393)</u>
	<u>\$ 53,179</u>

Amortization of assets held under capital leases is included with depreciation expense.

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Capital Lease - Turf Equipment	\$ 43,088	-	14,500	28,588	15,261
Capital Lease - Turf Equipment	<u>10,293</u>	<u>-</u>	<u>9,395</u>	<u>898</u>	<u>898</u>
	<u>\$ 53,381</u>	<u>0</u>	<u>23,895</u>	<u>29,486</u>	<u>16,159</u>

Future payments required under the capital leases are as follows:

Fiscal Year Ending June 30	Amount
2009	\$ 16,159
2010	<u>13,327</u>
Total	<u>\$ 29,486</u>

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 9 – SALES TYPE LEASES

Sales-type Lease

The City leases a 12,500 square foot building situated on approximately 5.60 acres of land to the State of Tennessee. This is a sales-type lease with a 12 year term. The lessee has the option to purchase the building and property at the end of the lease for \$1.00 or to purchase the above property at anytime during the lease term at a discounted purchase price in an amount commensurate with the total amount of remaining bond interest, upkeep and maintenance fees. Since this lease is recorded in the General Fund and is not a significant portion of revenues, no receivable is recorded on the statement of net assets. The following is a schedule of future minimum rentals under the lease at June 30, 2008.

<u>Year Ending June 30</u>	<u>Amount</u>
2009	<u>\$ 43,725</u>
	<u>\$ 43,725</u>

NOTE 10 - LONG TERM DEBT

During the year ended June 30, 2008 the following debt transactions occurred.

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Governmental Activities:					
General Obligation Debt	\$ 1,215,000		530,000	685,000	545,000
Compensated Absences	395,066	223,450	246,722	371,794	246,722
Notes Payable	2,127,124	-	187,843	1,939,281	191,583
Governmental Activities Long Term Liabilities	<u>3,737,190</u>	<u>223,450</u>	<u>964,565</u>	<u>2,996,075</u>	<u>983,305</u>
Business-type Activities:					
Tax Refunding and Improvement Bonds	10,212,414	-	590,000	9,622,414	710,000
Revenue Bonds	3,620,000	15,000,000	165,000	18,455,000	175,000
Add Deferred Amount on Issuance Premium	22,016	175,528	5,839	191,705	-
Less Deferred Amount on Refunding	(87,726)	-	(5,721)	(82,005)	-
Total Bonds	<u>13,766,704</u>	<u>15,175,528</u>	<u>755,118</u>	<u>28,187,114</u>	<u>885,000</u>
Notes Payable	1,444,399	-	27,330	1,417,069	21,951
Capital Lease	-	182,840	27,443	155,397	18,740
State Loans	1,764,640	-	183,512	1,581,128	88,068
Compensated Absences	872,838	170,500	81,016	962,322	462,492
Business-type Activities Long Term Liabilities	<u>17,914,291</u>	<u>15,528,868</u>	<u>1,074,419</u>	<u>32,303,030</u>	<u>1,476,251</u>
Total Changes in Long Term Debt	<u>\$ 21,651,481</u>	<u>15,752,318</u>	<u>2,038,984</u>	<u>35,299,105</u>	<u>2,459,556</u>

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 10 - LONG TERM DEBT (CONTINUED)

Governmental Activity Debt

Bonds Payable

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. The following is a summary of general obligation bonds currently outstanding from the General Fund:

<u>General Fund</u>	<u>Date Issued</u>	<u>Amount Issued</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Outstanding June 30, 2008</u>
General Obligation-Series 2001	07-02-01	\$1,500,000	3.0-4.05%	12-01-08	\$ 215,000
General Obligation-Series 2003	09-19-03	\$1,675,000	2.0-3.25%	09-01-09	<u>470,000</u>
					<u>\$ 685,000</u>

General Obligation Bonds issued 07-02-01 debt service requirements to maturity are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 215,000	4,354	219,354
	<u>\$ 215,000</u>	<u>4,354</u>	<u>219,354</u>

General Obligation Bonds issued 09-19-03 debt service requirements to maturity are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 330,000	9,500	339,500
2010	140,000	2,275	142,275
	<u>\$ 470,000</u>	<u>11,775</u>	<u>481,775</u>

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 10 - LONG TERM DEBT (CONTINUED)

Governmental Activity Debt (continued)

Bonds Payable (continued)

Total debt service requirements to maturity for General Obligation Bonds are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 545,000	13,854	558,854
2010	140,000	2,275	142,275
	<u>\$ 685,000</u>	<u>16,129</u>	<u>701,129</u>

Notes Payable

General Obligation Notes currently outstanding from the General Fund are as follows:

<u>General Fund</u>	<u>Date Issued</u>	<u>Amount Issued</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Outstanding June 30, 2008</u>
Capital Outlay Notes	10/23/06	\$1,250,000	4.38%	10-23-18	\$ 1,105,949
Capital Outlay Notes	2/12/04	\$1,250,000	3.95%	11-20-15	<u>833,332</u>
					<u>\$ 1,939,281</u>

Capital Outlay Note issued 10/23/06 debt service requirements to maturity are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 87,416	46,698	134,114
2010	91,323	42,792	134,115
2011	95,404	38,711	134,115
2012	99,667	34,447	134,114
2013	104,122	29,993	134,115
2014-2018	594,706	75,865	670,571
2019-2023	33,311	243	33,554
	<u>\$ 1,105,949</u>	<u>268,749</u>	<u>1,374,698</u>

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 10 - LONG TERM DEBT (CONTINUED)

Governmental Activity Debt (continued)

Notes Payable (continued)

Capital Outlay Note issued 02/12/04 debt service requirements to maturity are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 104,167	31,305	135,472
2010	104,167	27,133	131,300
2011	104,167	22,962	127,129
2012	104,167	18,836	123,003
2013	104,166	14,618	118,784
2014-2018	312,498	18,824	331,322
	<u>\$ 833,332</u>	<u>133,678</u>	<u>967,010</u>

Total Debt Service Requirements to maturity for Capital Outlay Notes are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	191,583	78,003	269,586
2010	195,490	69,925	265,415
2011	199,571	61,673	261,244
2012	203,834	53,283	257,117
2013	208,288	44,611	252,899
2014-2018	907,204	94,689	1,001,893
2019-2023	33,311	243	33,554
	<u>\$ 1,939,281</u>	<u>402,427</u>	<u>2,341,708</u>

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 10 - LONG TERM DEBT (CONTINUED)

Business-Type Activity Debt

Bonds Payable

The government issues bonds when the government pledges income derived from the acquired or constructed assets to pay debt service. The following is a summary of revenue bonds currently outstanding and the funds from which they will be paid:

	<u>Date Issued</u>	<u>Amount Issued</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Outstanding June 30, 2008</u>
<u>Water and Sewer Fund</u>					
Water and Sewer Revenue and Tax Refunding and Improvement - Series 2002A	06-12-02	\$5,500,000	3.5-4.5%	06-01-14	\$3,965,000
Water and Sewer Revenue and Tax Refunding and Improvement - Series 2002B	06-12-02	\$5,647,414	4.9-5.61%	06-01-31	5,657,414
<u>Elizabethton Electric Department</u>					
Revenue Refunding Bonds	08-24-05	\$3,495,000	3.5-4.15%	09-01-22	3,455,000
Revenue Bonds	12-20-07	\$15,000,000	4.0-5.0%	12-27-2027	<u>15,000,000</u>
					<u>\$28,077,414</u>

Water and Sewer Revenue and Tax Refunding and Improvement Bonds – Series 2002A issued 06-12-02 debt service requirements to maturity are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 710,000	168,390	878,390
2010	740,000	139,990	879,990
2011	770,000	109,650	879,650
2012	800,000	76,925	876,925
2013	730,000	42,525	772,525
2014-2018	215,000	9,675	224,675
	<u>\$ 3,965,000</u>	<u>547,155</u>	<u>4,512,155</u>

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 10 - LONG TERM DEBT (CONTINUED)

Business-Type Activity Debt (Continued)

Bonds Payable (continued)

Water and Sewer Revenue and Tax Refunding and Improvement Bonds – Series 2002B issued 06-12-02 debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2009	\$ -	-	-
2010	-	-	-
2011	-	-	-
2012	-	-	-
2013	61,740	43,260	105,000
2014-2018	2,041,302	2,113,698	4,155,000
2019-2023	1,616,656	2,838,344	4,455,000
2024-2028	1,348,891	3,676,109	5,025,000
2029-2031	588,825	2,161,175	2,750,000
	<u>\$ 5,657,414</u>	<u>10,832,586</u>	<u>16,490,000</u>

This bond issue does not require interest or principal payments until the year 2013 although interest has been accrued and reflected on the Balance Sheet.

Electric Department Revenue bonds issued 8-24-05 debt service requirement to maturity are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2009	\$ 175,000	132,595	307,595
2010	180,000	126,383	306,383
2011	185,000	119,764	304,764
2012	190,000	112,733	302,733
2013	200,000	105,170	305,170
2014-2018	1,125,000	398,178	1,523,178
2019-2023	1,400,000	148,007	1,548,007
	<u>\$ 3,455,000</u>	<u>1,142,830</u>	<u>4,597,830</u>

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 10 - LONG TERM DEBT (CONTINUED)

Business-Type Activity Debt (Continued)

Bonds Payable (continued)

Revenue bonds issued 12-27-07 debt service requirement to maturity are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2009	\$ -	765,084	765,084
2010	525,000	639,100	1,164,100
2011	550,000	617,600	1,167,600
2012	570,000	595,200	1,165,200
2013	595,000	571,900	1,166,900
2014-2018	3,390,000	2,423,100	5,813,100
2019-2023	4,180,000	1,613,337	5,793,337
2024-2028	5,190,000	605,251	5,795,251
	<u>\$ 15,000,000</u>	<u>7,830,572</u>	<u>22,830,572</u>

Total debt service requirements to maturity for Business-Type Activity Bonds are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2009	885,000	1,066,069	1,951,069
2010	1,445,000	905,473	2,350,473
2011	1,505,000	847,014	2,352,014
2012	1,560,000	784,858	2,344,858
2013	1,586,740	762,855	2,349,595
2014-2018	6,771,302	4,944,651	11,715,953
2019-2023	7,196,656	4,599,688	11,796,344
2024-2028	6,538,891	4,281,360	10,820,251
2029-2031	588,825	2,161,175	2,750,000
	<u>\$ 28,077,414</u>	<u>20,353,143</u>	<u>48,430,557</u>

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 10 - LONG TERM DEBT (CONTINUED)

Business-Type Activity Debt (Continued)

Notes Payable

Capital Outlay Notes currently outstanding and the funds from which they will be paid are as follows:

	<u>Date Issued</u>	<u>Amount Issued</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Outstanding June 30, 2008</u>
<u>Elizabethton Municipal Airport</u>					
Capital Outlay Notes	January 9, 1995	\$125,000	Variable	12-31-09	\$ 5,467
	April 1, 1997	127,528	Variable	03-31-12	26,803
	January 15, 2004	42,077	Variable	11-15-04	34,799
	May 31, 2007	1,350,000	Variable	05-31-10	<u>1,350,000</u>
					<u>\$ 1,417,069</u>

The interest rates on all airport debt are variable and amortization schedules are not available. The estimated debt service requirements to maturity are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 21,951	58,503	80,454
2010	17,194	59,154	76,348
2011	1,353,711	52,444	1,406,155
2012	3,868	932	4,800
2013	4,032	768	4,800
2014-2018	16,313	1,061	17,374
	<u>\$ 1,417,069</u>	<u>172,862</u>	<u>1,589,931</u>

State Loans Payable

Notes Payable for the Water and Sewer fund which are payable to the State of Tennessee for financing of State Public Health Loan Programs are as follows:

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 10 - LONG TERM DEBT (CONTINUED)

Business-Type Activity Debt (Continued)

Notes Payable (continued)

State Loans Payable

Water and Sewer Fund

Debt service requirements to maturity for DWF-99-016 are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	88,068	41,148	129,216
2010	90,444	38,760	129,204
2011	92,892	36,324	129,216
2012	95,400	33,804	129,204
2013	97,980	31,224	129,204
2014-2018	531,084	114,960	646,044
2019-2023	585,260	39,504	624,764
	<u>\$ 1,581,128</u>	<u>335,724</u>	<u>1,916,852</u>

Component Unit Long Term Debt

During the year ended June 30, 2008, the following debt transactions occurred for the Elizabethton Municipal Golf Course:

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Adjustment</u>	<u>Balance End of Year</u>	<u>Due Within One Year</u>
Capital Outlay Note	\$ -	85,321	-	-	85,321	15,399
Note Payable - Primary Government	178,571	-	15,000	78,019	241,590	30,000
	<u>\$ 178,571</u>	<u>85,321</u>	<u>15,000</u>	<u>78,019</u>	<u>326,911</u>	<u>45,399</u>

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 10 - LONG TERM DEBT (CONTINUED)

Component Unit Long Term Debt (continued)

Notes Payable

The Golf Course entered into a seven-year loan agreement with the City for a loan of \$250,000 on August 1, 1998. The interest rate is 5.47%. Principal payments were constant (\$35,714), with the first annual payment due on August 1, 1999. During 2001, the loan agreement was amended to require annual payments of interest only for fiscal years ending 2002-2005. The due date of the note was extended to August 1, 2009. During 2004, the Golf Course and the City agreed to another revision. Their revision postpones the first principal payment until fiscal year end 2008 and extends maturity until 2011. Requirements for repayment are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 30,000	-	30,000
2010	30,000	-	30,000
2011	30,000	-	30,000
2012	30,000	-	30,000
2013	30,000	-	30,000
2014-2016	91,590	-	91,590
	<u>\$ 241,590</u>	<u>0</u>	<u>241,590</u>

The Golf Course entered a five year capital outlay note for the purchase of equipment with a local bank for \$85,321 on June 4, 2008. The interest rate is 4.65%. Debt service requirements to maturity are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 15,399	3,817	19,216
2010	16,267	2,949	19,216
2011	17,051	2,165	19,216
2012	17,869	1,347	19,216
2013	18,735	482	19,217
	<u>\$ 85,321</u>	<u>10,760</u>	<u>96,081</u>

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 10 - LONG TERM DEBT (CONTINUED)

Component Unit Long Term Debt (continued)

During the year ended June 30, 2008, the following debt transactions occurred for the Elizabethton Board of Education:

Board of Education

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Governmental Activities:					
Non Interest Loan	\$ 2,394	-	2,394	-	-
Compensated Absences	21,013	12,971	1,342	32,642	1,342
Governmental Activities Long Term Liabilities	<u>\$ 23,407</u>	<u>12,971</u>	<u>3,736</u>	<u>32,642</u>	<u>1,342</u>

NOTE 11 - OTHER REQUIRED INDIVIDUAL FUND DISCLOSURES

A. Interfund receivables, payables and transfers at June 30, 2008 were as follows:

Interfund Receivables/Payables:

<u>Amount</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>
\$ 2,275	General Fund	Water/Sewer Fund
3,347	General Fund	Solid Waste/Sanitation
568	Police Drug Enforcement	General Fund
118,897	Elizabethton Electric Department	General Fund
38,293	Elizabethton Electric Department	Water/Sewer Fund

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 11 - OTHER REQUIRED INDIVIDUAL FUND DISCLOSURES

A. Interfund receivables, payables and transfers at June 30, 2008 were as follows (continued):

Interfund Transfers:

<u>Amount</u>	<u>Transfer In</u>	<u>Transfer Out</u>
\$ 400,000	Sanitation/Solid Waste	General
12,000	Park & Recreation Capital Project Fund	General Obligation Bond Proceeds Capital Project Fund
150,000	Elizabethton Municipal Airport	General
517,314	General	Elizabethton Electric Department

The transfer from the Elizabethton Electric Department represents the in-lieu of tax payments. Other transfers are for Operations.

NOTE 12 - RETIREMENT COMMITMENTS

The City of Elizabethton, the Elizabethton Board of Education, and the Elizabethton Municipal Airport participate in the Tennessee Consolidated Retirement System. The Elizabethton Electric Department participates in a private retirement plan.

City of Elizabethton

Plan Description

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

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 12 - RETIREMENT COMMITMENTS (CONTINUED)

City of Elizabethton (continued)

Plan Description (continued)

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

Funding Policy

Elizabethton has adopted a noncontributory retirement plan for its employees by assuming employee contributions up to 5.0 percent of annual covered payroll. Elizabethton is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2008 was 14.30% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Elizabethton is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ending June 30, 2008, Elizabethton's annual pension cost of \$893,144 to TCRS was equal to Elizabethton's required and actual contributions. The required contribution was determined as part of the July 1, 2005 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), and (c) projected 3.5 percent annual increase in the Social Security wage base. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period. Elizabethton's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2005 was 14 years. An actuarial valuation was performed as of July 1, 2007, which established contribution rates effective July 1, 2008.

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2008	\$893,144	100.00%	\$ 0.00
June 30, 2007	\$913,970	100.00%	\$ 0.00
June 30, 2006	\$767,686	100.00%	\$ 0.00

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 12 - RETIREMENT COMMITMENTS (CONTINUED)

City of Elizabethton (continued)

Funding Status and Funding Progress

As of July 1, 2007, the most recent actuarial valuation date, the plan was 78.40% funded. The actuarial accrued liability for benefits was \$18.31 million, and the actuarial value of assets was \$14.35 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$3.96 million. The covered payroll (annual payroll of active employees covered by the plan) was \$6.23 million, and the ratio of the UAAL to the covered payroll was 63.46%.

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

The annual required contribution (ARC) was calculated using the aggregate actuarial cost method. Since the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose, and this information is intended to serve as a surrogate for the funded status and funding progress of the plan.

(Dollar amounts in thousands)

	(a)	(b)	(b) - (a)	(a/b)	(c)	(b-a)/c)
		(AAL)				
Actuarial	Actuarial	Actuarial	(UAAL)			UAAL as a %
Valuation	Value of	Accrued	Unfunded	Funded	Covered	of Covered
Date	Assets	Liability	AAL	Ratio	Payroll	Payroll
July 1, 2007	\$ 14,353	18,308	3,955	78.40%	6,232	63.46%

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 12 - RETIREMENT COMMITMENTS (CONTINUED)

Component Unit- Elizabethton Board Of Education

Description

Employees of the Elizabethton Board of Education are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with 5 years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with 5 years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after 5 years of service, and members joining prior to July 1, 1979 were vested after 4 years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of the *Tennessee Code Annotated* (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as the Elizabethton Board of Education participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

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

Funding Policy

The Elizabethton Board of Education requires employees to contribute 5.0 percent of earnable compensation.

The Elizabethton Board of Education is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2008, was 9.28% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the Elizabethton Board of Education is established and may be amended by the TCRS Board of Trustees.

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 12 - RETIREMENT COMMITMENTS (CONTINUED)

Component Unit- Elizabethton Board Of Education (continued)

Annual Pension Cost

For the year ending June 30, 2008, the Elizabethton Board of Education's annual pension cost of \$208,890 to TCRS was equal to the Elizabethton Board of Education's required and actual contributions. The required contribution was determined as part of the July 1, 2005, actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.5 percent annual increase in the Social Security wage base, and (d) projected post retirement increases of 3.0 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period. The Elizabethton Board of Education's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2005, was 10 years. An actuarial valuation was performed as of July 1, 2007, which established contribution rates effective July 1, 2008.

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2008	\$208,890	100.00%	\$ 0.00
June 30, 2007	\$189,175	100.00%	\$ 0.00
June 30, 2006	\$141,446	100.00%	\$ 0.00

As of July 1, 2007, the most recent actuarial valuation date, the plan was 87.70% funded. The actuarial accrued liability for benefits was \$6.14 million, and the actuarial value of assets was \$5.39 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$.76 million. The covered payroll (annual payroll of active employees covered by the plan) was \$2.03 million, and the ratio of the UAAL to the covered payroll was 37.17%.

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

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 12 - RETIREMENT COMMITMENTS (CONTINUED)

Component Unit- Elizabethton Board Of Education (continued)

Defined Benefit Plan

Plan Description

The Elizabethton Board of Education contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing multiple employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with 5 years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with 5 years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan on or after July 1, 1979, are vested after 5 years of service. Members joining prior to July 1, 1979 were vested after 4 years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of the *Tennessee Code Annotated* (TCA). State statutes are amended by the Tennessee General Assembly. Cost of living adjustments (COLA) are provided to retirees each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year. No COLA is granted if the CPI increased less than one-half percent. The annual COLA is capped at three percent.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the SETHIEPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at www.treasury.state.tn.us. Copies of footnotes in PDF format can be accessed at <http://www.treasury.state.tn.us/tcrs/Schools/>.

Funding Policy

Most teachers are required by state statute to contribute 5.0 percent of salary to the plan. The employer contribution rate for the Elizabethton Board of Education is established at an actuarially determined rate. The rate for the fiscal year ending June 30, 2008 was 6.24% of annual covered payroll. The employer contribution requirement for the Elizabethton Board of Education is established and may be amended by the TCRS Board of Trustees. The employer's contributions to TCRS for the years ending June 30, 2008, 2007, and 2006 were \$502,459, \$469,320, and \$424,870, respectively, equal to the required contributions for each year.

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 12 - RETIREMENT COMMITMENTS (CONTINUED)

Component Unit- Elizabethton Board Of Education (continued)

Elizabethton Electric Department

On October 1, 2005, the Department withdrew from the CSA Non Governmental Plan in a spin off whereby assets and liabilities were transferred into the Central Service Association Pension Plan for Governmental Employees. This is a new tax-qualified multiple employer defined benefit pension plan that is maintained as a governmental plan (as defined under section 414(d) of the Internal Revenue Code).

The plan covers all employees over 21 years of age with six months of service. The total contribution by both the Employer and Employees for the plan year ended September 30, 2007 and 2006 were \$573,022 and \$409,490 respectively. Covered employees are required to contribute one and one-half (1 ½) percent of their monthly earnings to the plan. The Department is required to contribute the remaining amount necessary to fund pension cost accrued including amortization of unfunded prior service cost over a period not to exceed thirty (30) years. Any changes to the plan would need to be approved by the Board for the Department and CSA. The investment assumption is 7%, salary assumption is 4%, the actuarial method is the frozen entry age method and the amortization period is 21.

Monthly contributions are made based on an annual evaluation for the following plan year. The most recently completed Actuarial Report was for the plan year beginning October 1, 2007. The total plan liability at that date was \$15,840,429 and the actuarial value of plan assets was \$9,515,599, leaving an unfunded liability of \$6,234,830 and a funded ratio of 60.07%. The total plan liability for the 2006 plan year was \$15,401,637 and the actuarial value of assets \$9,042,372 leaving an unfunded liability of \$6,359,265 and a funded ratio of 58.71%. The total plan liability for the 2005 plan year was \$15,730,648 and the actuarial value of assets \$9,040,974 leaving an unfunded liability of \$2,056,597 and a funded ratio of 57.47%.

As of October 1, 2007, the pension benefit obligation is \$15,840,429 and was \$15,401,637 as of October 1, 2006.

The plan provides for a retirement date, which is the first day of the calendar month, which coincides with, or next follows the employee's 60th birthday, with a minimum of 30 years of service. Early retirement may be taken within ten years of the retirement date. Benefits are determined on credited service, earnings, marital status and choice of options.

The Central Service Association Defined Benefit Plan operates with assistance from Mass Mutual. Mass Mutual holds all of the assets in a wide range of diverse investment funds. Additional information may be obtained from Central Service Association, P.O. Box 3480, 93 South Coley Road, Tupelo, MS 38803-3480.

Effective January 12, 2007, the Department elected to discontinue enrolling new employees in the CSA Pension Plan Program as now, employees will be enrolled with the same retirement plan as the City of Elizabethton with the Tennessee Consolidated Retirement System.

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 12 - RETIREMENT COMMITMENTS (CONTINUED)

Elizabethton Municipal Airport

The Airport manager was covered through the Tennessee Consolidated Retirement System. Total employer contributions during the fiscal year were \$5,171. The TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at age 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in the Title 8, Chapters 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Pension contributions are determined as part of the July 1, 2003 actuarial valuation. Since the Elizabethton Municipal Airport is considered a department of the City by TCRS, no specific pension benefit obligation can be isolated for the airport.

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 13 - LITIGATION

Workers Compensation Claims

During the fiscal year June 30, 2008, the City had some workers compensation claims which are being handled through the Tennessee Municipal League Risk Management Pool.

Lawsuits and Pending Claims

Various claims and lawsuits are pending against the City. In the opinion of the City management, after consulting with legal counsel, the potential loss on all claims and lawsuits is not determinable as the legal counsel will vigorously defend the City and some claims are still in the discovery phase.

Contingencies

The Tennessee Department of Environment and Conservation is pursuing an action in regard to the closed landfill because of the presence of some waste from Mapes that was discovered uncovered at that site. This has the potential of exposure to the City of approximately \$500,000 and the City is presently negotiating with TDEC to postpone the issuance of any Commissioner's Orders on the site until after the end of this fiscal year (e.g. after June 30, 2008).

NOTE 14 - RISK MANAGEMENT

The City of Elizabethton is a member of the Tennessee Municipal League Risk Management Pool (TML Pool). Coverage for the City includes workers compensation, general liability, property and casualty, public employee dishonesty, errors and omissions, and employer's liability. The TML Pool is a non-profit, risk sharing organization of Tennessee municipalities and local public agencies. The Tennessee Statute governing the formation of pooling and risk sharing arrangement dictates that the pool has the ability to assess members. Contributions (premiums) from members are used in part to purchase re-insurance to cover losses that exceed the Pool's loss fund.

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 15 - CONTINGENT LIABILITIES

Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The plan assets are in custodial accounts and are not subject to the claims of the City's general creditors and are not reflected in the funds of the City.

Environmental Violations

The City has negotiated with the State of Tennessee, Department of Conservation, Division of Superfund, an agreement concerning the Cherokee Industrial Park, which is alleged to contain inactive hazardous substance sites. An Agreed Consent Order signed on February 4, 1992, with the Tennessee Department of Conservation, details the actions to be required of the City. The City has fully cooperated with the Division of Solid Waste Management since 1982. All requested testing and clean up was completed by the City, before the new requirements imposed by the Federal Superfund Act. The following actions have been or will be initiated by the City, as set forth in the requirements of the Agreed Consent Order:

1. Within one year of the acceptance of the Agreed Consent Order, the City contracted with an approved, independent, environmental engineering firm, to develop a feasibility study work plan. This requirement was met in compliance with the February 4, 1993 deadline as stipulated in the Agreed Consent Order.
2. Within one hundred and eighty days of the above contract date, the feasibility study work plan was submitted to the State of Tennessee. On May 14, 1994, the City received a conditional approval for implementation of the Remedial Investigation/Feasibility Study Workplan by the Tennessee Department of Conservation. A Statement of Work to be completed by Eco-Tech, Inc. was approved on March 27, 1995 by the State.
3. By letter dated March 19, 1997 from the State of Tennessee Department of Environment and Conservation, the City received approval to allow light industrial development on tracts 5,8,12, and a portion of tract 7. The City has made these parcels available for purchase and development in accordance with the State's approval. Parcel 6, portions of 7 and parcels 11 and 12 (formerly public use areas), remain under investigation and review and have no active use as of June 30, 1997. The study and report were subsequently completed and forwarded to the State by September 1, 1997.
4. As of December 5, 1998, the State of Tennessee continues to review the Remedial Investigation Report. Upon completing this review, the State will select and notify the City of any appropriate, reasonable, removal alternatives necessary. The City will then be required to submit within one hundred and eighty days, a Remedial action plan to the extent necessary.

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 15 - CONTINGENT LIABILITIES (CONTINUED)

5. In a meeting held on February 4, 1999, at the Johnson City Environmental Assistance Center, Division of Superfund, City staff requested the State to review the "Remedial Investigation Report" and the "Baseline Risk Assessment" for the City of Elizabethton's Cherokee Industrial Park prepared by the City's environmental consultant. The review was received on March 3, 1999. The review was not an exhaustive analysis, but rather a review to help focus on the issues surrounding the Cherokee Industrial Park site. No remedial action was required by the City at the time since the property is proposed to be placed on the National Priority List (NPL) of superfund sites which will give oversight to the National Environmental Protection Agency (NEPA) instead of the State.
6. The United States Environmental Protection Agency (USEPA) on July 9, 1999 informed Johnson City Environmental Assistance Center, Tennessee Department of Environment and Conservation that the Federal Government has concluded its assessment of the Cherokee Industrial Park. A notice de-proposing the site will appear in the Federal Register and at that time the State of Tennessee will have full responsibility for remediation activity at the site. The de-proposal will conclude that the City and other property owners need to restrict use of the closed landfill, lagoon and flyash disposal areas. As of October 10, 2000, the City had received no communication from the Environmental Assistance Center in Johnson City stating this has been done.

The following are actual and estimated testing costs involved and fiscal years when the costs are expected to occur:

1. Testing Costs - FY 1996/97	\$ 177,058.30 (Actual)
2. Testing Costs - FY 1997/98	0.00 (Actual)
3. Testing Costs - FY 1998/99	0.00 (Actual)
4. Testing costs - FY 1999/00	6,064.84 (Actual)
5. Testing Costs - FY 2000/01	50,000.00 (Estimated)
6. Testing Costs - FY 2001/02	20,000.00 (Estimated)

The City's Director of Planning and Development established these estimates. No accurate estimate can be made as of June 30, 2008 as to any potential clean-up cost until notification by the Environmental Assistance Center that the State of Tennessee is the oversight manager. At that time the City will request a meeting with the State for further direction regarding the site.

Carter County/Elizabethton Solid Waste Landfill – Closure and Post Closure Costs

The City as a member of the joint venture to operate the Carter County/Elizabethton Solid Waste Disposal System is jointly and severally liable for the closure and post closure costs.

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 15 - CONTINGENT LIABILITIES (CONTINUED)

Carter County/Elizabethton Solid Waste Landfill – Closure and Post Closure Costs (continued)

State and federal laws and regulations (specifically in accordance with the Tennessee Department of Conservation, Division of Solid Waste Management Regulation 1200-1-7.03) require the joint venture to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions for thirty years after closure. Although closure and post closure care costs will be paid only near or after the date that the landfill stops accepting waste, the joint venture reports a portion of these closure and post closure care costs as an operating expense in each period based on landfill capacity used as of the date of the statement of net assets. The \$3,325,125 reported as Landfill closure and post closure care liability at June 30, 2008 represents the cumulative amount reported to date based on the use of approximately 100 percent of the total estimated capacity of the landfill. The City and County each pay 50 percent of the monitoring costs.

These estimates are based on an engineering firm's determination of costs to perform all closure and post closure care in 1994 of closure \$568,636 and post closure of \$111,049 annually. On May 16, 1996, the Carter County Executive received approval from the State of Tennessee Division of Solid Waste Management which modified the Landfill's permit and allowed the Landfill to remain open until the remaining space was used to the level of permitted contours. On July 1, 1999, the sanitary landfill site was closed to additional deposits.

Accordingly, the 1994 engineer's estimate of closure and post closure costs have been adjusted based upon the Division of Solid Waste Management's assumed annual inflation rate of 5 percent projected to the closure date, resulting in estimated compound future value total costs of \$5,883,394 for post closure.

Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

Carter County and the City of Elizabethton have filed financial assurance with the State of Tennessee Department of Environment and Conservation in the form of Contract in Lieu of Performance Bond for total cost of its closure/post closure plan. No investments have been set aside to cover the closure and post closure costs.

In 2003, the City entered into a consent order with the Tennessee Department of Environment and Conservation for the purpose of facilitating the investigation, removal and remediation of a hazardous substance site at the Sugar Hollow dump. Oversight costs posted as of January 28, 2003 were \$87,166. The City initially paid \$16,342 and the remaining balance of oversight costs were paid in twelve monthly payments of \$5,902 beginning July 1, 2003.

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 16 - OTHER POST-EMPLOYMENT BENEFITS

City of Elizabethton, Tennessee

The City provides post retirement health benefits, as per the requirements of a local ordinance, for certain retirees and their dependents. The City's contributions are financed on a pay-as-you-go basis.

Current retirees, or employees that qualified as of July 31, 1994, for full service retirement under guidelines of the Tennessee Consolidated Retirement System may continue to participate in the group health insurance program of the City. The City will pay 100% of the monthly premium for coverage of the retiree until age 65. Family coverage is offered at a subsidized rate, subject to change annually.

Employees that did not qualify as of July 31, 1994 for full service retirement, under the guidelines of the Tennessee Consolidated Retirement System, but retired from the City may, at their own expense, continue to participate in the health insurance program of the City.

At June 30, 2008 twenty-eight (28) retired employees were included on the City's Group Health Insurance Plan with an annual cost of \$130,143 to the City.

Elizabethton Electric Department

In the case of voluntary early retirement, the Department will pay the retired employee's and dependent(s) personal medical insurance, less a monthly amount of \$20 after retirement until age sixty-five. No benefits for dependents and no dental or life benefits are paid. Group insurance coverage terminates upon eligibility for Medicare except those individuals who retired under the 1993 to 1999 contracts and they have a Medi-gap insurance policy for life. Retirees are allowed to keep their coverage after age 65 at their own cost. Benefits also include dental and life insurance. The Department has elected to finance post employment benefits on a pay-as-you go basis. There are 19 employees receiving benefits. The estimated net cost to the Department for the year ended June 30, 2008 was \$88,311.

NOTE 17 – PRIOR PERIOD ADJUSTMENT

A prior period adjustment has been reflected for the Elizabethton Municipal Airport to correctly include the historical cost of the property acquired during the formation of the Airport. Land was restated by adding \$222,500 to the Land account and a corresponding increase was made to the Net Assets.

CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF FUNDING PROGRESS (UNAUDITED)
For the Fiscal Year Ended June 30, 2008

Actuarial Valuation Date	Actuarial Value of Assets (a)	(AAL) Actuarial Accrued Liability - Entry Age (b)	(UAAL) Unfunded AAL (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/c)
July 1, 2007	\$ 14,353	18,308	3,955	78.40%	6,232	63.46%

The Governmental Accounting Standards Board (GASB) requires the plan to prepare the Schedule of Funding Progress using the entry age actuarial cost method. The requirement to present the Schedule of Funding Progress using the Entry Age actuarial cost methods was a change made during the year and therefore only the most current year is presented.

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2008

	Special Revenue Funds					Permanent Fund		
	Police Drug Enforcement Fund	Police Community Relations Fund	Police Equipment Fund	Solid Waste and Sanitation Fund	East TN Railroad Authority Fund	Total Capital Projects Funds	E. Bolling Memorial Trust Fund	Nonmajor Governmental Funds
ASSETS								
Cash	\$ 66,047	3,541	35,560	4,101	10,776	456,576	-	576,601
Due from Other Funds	568	-	-	-	-	-	-	568
Due from Other Governments	4,494	-	-	-	6,185	-	-	10,679
Accounts Receivable	-	-	-	25,824	-	-	-	25,824
Restricted Investments	-	-	-	-	-	540,566	-	540,566
Investments	48,287	-	-	-	-	-	29,652	77,939
TOTAL ASSETS	\$ 119,396	3,541	35,560	29,925	16,961	997,142	29,652	1,232,177
LIABILITIES AND FUND BALANCES								
Liabilities								
Accounts Payable	\$ -	-	-	2,495	17	-	-	2,512
Due to Other Funds	-	-	-	3,347	-	-	-	3,347
Cash Overdraft	-	-	-	-	-	80,746	-	80,746
TOTAL LIABILITIES	0	0	0	5,842	17	80,746	0	86,605
FUND BALANCES								
Unreserved	119,396	3,541	35,560	24,083	16,944	916,396	29,652	1,145,572
TOTAL FUND BALANCES	119,396	3,541	35,560	24,083	16,944	916,396	29,652	1,145,572
TOTAL LIABILITIES AND FUND BALANCES	\$ 119,396	3,541	35,560	29,925	16,961	997,142	29,652	1,232,177

See Independent Auditors' Report

CITY OF ELIZABETHTON, TENNESSEE
COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECT FUNDS
June 30, 2008

	Capital Projects Funds						
	Park and Recreation Fund	Joe O'brien Field Fund	Special Projects Fund	Obligation Bond Proceeds Fund	Veteran's Walk of Honor Fund	Veteran's Walk of Honor Phase II Fund	Total Nonmajor Capital Project Funds
ASSETS							
Cash	\$ -	965	47,943	245,907	23,839	130,676	456,576
Restricted Investments	-	-	-	540,566	-	-	540,566
TOTAL ASSETS	<u>\$ 0</u>	<u>965</u>	<u>47,943</u>	<u>786,473</u>	<u>23,839</u>	<u>130,676</u>	<u>997,142</u>
LIABILITIES AND FUND BALANCES							
Accounts Payable	\$ -	-	-	-	-	-	-
Cash Overdraft	80,746	-	-	-	-	-	80,746
TOTAL LIABILITIES	<u>80,746</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>80,746</u>
FUND BALANCES							
Unreserved	(80,746)	965	47,943	786,473	23,839	130,676	916,396
TOTAL FUND BALANCES	<u>(80,746)</u>	<u>965</u>	<u>47,943</u>	<u>786,473</u>	<u>23,839</u>	<u>130,676</u>	<u>916,396</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 0</u>	<u>965</u>	<u>47,943</u>	<u>786,473</u>	<u>23,839</u>	<u>130,676</u>	<u>997,142</u>

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2008

	Special Revenue Funds					Permanent Fund	Total Nonmajor Governmental Funds
	Police Drug Enforcement Fund	Police Community Relations Fund	Police Equipment Fund	Solid Waste and Sanitation Fund	East TN Railroad Authority Fund	E. Bolling Memorial Trust Fund	
					Total Capital Projects Funds		
REVENUES							
Charges for Services	\$ -	-	-	544,781	-	-	544,781
Fines and Forfeitures	57,045	-	42,946	-	-	-	99,991
Interest Income	2,775	2,041	79	-	39	1,187	27,142
Miscellaneous	6	-	-	3,108	2,000	-	5,114
Donations	-	500	-	-	-	-	141,807
Grant Income	-	-	4,999	-	126,029	-	134,028
TOTAL REVENUES	59,826	2,541	48,024	547,889	128,068	1,187	952,863
EXPENDITURES							
General Government	-	-	-	900,998	-	-	900,998
Public Safety	33,653	8,855	47,252	-	-	-	89,760
Capital Outlay	-	-	-	-	-	-	114,774
Other Expenditures	-	-	-	-	124,464	-	232,927
TOTAL EXPENDITURES	33,653	8,855	47,252	900,998	124,464	0	1,338,459
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	26,173	(6,314)	772	(353,109)	3,604	1,187	(385,596)
OTHER FINANCING SOURCES (USES)							
Transfer from General Fund	-	-	-	400,000	-	-	412,000
Transfers Out	-	-	-	-	-	-	(12,000)
TOTAL OTHER FINANCING SOURCES (USES)	0	0	0	400,000	0	0	400,000
Net Change in Fund Balance	26,173	(6,314)	772	46,891	3,604	1,187	14,404
FUND BALANCE, JULY 1, 2007	93,223	9,855	34,788	(22,808)	13,340	28,465	1,131,168
FUND BALANCES, JUNE 30, 2008	\$ 119,396	3,541	35,560	24,083	16,944	29,652	1,145,572

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 NONMAJOR CAPITAL PROJECT FUNDS
 For the Year Ended June 30, 2008

	Capital Projects Funds							
	Park and Recreation Fund	Joe O'Brien Field Fund	Special Projects Funds	General Obligation Bond Proceeds Fund	Veteran's Walk of Honor Fund	Veteran's Walk of Honor Phase II Fund	Veteran's War Memorial Fund	Total Nonmajor Capital Projects Funds
REVENUES								
Interest Income	\$ 522	-	145	20,291	45	-	18	21,021
Donations	-	909	-	-	52,698	87,700	-	141,307
Grant Income	3,000	-	-	-	-	-	-	3,000
TOTAL REVENUES	3,522	909	145	20,291	52,743	87,700	18	165,328
EXPENDITURES								
Capital Outlay	8,486	-	-	106,288	-	-	-	114,774
Other Expenditures	-	6,839	14,449	50,721	36,042	-	412	108,463
TOTAL EXPENDITURES	8,486	6,839	14,449	157,009	36,042	0	412	223,237
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(4,964)	(5,930)	(14,304)	(136,718)	16,701	87,700	(394)	(57,909)
OTHER FINANCING SOURCES (USES)								
Transfer from General Fund	12,000	-	-	-	-	-	-	12,000
Transfer Out	-	-	-	(12,000)	-	-	-	(12,000)
TOTAL OTHER FINANCING SOURCES (USES)	12,000	0	0	(12,000)	0	0	0	0
Net Change in Fund Balance	7,036	(5,930)	(14,304)	(148,718)	16,701	87,700	(394)	(57,909)
FUND BALANCE, JULY 1, 2007	(87,782)	6,895	62,247	935,191	7,138	42,976	7,640	974,305
FUND BALANCES, JUNE 30, 2008	\$ (80,746)	965	47,943	786,473	23,839	130,676	7,246	916,396

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE
POLICE DRUG ENFORCEMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Task Force	\$ 11,000	2,295	(8,705)
Interest Earned	2,448	2,775	327
Drug Fines-Courts	20,500	48,684	28,184
Fines and Forfeitures	-	6,066	6,066
Miscellaneous	5,298	6	(5,292)
TOTAL REVENUES	39,246	59,826	20,580
EXPENDITURES			
Special Pay	17,647	10,363	7,284
Insurance	1,182	1,185	(3)
Vehicle Maintenance and Fuel	5,919	4,749	1,170
Appropriation - Task Force	14,498	17,356	(2,858)
TOTAL EXPENDITURES	39,246	33,653	5,593
EXCESS OF REVENUES OVER EXPENDITURES	-	26,173	26,173
FUND BALANCE, JULY 1, 2007	93,223	93,223	-
FUND BALANCE, JUNE 30, 2008	\$ 93,223	119,396	26,173

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE
POLICE COMMUNITY RELATIONS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Donations	\$ 9,170	500	(8,670)
Interest Earned	-	2,041	2,041
TOTAL REVENUES	9,170	2,541	(6,629)
EXPENDITURES			
Supplies and Operating Expenses	9,170	8,855	315
TOTAL EXPENDITURES	9,170	8,855	315
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	(6,314)	(6,314)
FUND BALANCE, JULY 1, 2007	9,855	9,855	-
FUND BALANCE, JUNE 30, 2008	\$ 9,855	3,541	(6,314)

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE
POLICE EQUIPMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Fines	\$ 56,350	42,946	(13,404)
Grant Income	104,500	4,999	(99,501)
Interest Earned	131	79	(52)
Donations	4,000	-	(4,000)
Miscellaneous	22,519	-	(22,519)
TOTAL REVENUES	187,500	48,024	(139,476)
EXPENDITURES			
Supplies and Operating Expenses	142,500	47,252	95,248
Capital Outlay	45,000	-	45,000
TOTAL EXPENDITURES	187,500	47,252	140,248
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	772	772
FUND BALANCE, JULY 1, 2007	34,788	34,788	-
FUND BALANCE, JUNE 30, 2008	\$ 34,788	35,560	772

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE
SOLID WASTE/SANITATION FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES			
Bulk Container Fees	\$ 541,500	542,135	635
Miscellaneous	282,824	3,108	(279,716)
Sale of Containers	<u>2,600</u>	<u>2,646</u>	<u>46</u>
TOTAL REVENUES	<u>826,924</u>	<u>547,889</u>	<u>(279,035)</u>
EXPENDITURES			
Salaries and Benefits	356,734	291,103	65,631
Uniforms and Employee Expenses	4,125	3,291	834
Containers	5,000	5,946	(946)
Garage Rent	500	-	500
Insurance	7,744	7,497	247
Vehicle Maintenance and Fuel	75,000	146,172	(71,172)
Contracted Services	550	31,434	(30,884)
Supplies and Operating Expenses	18,253	8,583	9,670
Landfill and Other Fees	<u>558,500</u>	<u>406,972</u>	<u>151,528</u>
TOTAL EXPENDITURES	<u>1,026,406</u>	<u>900,998</u>	<u>125,408</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(199,482)</u>	<u>(353,109)</u>	<u>(153,627)</u>
OTHER FINANCING SOURCES (USES)			
Transfer from General	<u>199,482</u>	<u>400,000</u>	<u>200,518</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>199,482</u>	<u>400,000</u>	<u>200,518</u>
Net Change in Fund Balance	-	46,891	46,891
FUND BALANCE, JULY 1, 2007	<u>(22,808)</u>	<u>(22,808)</u>	<u>-</u>
FUND BALANCE, JUNE 30, 2008	<u>\$ (22,808)</u>	<u>24,083</u>	<u>46,891</u>

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE
EAST TENNESSEE RAILROAD AUTHORITY FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Interest Earned	\$ -	39	39
Grant Income	175,092	126,029	(49,063)
Miscellaneous	-	2,000	2,000
TOTAL REVENUES	175,092	128,068	(47,024)
EXPENDITURES			
Street and Railroad Improvements	175,092	124,464	50,628
TOTAL EXPENDITURES	175,092	124,464	50,628
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	3,604	3,604
FUND BALANCE, JULY 1, 2007	13,340	13,340	-
FUND BALANCE, JUNE 30, 2008	\$ 13,340	16,944	3,604

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE
 PARK AND RECREATION CAPITAL PROJECTS FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 For the Fiscal Year Ended June 30, 2008

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Grant Income	\$ 333,000	3,000	(330,000)
Interest Earned	-	522	522
TOTAL REVENUES	333,000	3,522	(329,478)
EXPENDITURES			
Capital Outlay	424,000	8,486	415,514
TOTAL EXPENDITURES	424,000	8,486	415,514
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(91,000)	(4,964)	86,036
OTHER FINANCING SOURCES (USES)			
Transfer from General	91,000	12,000	(79,000)
TOTAL OTHER FINANCING SOURCES (USES)	91,000	12,000	(79,000)
Net Change in Fund Balance	-	7,036	7,036
FUND BALANCE, JULY 1, 2007	(87,782)	(87,782)	-
FUND BALANCE, JUNE 30, 2008	<u>\$ (87,782)</u>	<u>(80,746)</u>	<u>7,036</u>

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE
JOE O'BRIEN FIELD FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES			
Donations	\$ 20,000	909	(19,091)
TOTAL REVENUES	<u>20,000</u>	<u>909</u>	<u>(19,091)</u>
EXPENDITURES			
Other Expenditures	<u>20,000</u>	<u>6,839</u>	<u>13,161</u>
TOTAL EXPENDITURES	<u>20,000</u>	<u>6,839</u>	<u>13,161</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	(5,930)	(5,930)
FUND BALANCE, JULY 1, 2007	<u>6,895</u>	<u>6,895</u>	<u>-</u>
FUND BALANCE, JUNE 30, 2008	<u>\$ 6,895</u>	<u>965</u>	<u>(5,930)</u>

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE
SPECIAL CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES			
Grant Income	\$ 70,000	-	(70,000)
Interest	-	145	145
TOTAL REVENUES	<u>70,000</u>	<u>145</u>	<u>(69,855)</u>
EXPENDITURES			
Other Expenditures	<u>284,000</u>	<u>14,449</u>	<u>269,551</u>
TOTAL EXPENDITURES	<u>284,000</u>	<u>14,449</u>	<u>269,551</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(214,000)</u>	<u>(14,304)</u>	<u>199,696</u>
OTHER FINANCING SOURCES (USES)			
Debt Issue Proceeds	2,000	-	(2,000)
Transfer from General Fund	12,000	-	(12,000)
Safe Route Schools Transfer	<u>200,000</u>	<u>-</u>	<u>(200,000)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>214,000</u>	<u>-</u>	<u>(214,000)</u>
Net Change in Fund Balance	-	(14,304)	(14,304)
FUND BALANCE, JULY 1, 2007	<u>62,247</u>	<u>62,247</u>	<u>-</u>
FUND BALANCE, JUNE 30, 2008	<u>\$ 62,247</u>	<u>47,943</u>	<u>(14,304)</u>

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE
GENERAL OBLIGATION BOND PROCEEDS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Miscellaneous	\$ 300,000	-	(300,000)
Interest Earned	-	20,291	20,291
TOTAL REVENUES	300,000	20,291	(279,709)
EXPENDITURES			
Other Expenditures	-	50,721	(50,721)
Capital Outlay	300,000	106,288	193,712
TOTAL EXPENDITURES	300,000	157,009	142,991
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	(136,718)	(136,718)
OTHER FINANCING SOURCES (USES)			
Transfer to Parks and Rec	-	(12,000)	(12,000)
TOTAL OTHER FINANCING SOURCES (USES)	-	(12,000)	(12,000)
Net Change in Fund Balance	-	(148,718)	(148,718)
FUND BALANCE, JULY 1, 2007	935,191	935,191	-
FUND BALANCE, JUNE 30, 2008	\$ 935,191	786,473	(148,718)

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE
VETERAN'S WALK OF HONOR FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES			
Donations	\$ 207,324	52,698	(154,626)
Interest Earned	<u>-</u>	<u>45</u>	<u>45</u>
TOTAL REVENUES	<u>207,324</u>	<u>52,743</u>	<u>(154,581)</u>
EXPENDITURES			
Other Expenditures	<u>207,324</u>	<u>36,042</u>	<u>171,282</u>
TOTAL EXPENDITURES	<u>207,324</u>	<u>36,042</u>	<u>171,282</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	16,701	16,701
FUND BALANCE, JULY 1, 2007	<u>7,138</u>	<u>7,138</u>	<u>-</u>
FUND BALANCE, JUNE 30, 2008	<u>\$ 7,138</u>	<u>23,839</u>	<u>16,701</u>

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE
VETERAN'S WALK OF HONOR PHASE II FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Donations	\$ 20,000	87,700	67,700
TOTAL REVENUES	20,000	87,700	67,700
EXPENDITURES			
Other Expenditures	20,000	-	20,000
TOTAL EXPENDITURES	20,000	0	20,000
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	87,700	87,700
FUND BALANCE, JULY 1, 2007	42,976	42,976	-
FUND BALANCE, JUNE 30, 2008	\$ 42,976	130,676	87,700

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE
VETERAN'S WAR MEMORIAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Donations	\$ 5,000	-	(5,000)
Interest Earned	-	18	18
TOTAL REVENUES	5,000	18	(4,982)
EXPENDITURES			
Other Expenditures	5,000	412	4,588
TOTAL EXPENDITURES	5,000	412	4,588
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	(394)	(394)
FUND BALANCE, JULY 1, 2007	7,640	7,640	-
FUND BALANCE, JUNE 30, 2008	\$ 7,640	7,246	(394)

See Independent Auditors' Report.

SUPPLEMENTAL
SECTION

CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2008

CFDA Number	Program Name/ Grant Number	Grantor Agency	Balance June 30, 2007	Cash Receipts	Expenditures	Balance June 30, 2008
PRIMARY GOVERNMENT						
GENERAL FUND						
Pass-Through Tennessee Department of Environment and Conservation 15.904	Historic Preservation Fund	U.S. Department of Interior	\$ -	10,500	10,500	-
16.000	Appalachian High Intensity Drug Trafficking Area	U.S. Department of Justice	-	10,220	20,135	9,915 *
Pass-Through Tennessee Criminal Justice Programs 16.579	Byrne Justice Police Grant	U.S. Department of Justice	-	12,346	12,346	-
Pass-Through Tennessee Department of Transportation 20.601	Governor's Highway Safety - High Visibility Safety	U.S. Department of Transportation	-	2,569	2,569	-
97.044	Assistance to Fire Fighters Grant Program EMW-2006-FG-14214	U.S. Department of Homeland Security	-	57,000	57,000	-
Total General Fund			-	92,635	102,550	9,915
SPECIAL REVENUE FUND						
Pass-Through Tennessee Department of Transportation 20.601	Governor's Highway Safety	U.S. Department of Transportation	-	4,999	4,999	-
Total Special Revenue Fund			0	4,999	4,999	0
CAPITAL PROJECTS FUND						
Pass-Through Tennessee Department of Agriculture 10.664	Cooperative Forestry Assistance	U.S. Department of Agriculture	-	3,000	3,000	-
Total Capital Projects Fund			0	3,000	3,000	0
WATER AND SEWER FUND						
Pass-Through Tennessee Department Economic and Community Development 14.228	CDBG - Imminent Threat GG0612358	U.S. Department of Housing & Urban Development	76,192	318,208	242,016	-
Total Water and Sewer Fund			76,192	318,208	242,016	0
Total Primary Government			\$ 76,192	418,842	352,565	9,915

NOTE A: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Elizabethton, Tennessee and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

M Major Program

* Receivable

** Unused Revenue

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF EXPENDITURES OF STATE AWARDS
For the Fiscal Year Ended June 30, 2008

State Grant Number	Program Name/ Grant Number	Grantor Agency	Balance June 30, 2007	Cash Receipts	Expenditures	Balance June 30, 2008
PRIMARY GOVERNMENT						
ELIZABETHTON MUNICIPAL AIRPORT						
Z-06-028711	Airport Maintenance	TN Department of Transportation	\$ 10,000	10,000	10,000	10,000 *
Z-07-037646	GPS Survey	TN Department of Transportation	-	30,528	30,528	-
Z-07-037703	Land Acquisition	TN Department of Transportation	-	379,500	379,500	-
Total Elizabethton Municipal Airport			10,000	420,028	420,028	10,000
GENERAL FUND						
SB 2334 / HB 2353	Library Community Enhancement	TN Community Enhancement	-	20,000	20,000	-
CMA 1105 Project 10951-4620-04	Highway Maintenance	TN Department of Transportation	-	47,334	56,050	8,716 *
Total General Fund			0	67,334	76,050	8,716
SPECIAL REVENUE FUND						
Z-05-024-274-00 Z-07-033921-01 & Z-08-020871	Track Rehab	TN Department of Transportation	175,720	295,564	126,029	6,185 *
Total Special Revenue Fund			175,720	295,564	126,029	6,185
Total Primary Government			\$ 185,720	782,926	622,107	24,901

* Receivable

** Unused Revenue

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF INTERFUND TRANSFERS
June 30, 2008

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
<u>Operating Transfers Among Funds</u>			
General	Sanitation/Solid Waste	To provide for operations	\$ 400,000
General	Elizabethton Municipal Airport	To provide for operations	150,000
Elizabethton Electric Department	General	In-Lieu of Taxes	517,314
General Obligation Bond Capital Projects Fund	Park and Recreation Capital Projects Fund	To provide for operations	<u>12,000</u>
Total Transfers			<u><u>\$1,079,314</u></u>

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF CHANGES IN GENERAL BONDED DEBT AND NOTES PAYABLE -
PRIMARY GOVERNMENT
June 30, 2008

	Balance July 1, 2007	General Obligation Debt Additions	General Obligation Debt Retired	General Obligation Debt Adjustments	Balance June 30, 2008
<u>General Bonded Debt</u>					
General Fund:					
General Obligation - Series 2001	\$ 415,000	-	200,000	-	215,000
General Obligation - Refunding Series 2003	800,000	-	330,000	-	470,000
Total General Bonded Debt	<u>\$ 1,215,000</u>	<u>0</u>	<u>530,000</u>	<u>0</u>	<u>685,000</u>
<u>Notes Payable</u>					
General Fund:					
Capital Outlay Note - 2004	\$ 937,499	-	104,167	-	833,332
Capital Outlay Note - 2006	1,189,625	-	83,676	-	1,105,949
Total Notes Payable	<u>\$ 2,127,124</u>	<u>-</u>	<u>187,843</u>	<u>0</u>	<u>1,939,281</u>

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS
ALL FUNDS - PRIMARY GOVERNMENT
June 30, 2008

<u>Fiscal Year Ending</u>	<u>Bond Requirements</u>	<u>Interest Requirements</u>	<u>Total Requirements</u>
6/30/2009	\$ 1,430,000	1,079,923	2,509,923
6/30/2010	1,585,000	907,748	2,492,748
6/30/2011	1,505,000	847,014	2,352,014
6/30/2012	1,560,000	784,858	2,344,858
6/30/2013	1,586,740	762,855	2,349,595
6/30/2014	1,404,802	944,543	2,349,345
6/30/2015	1,318,238	1,024,508	2,342,746
6/30/2016	1,330,045	1,010,900	2,340,945
6/30/2017	1,350,755	991,600	2,342,355
6/30/2018	1,367,463	973,101	2,340,564
6/30/2019	1,383,969	956,517	2,340,486
6/30/2020	1,407,050	936,536	2,343,586
6/30/2021	1,431,680	913,136	2,344,816
6/30/2022	1,462,841	885,613	2,348,454
6/30/2023	1,511,116	907,885	2,419,001
6/30/2024	1,247,525	914,763	2,162,288
6/30/2025	1,274,526	889,224	2,163,750
6/30/2026	1,303,687	859,500	2,163,187
6/30/2027	1,338,682	826,806	2,165,488
6/30/2028	1,374,471	791,067	2,165,538
6/30/2029	226,004	778,996	1,005,000
6/30/2030	213,844	791,156	1,005,000
6/30/2031	148,976	591,023	739,999
	<u>\$ 28,762,414</u>	<u>20,369,272</u>	<u>49,131,686</u>

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF NOTE PRINCIPAL AND INTEREST REQUIREMENTS
ALL FUNDS - PRIMARY GOVERNMENT
June 30, 2008

<u>Fiscal Year Ending</u>	<u>Note Requirements</u>	<u>Interest Requirements</u>	<u>Total Requirements</u>
6/30/2009	\$ 213,534	136,506	350,040
6/30/2010	212,684	129,079	341,763
6/30/2011	1,553,282	114,117	1,667,399
6/30/2012	207,702	54,215	261,917
6/30/2013	212,320	45,379	257,699
6/30/2014	229,254	36,847	266,101
6/30/2015	217,802	26,753	244,555
6/30/2016	222,880	17,503	240,383
6/30/2017	124,021	10,095	134,116
6/30/2018	129,560	4,552	134,112
6/30/2019	<u>33,311</u>	<u>243</u>	<u>33,554</u>
	<u>\$ 3,356,350</u>	<u>575,289</u>	<u>3,931,639</u>

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF NOTE PRINCIPAL AND INTEREST REQUIREMENTS -
COMPONENT UNITS
June 30, 2008

<u>Fiscal Year Ending</u>	<u>Note Requirements</u>	<u>Interest Requirements</u>	<u>Total Requirements</u>
6/30/2009	\$ 45,399	3,817	49,216
6/30/2010	46,267	2,949	49,216
6/30/2011	47,051	2,165	49,216
6/30/2012	47,869	1,347	49,216
6/30/2013	48,735	482	49,217
6/30/2014	30,000	-	30,000
6/30/2015	30,000	-	30,000
6/30/2016	<u>31,590</u>	<u>-</u>	<u>31,590</u>
	<u>\$ 326,911</u>	<u>10,760</u>	<u>337,671</u>

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE
NET ASSETS BY COMPONENT
Last Six Fiscal Years
(Accrual Basis of Accounting)

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
Governmental Activities						
Invested in Capital Assets, Net of Related Debt	\$ 8,358,220	8,155,681	10,681,542	11,444,573	10,590,936	11,194,421
Unrestricted	8,168,083	9,215,921	7,031,709	6,789,683	7,194,201	7,018,313
Total Governmental Activities Net Assets	<u>16,526,303</u>	<u>17,371,602</u>	<u>17,713,251</u>	<u>18,234,256</u>	<u>17,785,137</u>	<u>18,212,734</u>
Business-type Activities						
Invested in Capital Assets, Net of Related Debt	41,937,747	41,681,195	42,776,756	44,271,111	45,625,558	38,582,426
Restricted	-	27,728	12,072	927	-	-
Unrestricted	5,605,268	7,007,747	8,099,683	9,248,016	10,893,732	20,055,574
Total Business-type Activities Net Assets	<u>47,543,015</u>	<u>48,716,670</u>	<u>50,888,511</u>	<u>53,520,054</u>	<u>56,519,290</u>	<u>58,638,000</u>
Primary Government						
Invested in Capital Assets, Net of Related Debt	50,295,967	49,836,876	53,458,298	55,715,684	56,216,494	49,776,847
Restricted	-	27,728	12,072	927	-	-
Unrestricted	13,773,351	16,223,668	15,131,392	16,037,699	18,087,933	27,073,887
Total Primary Government Net Assets	<u>\$64,069,318</u>	<u>66,088,272</u>	<u>68,601,762</u>	<u>71,754,310</u>	<u>74,304,427</u>	<u>76,850,734</u>

NOTE: Comparable information was not available for prior years. The City implemented Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments, during the 2003 fiscal year.

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE
CHANGES IN NET ASSETS
Last Six Fiscal Years
(Accrual Basis of Accounting)

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
EXPENSES						
Governmental Activities						
General Government	\$ 2,030,392	1,134,721	1,838,201	1,964,833	2,092,175	2,312,896
Public Safety	3,427,386	3,708,331	3,819,315	4,220,050	4,498,229	4,691,754
Public Works	1,353,398	1,682,033	1,519,457	1,655,130	1,710,488	1,709,253
Health and Welfare	139,881	149,075	128,225	128,009	133,507	143,386
Building Code Enforcement	212,241	232,388	252,559	245,923	236,687	267,685
Community Development	86,594	95,519	128,953	97,378	128,559	150,503
Culture and Recreation	1,086,283	1,087,214	1,177,105	1,255,737	1,335,822	1,279,218
Education	2,332,000	2,332,000	2,332,000	2,332,000	2,332,000	2,332,000
Other	375,257	749,080	782,368	597,845	1,110,518	511,202
Interest on Long-Term Debt	136,954	168,413	126,176	100,446	124,408	120,050
Total Governmental Activities Expenses	<u>11,180,386</u>	<u>11,338,774</u>	<u>12,104,359</u>	<u>12,597,351</u>	<u>13,702,393</u>	<u>13,517,947</u>
Business-type Activities						
Water and Sewer	5,240,685	5,924,594	6,101,136	6,258,684	6,351,520	6,421,106
Electric System	34,580,165	35,949,729	35,655,992	38,562,527	41,233,588	44,584,278
Airport	396,805	462,861	576,956	686,323	737,428	1,101,139
Total Business-type Activities Expenses	<u>40,217,655</u>	<u>42,337,184</u>	<u>42,334,084</u>	<u>45,507,534</u>	<u>48,322,536</u>	<u>52,106,523</u>
Total Primary Government Expenses	<u>51,398,041</u>	<u>53,675,958</u>	<u>54,438,443</u>	<u>58,104,885</u>	<u>62,024,929</u>	<u>65,624,470</u>
PROGRAM REVENUES						
Governmental Activities						
Charges for Services	1,341,974	1,225,622	1,261,861	1,645,615	1,572,058	1,980,490
Operating Grants and Contributions	155,364	233,578	77,139	137,993	180,494	634,089
Capital Grants and Contributions	56,287	350,497	255,533	334,270	464,532	60,697
Total Governmental Activities Program Revenues	<u>1,553,625</u>	<u>1,809,697</u>	<u>1,594,533</u>	<u>2,117,878</u>	<u>2,217,084</u>	<u>2,675,276</u>
Business-type Activities						
Charges for Services	41,249,758	43,380,657	44,050,045	48,187,308	50,749,078	53,113,524
Operating Grants and Contributions	291,766	-	427,175	337,513	257,984	-
Capital Grants and Contributions	-	-	519,040	-	56,040	652,044
Total Business-type Activities Program Revenues	<u>41,541,524</u>	<u>43,380,657</u>	<u>44,996,260</u>	<u>48,524,821</u>	<u>51,063,102</u>	<u>53,765,568</u>
Total Primary Government Program Revenues	<u>\$ 43,095,149</u>	<u>45,190,354</u>	<u>46,590,793</u>	<u>50,642,699</u>	<u>53,280,186</u>	<u>56,440,844</u>

(Continued)

CITY OF ELIZABETHTON, TENNESSEE
CHANGES IN NET ASSETS
Last Six Fiscal Years
(Accrual Basis of Accounting)

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
NET (EXPENSE)/REVENUE						
Governmental Activities	\$ (7,294,761)	(9,529,077)	(10,509,826)	(10,479,473)	(11,485,309)	(10,842,671)
Business-type Activities	1,323,869	1,043,473	2,662,176	3,017,287	2,740,566	1,659,045
Total Primary Government Net Expense	<u>(5,970,892)</u>	<u>(8,485,604)</u>	<u>(7,847,650)</u>	<u>(7,462,186)</u>	<u>(8,744,743)</u>	<u>(9,183,626)</u>
GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS						
Governmental Activities						
Taxes:						
Property Taxes	3,568,814	3,525,231	3,592,858	3,705,114	3,766,242	4,061,546
Sales Taxes	2,724,745	2,811,594	3,215,945	3,631,223	3,805,354	4,127,085
In-Lieu of Taxes	714,784	16,203	47,644	29,861	26,124	36,733
Business Taxes	193,140	200,805	217,419	251,306	240,944	250,850
Other Local Governments	116,946	100,885	160,733	166,627	108,421	93,987
State Aid	1,719,320	1,672,268	1,720,914	1,773,976	2,195,451	1,649,418
Federal Aid	559,217	335,135	343,080	492,029	418,930	414,820
Unrestricted Investment Earnings	133,910	104,744	111,512	241,330	258,024	232,933
Miscellaneous	-	(3,570)	42,056	56,370	24,893	35,582
Special Item - Donations of Assets	1,486,963	-	-	-	-	-
Loss on Sale of Asset	(44,287)	-	-	-	(95,016)	-
Grants and Contributions not restricted	-	1,611,081	747,906	-	-	-
Transfers	(40,500)	-	651,408	652,642	286,823	367,314
Total Governmental Activities	<u>11,133,052</u>	<u>10,374,376</u>	<u>10,851,475</u>	<u>11,000,478</u>	<u>11,036,190</u>	<u>11,270,268</u>
Business-type Activities						
Unrestricted Investment Earnings	89,701	77,409	161,073	285,842	540,614	601,753
Miscellaneous	272	52,773	-	1,159	4,879	-
Transfers	40,500	-	(651,408)	(652,642)	(286,823)	(367,314)
Total Business-type Activities	<u>130,473</u>	<u>130,182</u>	<u>(490,335)</u>	<u>(365,641)</u>	<u>258,670</u>	<u>234,439</u>
Total Primary Government	<u>11,263,525</u>	<u>10,504,558</u>	<u>10,361,140</u>	<u>10,634,837</u>	<u>11,294,860</u>	<u>11,504,707</u>
CHANGE IN NET ASSETS						
Governmental Activities	1,506,291	845,299	341,649	521,005	(449,119)	427,597
Business-type Activities	1,454,342	1,173,655	2,171,841	2,651,646	2,999,236	1,893,484
Total Primary Government	<u>\$ 2,960,633</u>	<u>2,018,954</u>	<u>2,513,490</u>	<u>3,172,651</u>	<u>2,550,117</u>	<u>2,321,081</u>

NOTE: Comparable information was not available for prior years. The City implemented Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments, during the 2003 fiscal year.

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE
FUND BALANCES OF GOVERNMENTAL FUNDS
Last Six Fiscal Years
(Modified Accrual Basis of Accounting)

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
General Fund						
Designated	\$ 4,121,618	4,168,892	4,000,273	4,178,565	4,085,787	3,651,625
Unreserved	3,320,969	3,351,326	2,363,630	1,951,297	1,646,915	2,201,376
Total General Fund	<u>7,442,587</u>	<u>7,520,218</u>	<u>6,363,903</u>	<u>6,129,862</u>	<u>5,732,702</u>	<u>5,853,001</u>
All Other Governmental Funds						
Unreserved, Reported in:						
Special Revenue Funds	64,008	101,729	15,509	201,206	128,398	199,524
Capital Projects Funds	258,729	1,197,712	309,109	494,150	974,305	916,396
Permanent Fund	25,143	25,409	25,939	27,011	28,465	29,652
Total All Other Governmental Funds	<u>\$ 347,880</u>	<u>1,324,850</u>	<u>350,557</u>	<u>722,367</u>	<u>1,131,168</u>	<u>1,145,572</u>

Note: Additional years of information will be provided in future years.

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
Last Six Fiscal Years
(Modified Accrual Basis of Accounting)

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
REVENUES						
Taxes	\$ 7,234,119	6,528,005	7,066,193	7,604,318	7,868,022	8,429,613
Licenses and Permits	54,434	98,223	75,465	93,181	97,991	95,095
Intergovernmental	1,899,574	1,908,501	1,859,661	1,925,234	2,045,305	2,192,700
Charges for Services	1,861,406	1,800,276	1,874,032	2,005,518	2,125,682	2,433,889
Donations	56,287	180,895	23,210	176,801	140,796	141,807
Grant Income	81,427	253,514	253,920	348,354	702,489	134,028
Fines and Forfeitures	286,211	233,385	229,768	314,885	273,425	260,435
Miscellaneous	459,253	402,720	503,053	642,254	552,244	487,078
Interest Earned	133,909	104,744	111,514	241,377	301,217	233,457
TOTAL REVENUES	12,066,620	11,510,263	11,996,816	13,351,922	14,107,171	14,408,102
EXPENDITURES						
General Government	2,550,823	2,362,721	2,444,515	2,559,403	2,859,524	3,086,714
Public Safety	3,417,453	3,460,461	3,667,343	4,045,478	4,294,937	4,493,299
Public Works	1,127,023	1,288,844	1,148,397	1,290,099	1,363,400	1,355,854
Health and Welfare	138,991	144,000	127,125	125,157	132,641	142,785
Building Code Enforcement	207,111	221,218	252,127	245,905	236,743	268,427
Community Development	88,577	91,331	128,737	97,354	128,608	151,174
Education	2,332,000	2,332,000	2,332,000	2,332,000	2,332,000	2,332,000
Culture and Recreation	1,005,781	975,717	1,092,553	1,175,390	1,238,513	1,174,843
Special Appropriations	220,438	224,625	280,657	225,432	197,632	285,114
Capital Outlay	261,925	362,768	2,088,323	690,096	1,128,103	281,060
Debt Service:						
Principal	564,856	2,090,000	589,166	599,167	679,542	717,844
Interest	142,393	137,264	123,041	105,453	127,822	117,289
Paying Agent Fees	874	33,537	3,136	1,487	-	1,383
Lease Payments	2,754	886	-	-	-	-
Other Operating Expenses	154,819	524,455	501,712	411,724	912,888	232,927
TOTAL EXPENDITURES	12,215,818	14,249,827	14,778,832	13,904,145	15,632,353	14,640,713
Excess (Deficiency) of Revenues Over/(Under) Expenditures	\$ (149,198)	(2,739,564)	(2,782,016)	(552,223)	(1,525,182)	(232,611)

(Continued)

CITY OF ELIZABETHTON, TENNESSEE
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 Last Six Fiscal Years
 (Modified Accrual Basis of Accounting)

OTHER FINANCING SOURCES (USES)						
Capital Outlay Note Proceeds	-	1,250,000	-	-	1,250,000	-
Refunding Bond Proceeds	-	1,675,000	-	-	-	-
Sale of Fixed Assets	-	265,000	-	-	-	-
Transfers In	342,041	1,013,397	1,012,413	1,334,342	1,364,173	929,314
Transfers Out	<u>(382,541)</u>	<u>(409,232)</u>	<u>(361,005)</u>	<u>(644,350)</u>	<u>(1,077,350)</u>	<u>(562,000)</u>
TOTAL OTHER FINANCING SOURCES (Uses)	<u>(40,500)</u>	<u>3,794,165</u>	<u>651,408</u>	<u>689,992</u>	<u>1,536,823</u>	<u>367,314</u>
Net Change in Fund Balances	<u>(189,698)</u>	<u>1,054,601</u>	<u>(2,130,608)</u>	<u>137,769</u>	<u>11,641</u>	<u>134,703</u>
Debt Service as a Percentage of Noncapital Expenditures	5.92%	16.04%	5.61%	5.33%	5.57%	5.82%

Note: Additional years of information will be provided in future years.

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE
 COMBINED SCHEDULE OF CHANGES IN TAXES RECEIVABLE (UNAUDITED)
 Based on Tax Year

Tax Year	Taxes Receivable at July 1, 2007	Add Taxes Leined	Deduct Collections	Adjustments, Releases/ Abatements, Late Listings/Discoveries	Taxes Receivable at June 30, 2008
2008	\$ -	3,909,066	-	-	3,909,066
2007	3,886,035	-	(3,687,784)	792	199,043
2006	186,138	-	(129,809)	(7,892)	48,437
2005	36,402	-	(10,329)	(4)	26,069
2004	20,097	-	(2,945)	-	17,152
2003	20,812	-	(1,355)	-	19,457
2002	8,697	-	(766)	-	7,931
2001	5,971	-	(426)	-	5,545
2000	7,643	-	(189)	-	7,454
1999	2,988	-	-	-	2,988
1998	4,059	-	-	-	4,059
1997	16,574	-	-	-	16,574
Total	<u>\$ 4,195,416</u>	<u>3,909,066</u>	<u>(3,833,603)</u>	<u>(7,104)</u>	<u>4,263,775</u>

As of October 1, 2008, all of the above delinquent taxes have been filed by the City Attorney with the Carter County Chancery Court.

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE
 ASSESSED AND ESTIMATED ACTUAL VALUE OF PROPERTY - UNAUDITED
 LAST TEN FISCAL YEARS

Tax Year	Total		Ratio of Assessed To Actual Value	Tax Rate
	Assessed	Estimated Value		
2007	\$ 214,594,913	712,259,053	30%	1.78
2006	213,075,562	706,899,099	30%	1.78
2005	156,216,923	524,143,493	30%	2.30
2004	148,756,011	497,847,706	30%	2.30
2003	145,919,809	488,957,623	30%	2.30
2002	151,796,083	501,874,461	30%	2.30
2001	140,667,256	468,449,088	30%	2.30
2000	123,481,318	421,709,076	29%	2.61
* 1999	122,770,138	410,510,562	30%	2.61
1998	129,598,764	412,821,759	32%	2.61

* Reappraisal Year

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE
COMPUTATION OF LEGAL DEBT MARGIN - UNAUDITED
June 30, 2008

	<u>2008</u>
Total Assessed Property	<u>\$ 214,594,913</u>
Legal Debt Limit - 10% of Assessed Value	21,459,491
General Obligation Debt	<u>(685,000)</u>
Margin for Additional Borrowing	<u>\$ 20,774,491</u>

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE
 RATIO OF NET GENERAL OBLIGATION BONDED DEBT TO ASSESSED VALUE
 AND NET GENERAL OBLIGATION BONDED DEBT PER CAPITA
 LAST TEN YEARS - UNAUDITED

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General Bonded Debt	<u>4,320,000</u>	<u>4,020,000</u>	<u>3,705,000</u>	<u>3,435,000</u>	<u>3,025,000</u>	<u>2,635,000</u>	<u>2,175,000</u>	<u>1,705,000</u>	<u>1,215,000</u>	<u>685,000</u>
Assessed Valuation	<u>129,598,764</u>	<u>122,770,138</u>	<u>123,481,318</u>	<u>140,667,256</u>	<u>151,796,083</u>	<u>145,919,809</u>	<u>148,756,011</u>	<u>156,216,923</u>	<u>213,075,562</u>	<u>214,594,913</u>
Ratio of General Bonded Debt to Assessed Value	<u>3.33%</u>	<u>3.27%</u>	<u>3.00%</u>	<u>2.44%</u>	<u>1.99%</u>	<u>1.81%</u>	<u>1.46%</u>	<u>1.09%</u>	<u>0.57%</u>	<u>0.32%</u>
Bonded Debt per Capita:										
Based on 1990 Census	<u>13,087</u>									
Based on 2000 Census		<u>13,372</u>	<u>13,372</u>							
Based on Special Census June 2002				<u>14,017</u>	<u>14,017</u>	<u>14,017</u>	<u>14,017</u>	<u>14,017</u>	<u>14,017</u>	<u>14,017</u>
Bonded Debt per Capita	<u>330</u>	<u>301</u>	<u>277</u>	<u>245</u>	<u>216</u>	<u>188</u>	<u>155</u>	<u>122</u>	<u>87</u>	<u>49</u>

Note: A Special Census was made on June 14, 2002 in connection with territory annexed which resulted in a population increase of 645.

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE
TAX RATES AND ASSESSMENTS
LAST TEN YEARS - UNAUDITED

<u>Fund</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
General Fund	<u>2.61</u>	<u>2.61</u>	<u>2.61</u>	<u>2.30</u>	<u>2.30</u>	<u>2.30</u>	<u>2.30</u>	<u>2.30</u>	<u>1.78</u>	<u>1.78</u>
<u>Assessed Valuation:</u>										
Real and Personal	*	122,635,437	123,369,815	140,540,336	151,671,448	145,919,809	148,756,011	156,216,923	213,075,562	214,594,913
Public Utility	*	<u>134,701</u>	<u>111,503</u>	<u>126,920</u>	<u>124,635</u>	<u>112,161</u>	<u>119,592</u>	<u>94,182</u>	<u>88,765</u>	<u>87,665</u>
Total Assessed Valuation		<u>129,598,764</u>	<u>122,770,138</u>	<u>123,481,318</u>	<u>140,667,256</u>	<u>151,796,083</u>	<u>146,031,970</u>	<u>148,875,603</u>	<u>156,311,105</u>	<u>213,164,327</u>

* One year of the information was not readily available.

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE
 UTILITY RATES FOR WATER AND SEWER, NUMBER OF CUSTOMERS - UNAUDITED
 For the Fiscal Year Ended June 30, 2008

	<u>Inside Corporate Limits of City</u>	<u>Outside Corporate Limits of City</u>
<u>Water Meter Rates for Residential Commercial, and Industrial</u>		
1,000 gallons or less	Minimum \$ 6.24	Minimum 11.64
Next 9,000 gallons - cost per 1,000 gallons	2.64	5.04
Next 10,000 gallons - cost per 1,000 gallons	2.22	4.58
Next 70,000 gallons - cost per 1,000 gallons	2.06	4.22
Next 100,000 gallons - cost per 1,000 gallons	2.02	3.47
Next 300,000 gallons - cost per 1,000 gallons	1.94	3.25
Next 400,000 gallons - cost per 1,000 gallons	1.72	3.23
<u>Wholesale Rates for Water for Utility Districts</u>		
First 100,000 gallons		Minimum 420.00
Next 100,000 gallons		3.68/m
Next 800,000 gallons		3.10/m
All over 1,000,000 gallons		3.05/m
<u>Sewer Rates for Residential, Industrial and Commercial</u>		
Base Rate	9.47	12.54
Cost per 1,000 gallons up to 9,000 gallons	2.24	4.19
Cost per 1,000 gallons over 9,000 gallons	-	3.05
<u>Number of Customers</u>		
Water (Inside and Outside)	11,436	
Sewer (Inside and Outside)	5,493	

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF UNACCOUNTED FOR WATER - UNAUDITED
For the Fiscal Year Ended June 30, 2008

Water Treated and Purchased

Water Pumped	1,934,733,800	
Water Purchased	<u>1,803,700</u>	
Total Water Treated and Purchased	1,936,537,500	
Accounted For Water		
All Metered Water Outlets and Adjustments	913,261,100	
Total Accounted For Water	<u>913,261,100</u>	
Unaccounted For Water		1,023,276,400
Percent of Unaccounted For Water		52.84%
Cost Per 1,000 gallon		\$1.89
Cost of Unaccounted For Water		\$ 1,930,564

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE
CURRENT UTILITY RATES AND NUMBER OF CUSTOMERS (UNAUDITED)
June 30, 2008

<u>Residential Rate Schedule</u>	<u>RS</u>	
Customer Charge -		
per delivery point per month		
(\$9.50 less \$1.71 hydro allocation credit)	\$7.87	
Energy Charge - per kWh per month	\$0.08092	
 General Power Rate Schedule	 <u>GSA</u>	 <u>GSB</u>
	(Demand 0- 5,000 kW)	(Demand 5,000 to 12,000 kW)
 <i>Part 1.</i>		
Customer Charge		
Per delivery point per month	\$13.46	\$1,500.00
Energy Charge - per kWh per month	\$0.09110	
Per kWh up to 620 hours per month		\$0.04234
Per kWh all additional per month		\$0.03559
Demand Charge - per kW per month		\$13.78
Excess of billing demand over contract demand - per kW per month		\$13.78
 <i>Part 2.</i>		
Customer Charge		
Per delivery point per month	\$33.64	
Demand Charge - per kW per month		
First 50 kW	\$0.00	
Excess over 50kW per month	\$12.43	
Energy charge - per kWh per month		
First 15,000 kWh	\$0.09110	
Additional kWh per month	\$0.05021	
 <i>Part 3.</i>		
Customer Charge		
Per delivery point per month	\$89.63	
Demand Charge - per kW per month		
First 1,000 kW	\$12.23	
Excess over 1,000 kW	\$13.70	
Excess of higher of 2,500 kW or contract demand	\$0.00	
Energy Charge - per kWh per month		
First 15,000 kWh	\$0.08183	
Additional kWh	\$0.05021	
 <u>Outdoor Lighting Rate Schedule</u>	 <u>LS</u>	
Customer Charges		
Per delivery point per month	\$3.75	
Energy Charge - per kWh	\$0.05935	
 Number of Customers		
Residential	22,504	
General	3,300	
Street, Athletic and Outdoor Lighting	159	
Total Customers	<u>25,963</u>	

See Independent Auditors' Report.

INTERNAL CONTROL AND
COMPLIANCE SECTION

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

Honorable Mayor, City Council Members
and Interim City Manager
City of Elizabethton, Tennessee 37643

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Elizabethton, Tennessee as of and for the year ended June 30, 2008 which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 12, 2009. We did not audit the Elizabethton Municipal Airport, a blended component unit. This entity was audited by another auditor whose report has been furnished to us, and our opinion on the City's financial statements, insofar as it relates to the amounts included for this entity, is based solely on the report of the other auditor. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Elizabethton, Tennessee's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Elizabethton, Tennessee's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Elizabethton, Tennessee's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Elizabethton, Tennessee's financial statements that is more than inconsequential will not be prevented or detected by the City of Elizabethton, Tennessee's internal control. We consider items 2008-01, 2007-01, 2007-02 and 2007-03 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Elizabethton, Tennessee's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 2007-07 to be a material weakness.

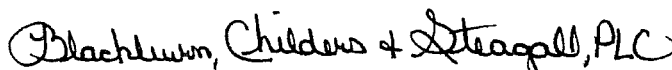
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Elizabethton, Tennessee's financial statements are free of 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*.

We noted certain matters that are reported to management of the City of Elizabethton, Tennessee in a separate letter dated January 12, 2009.

The City of Elizabethton, Tennessee's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City of Elizabethton, Tennessee's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City of Elizabethton, Tennessee management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


BLACKBURN, CHILDERS & STEAGALL, PLC

January 12, 2009

CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2008

Current Year Significant Deficiencies

2008-01: Significant Deficiency: Grant Documentation and Procedures

Condition: It appears that the Planning and Development Office does not always effectively communicate with the Finance Department. The Finance Department is not updated as to the status of the grant programs or the status of requests for reimbursements or advances. In addition, the Planning and Development Office was not able to locate the original documentation for the CDBG pay requests; the Office was able to obtain a copy of the requests submitted to the First Tennessee Development District.

Criteria: The Planning and Development Office, as well as other external offices, should openly communicate the status of grants to the Finance Department. Documentation such as pay requests, reimbursement remittances, contracts and grant budgets should be properly organized, maintained and secured.

Effect: This lack of communication could result in miss-postings of grant activity, failure to record proper grants receivable, failure to timely remit required grant reports or other noncompliance issues.

Recommendation: We strongly recommend the Planning and Development Office provide copies of all grant agreements, contracts, pay requests, remittances and other pertinent grant documentation to the Finance Department. Open and timely communication should be established with the Finance Department to help insure proper accounting for grant activities.

Management's Response: Management is creating procedures to allow better communication between the Planning and Development and Finance Departments on the status and amounts of grant requests. Also the Planning and Development Department is creating procedures on grant paperwork processing and storage.

Prior Year Significant Deficiencies Not Implemented

2007-01: Significant Deficiency: Purchasing and Travel Procedures (6-30-07 Report with additional current year items noted): Electric Department

Condition: Documentation for some credit card purchases was not adequate. A purchase order could not be located for one credit card disbursement tested, documentation for one travel related disbursement was not supported and another travel expense was not supported with a travel authorization form or expense report. .

Criteria: Credit cards are considered a high risk area by the State of Tennessee, Comptroller's office and therefore, proper disbursement procedures should be strictly followed. All credit card purchases should indicate proper approval, authorization and all original support including receipts and invoices should be maintained as support.

Effect: The effect of this deficiency results in the Electric Department not following sound internal control procedures for disbursements.

CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2008

Prior Year Significant Deficiencies Not Implemented (Continued)

Recommendation: We recommend all purchases be supported by original documentation. All purchases should be appropriately authorized and approved.

Management Response: Management has reviewed and made changes in policy to keep this from occurring in the future. We will also communicate and train employees on the importance of following current procedures on travel and purchasing.

2007-02: Significant Deficiency: Account Reconciliations (6-30-07 Report with additional current year items noted): Electric Department and City

Condition: *City:* General ledger accounts were not always properly reconciled or adjusted at year-end. For instance, inter-fund receivables did not reconcile to the respective fund. Some receivables were not properly adjusted. Additional adjustments were necessary to accounts payable for past years' balances that had not been cleared out subsequent to that year-end. Some prior year audit entries were either not posted or were posted to incorrect accounts. *Electric:* In addition to the condition noted above for the city, an accounts payable aging report was not prepared for the electric department. A historical aged trial balance report for customer accounts receivable was not prepared and once this report was obtained, it did not reconcile to the general ledger. Certificate of Deposit balances did not reconcile to the general ledger. The customer deposit ledger did not agree to the general ledger balance. The heat pump receivable did not reconcile to the subsidiary reports.

Criteria: To present an accurate financial status of the funds of the City and Electric Department, each account should be properly adjusted.

Effect: The effect of this deficiency results in an inaccurate financial picture of the City's and Electric Department's finances.

Recommendation: In order to make the financial reports generated by the accounting system as meaningful as possible, the City and Electric Department should examine general ledger accounts for proper postings and reconcile the general ledger accounts to supporting documentation on a monthly basis. A benefit of monthly examinations and reconciliations is that errors do not accumulate but can be identified and attributed to a particular period, which makes it easier to perform future reconciliations, and help to provide assurance of properly reported balances.

CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2008

Prior Year Significant Deficiencies Not Implemented (Continued)

Management Response: Electric Department: Management agrees on the importance of insuring General Ledger accounts are properly reconciled. During the year there was staff changes that contributed the issue mentioned. Due to a lack of written procedures and backup documentation new staff did not perform all the functions that were necessary. Management will implement standard operating procedures to prevent future findings from occurring.

Management Response: City: Management agrees on the importance of insuring General Ledger accounts are properly reconciled. Management will implement standard operating procedures to prevent future findings from occurring.

2007-03: Significant Deficiency: Work Orders: (6-30-07 Report with additional current year items noted) Electric Department

Condition: Proper procedures for work orders were not always followed. Some work orders have remained open for extended periods of time although engineering has indicated the project is no longer active. Subsequent to year-end, there does not appear to be a designated accounting employee responsible for reconciling the work orders to the general ledger construction accounts. Audit adjustments were necessary to adjust the work orders

Criteria: Procedures for work orders should be followed to document all aspects of the work in order to enhance internal controls over the financial reporting process. These should be routinely reviewed for the status of the job and necessary adjustments should be documented and posted to close or transfer completed projects.

Effect: The effect of this deficiency results in a weakness in proper controls over financial reporting.

Recommendation: We recommend, work orders be completed in full detail and work orders be reviewed and properly approved.

Management Response: Management is creating procedures to allow better communication between the engineering and finance department on the status and amounts of work orders. The finance department also is developing standard operating procedures for the timely reconciliation of work orders.

CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2008

Prior Year Material Weakness Not Implemented (Continued)

2007-07 Material Weakness: Adjustments and Reporting: (6-30-07 Report with additional current year items noted) Electric Department

Condition: Some routine, monthly or year-end adjustments were neither supported with proper documentation nor approved. Also, several material audit adjustments were necessary to properly state account balances. These entries include closing of work orders, adjusting rent receivable, interest receivable and for the disposal of fixed assets.

Criteria: To enhance internal controls and to increase proper oversight and independent review, all adjustments and transfers should be appropriately documented and approved. General ledger accounts should be timely reviewed, reconciled to the corresponding subsidiary reports and adjusted. Timely and accurate financial reports should be prepared and submitted to the Electric Department Manager, Director of Finance and City Council.

Effect: The effect of this weakness creates the possibility that misstatements may not be timely noted or corrected.

Recommendation: We recommend a procedure be in place for making routine, monthly and year-end adjustments. The procedures should require that supporting documentation be maintained for all entries and transfers including indication of appropriate review and approval. Accounts should be timely reviewed, reconciled and adjusted. Monthly financial reports should be prepared and reviewed.

Management Response: Management agrees with the finding and has taken steps to prevent this from occurring in the future. Standard operating procedures are being developed to address the proper way journal entries will be processed.

CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2008

Prior Year Findings Implemented

<u>Number</u>	<u>Finding</u>	<u>Page</u>
06-02	Developer Agreements	129
06-03	Contracts	130
07-05	Internal Account	128
07-06	Adjustments	128