



CITY OF ELIZABETHTON, TENNESSEE

AUDITED FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2011



CITY OF ELIZABETHTON, TENNESSEE

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
WITH
INDEPENDENT AUDITORS' REPORT

For the Fiscal Year Ended June 30, 2011

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FINANCIAL
SECTION

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 fiscal year ended June 30, 2011, 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, which represent four percent, eight percent and one 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 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. 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 report 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, 2011, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 19, the City of Elizabethton has adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which became effective for the year ended June 30, 2011.

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

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In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2011, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information on pages 3 through 11 and 97 and 98 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditor have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Elizabethton, Tennessee's financial statements as a whole. The combining and individual nonmajor fund financial statements and schedules, the supplemental section, and supplemental section (unaudited) are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements and schedules and the supplemental section are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied by us and the other auditor in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the report of the other auditor, the information is fairly stated in all material respects in relation to the financial statements as a whole. The supplemental section (unaudited) has not been subjected to the auditing procedures applied by us and the other auditor in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Blackburn, Childers & Steagall, PLC
BLACKBURN, CHILDERS & STEAGALL, PLC

December 7, 2011

CITY OF ELIZABETHTON, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

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, 2011.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by **\$75,292,929** (*net assets*). Of this amount, **\$50,678,597** is invested in capital assets (*net of related debt*).
- The City's total net assets increased by **\$180,010**.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of **\$7,411,596**. Of this amount, **\$212,398** is Non-Spendable, **\$657,656** is Restricted, **\$2,027,154** is Committed, **\$381,586** is Assigned and **\$4,132,802** is Unassigned Fund Balance.
- At the end of the current fiscal year, fund balance for the general fund was **\$6,661,819** or **40%** of total general fund expenditures including transfers out. This balance included **\$187,398 Non-Spendable, \$330,378 Restricted, \$1,629,890 Committed, \$381,351 Assigned and \$4,132,802 Unassigned Fund Balance**.
- The City's total debt decreased by **\$2,995,349 (5%)** 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 department and airport. The government-wide financial statements can be found on pages 12 through 13 of this report.

CITY OF ELIZABETHTON, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

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 fifteen (15) individual governmental funds. Fourteen (14) 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, aggregate 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 14 through 25 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 department.

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 26 through 30 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 33 through 96 of this report.

Other Information. The combining statements referred to earlier in connection with non-major governmental funds are presented following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 99 through 114 of this report.

CITY OF ELIZABETHTON, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

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 **\$75,292,929** at the close of the most recent fiscal year.

By far, the largest portion of the City's net assets (**67%**) 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	
	2011	2010	2011	2010	2011	2010
Assets:						
Current Assets	\$ 12,798,321	14,937,262	31,020,376	32,179,259	43,818,697	47,116,521
Other Assets	115,896	120,252	2,695,236	2,640,794	2,811,132	2,761,046
Plant and Equipment (Net)	13,555,814	13,932,164	98,718,803	91,294,298	112,274,617	105,226,462
Total Assets	26,470,031	28,989,678	132,434,415	126,114,351	158,904,446	155,104,029
Liabilities:						
Current Liabilities	5,476,532	4,917,799	15,550,160	9,361,367	21,026,692	14,279,166
Other Liabilities	9,239,564	10,043,071	53,345,261	56,196,998	62,584,825	66,240,069
Total Liabilities	14,716,096	14,960,870	68,895,421	65,558,365	83,611,517	80,519,235
Net Assets:						
Invested in Capital Assets, Net of Related Debt	4,890,080	4,456,326	45,788,517	34,684,660	50,678,597	39,140,986
Unrestricted	6,863,855	9,572,482	17,750,477	25,871,326	24,614,332	35,443,808
Total Net Assets	\$ 11,753,935	14,028,808	63,538,994	60,555,986	75,292,929	74,584,794

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

The government's net assets **increased** \$180,010 during the current fiscal year. Of the total change, governmental activities decreased **\$2,274,873** while business - type activities increased **\$2,454,883**. The decrease in governmental activities net assets is primarily due to bond proceeds for school capital improvements. Bond proceeds were a current asset whereas school system assets are not reflected on the city's balance sheet.

CITY OF ELIZABETHTON, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

The following is a summary of financial activities for the City during the 2011 fiscal year:

City of Elizabethton CHANGE IN NET ASSETS As of June 30, 2011						
	Governmental Activities		Business-Type Activities		Total	
<u>Revenues</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Program Revenues:						
Charges for Services	\$ 2,051,561	1,977,331	65,321,181	56,637,930	67,372,742	58,615,261
Operating Grants	47,830	60,871	-	-	47,830	60,871
Capital Grants	34,858	66,147	1,019,347	613,273	1,054,205	679,420
Total Program Revenues	2,134,249	2,104,349	66,340,528	57,251,203	68,474,777	59,355,552
General Revenues:						
Property Taxes	4,008,863	3,982,150	-	-	4,008,863	3,982,150
Other Taxes	4,944,972	4,766,034	-	-	4,944,972	4,766,034
Miscellaneous	2,700,691	2,770,511	50,415	115,361	2,751,106	2,885,872
Total General Revenues	11,654,526	11,518,695	50,415	115,361	11,704,941	11,634,056
Total Revenues	13,788,775	13,623,044	66,390,943	57,366,564	80,179,718	70,989,608
<u>Expenses - Governmental Activities</u>						
General Government	2,315,622	2,320,021	-	-	2,315,622	2,320,021
Public Safety	5,121,019	4,921,251	-	-	5,121,019	4,921,251
Public Works	2,096,641	1,892,643	-	-	2,096,641	1,892,643
Health and Welfare	164,820	147,272	-	-	164,820	147,272
Building Code Enforcement	300,851	297,039	-	-	300,851	297,039
Community Development	189,330	190,682	-	-	189,330	190,682
Culture and Recreation	1,231,555	1,237,217	-	-	1,231,555	1,237,217
Education	4,491,562	7,006,578	-	-	4,491,562	7,006,578
Other	319,608	396,513	-	-	319,608	396,513
Interest on Long-Term Debt	303,926	336,470	-	-	303,926	336,470
Total Governmental Activities	16,534,934	18,745,686	-	-	16,534,934	18,745,686
<u>Business-Type Activities:</u>						
Water and Sewer	-	-	7,287,257	6,775,618	7,287,257	6,775,618
Electric Department	-	-	55,127,228	48,649,864	55,127,228	48,649,864
Airport	-	-	1,050,289	963,492	1,050,289	963,492
Total Business-Type Activities	-	-	63,464,774	56,388,974	63,464,774	56,388,974
Total Expenses	16,534,934	18,745,686	63,464,774	56,388,974	79,999,708	75,134,660
Transfers	471,286	546,496	(471,286)	(546,496)	-	-
Change in Net Assets	(2,274,873)	(4,576,146)	2,454,883	431,094	180,010	(4,145,052)
Net Assets, Beginning	14,028,808	18,604,954	61,084,111	60,124,892	75,112,919	78,729,846
Prior period adjustments	-	-	-	-	-	-
Net Assets, Ending	\$ 11,753,935	14,028,808	63,538,994	60,555,986	75,292,929	74,584,794

Governmental Activities. Governmental activities decreased the City's net assets by **\$2,274,873**. Notes on this can be found in Note 2 on pages 48 through 49 of this report.

Business-type activities. Business-type activities increased the City's net assets by **\$2,454,883**.

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.

CITY OF ELIZABETHTON, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

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, unassigned 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 **\$7,411,596**. Of this amount, **\$212,398** is Non-Spendable, **\$657,656** is Restricted, **\$2,027,154** is Committed, **\$381,586** is Assigned, and **\$4,132,802** is Unassigned.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, total fund balance reached **\$6,661,819**, including **\$187,398** Non-Spendable, **\$330,378** Restricted, **\$1,629,890** Committed, **\$381,351** Assigned and **\$4,132,802** Unassigned. 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. Unassigned fund balance represents **25%** of total general fund expenditures and transfers out, while total fund balance represents **40%** of that same amount.

Non-major (other) governmental funds have a fund balance of **\$749,777**. The net **decrease** in fund balance during the current year was **\$447,913**. This net **decrease** is primarily attributed to **Police Equipment Fund (\$88,666)**, **Solid Waste & Sanitation (\$65,446)** and **Capital Projects Funds (\$283,286)**.

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 **\$17,750,447**. 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 **\$2,587,000 increase** in appropriations and include the following:

\$2,090,000	Funding to cover school bond issue 2008/2009
150,000	Funding to cover increases in fuel costs
25,000	Funding to cover legal services & fees
35,000	Funding to cover increases in electricity

Of this **increase**, most of the cost was funded from the school bond issue of 2008/2009. The balance was funded by local and state shared revenues.

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, 2011.

CITY OF ELIZABETHTON, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

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

General Government	2011		General Fund Subsidy
	Expenses	Revenues	
General Government	\$ 2,315,622	988,337	1,327,285
Public Safety	5,121,019	329,206	4,791,813
Public Works	2,096,641	548,678	1,547,963
Health & Welfare	164,820	12,528	152,292
Culture & Recreation	1,231,555	172,812	1,058,743
Total General Fund Subsidy			8,878,096

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, 2011, amounts to **\$112,274,617** (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:

- Fire Station Roof Replacement.
- Fire Station HVAC.
- Construction Joe O'Brien Bathrooms/Concession.
- Covered Bridge Video Cameras (Security).
- Senior Citizen's Building Roof Repair.
- Construction of Water/Sewer Lines.
- Construction of Electric Infrastructure.

**City of Elizabethton
Total Net Capital Assets
as of June 30, 2011**

	Governmental		Business - Type		Total	
	2011	2010	2011	2010	2011	2010
Net Capital Assets						
Land	\$ 2,212,594	2,212,594	3,568,389	2,289,169	5,780,983	4,501,763
Water Right	-	-	5,000,000	5,000,000	5,000,000	5,000,000
Library Infrastructure	699,117	587,901	-	-	699,117	587,901
Construction in Progress	356,486	345,066	24,112,097	21,837,029	24,468,583	22,182,095
Buildings and Improvements	4,013,873	4,131,114	18,004,065	16,916,934	22,017,938	21,048,048
Motor Equipment	1,561,340	1,863,619	2,921,681	3,365,967	4,483,021	5,229,586
Office Equipment	439,776	293,843	324,878	258,049	764,654	551,892
Infrastructure	4,272,628	4,498,027	44,787,693	41,627,150	49,060,321	46,125,177
Total Net Capital Assets	\$ 13,555,814	13,932,164	98,718,803	91,294,298	112,274,617	105,226,462

CITY OF ELIZABETHTON, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

Additional information on the City's capital assets can be found in Note 6 on pages 56 through 59 of this report.

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of **\$62,584,825**. This total includes all of the debt that is backed by the full faith and credit of the government.

City of Elizabethton
Debt Outstanding
As of June 30, 2011

	Governmental Funds		Business - Type		Total	
	2011	2010	2011	2010	2011	2010
<u>Outstanding Debt</u>						
General Obligation	\$ 6,355,000	6,805,000	-	-	6,355,000	6,805,000
Notes Payable	2,432,637	2,752,208	2,147,987	2,225,621	4,580,624	4,977,829
Payable to Water Authority	-	-	-	3,111,111	-	3,111,111
Revenue Bonds	-	-	50,705,692	49,742,725	50,705,692	49,742,725
Total Outstanding Debt	\$ 8,787,637	9,557,208	52,853,679	55,079,457	61,641,316	64,636,665

The City's total debt **decreased \$2,995,349 (5%)** during the current fiscal year. The decrease was due to the elimination of liability for the purchase of a Water Right from the Watauga River Regional Water Authority and for infrastructure. The City maintains an '**A1**' 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 9 on pages 64 through 77 of this report.

Economic Factors and Next Year's Budget and Rates

- The unemployment rate for the metropolitan statistical area is currently **9.4%**, which is a **increase** of **.3%** from a year ago. This compares to the state's average unemployment rate of **9.8%** as of July 31, 2011.
- Inflationary trends in the region are comparable to national indexes.
- New construction permitted and inspected over the previous year was **\$5 million**, of which **\$3.8 million** is commercial, including **134 permits issued**.
- Local sales tax collections are expected to increase approximately **1.5%** in fiscal year 2012 due to the upturn of the economy.

All of these factors were considered in preparing the City's budget for fiscal year 2011-12.

During the current fiscal year, unassigned fund balance in the general fund **increased \$2,596,455**. The significant increase in June 30, 2011 unassigned fund balance can be attributed to forced reclassifications under GASB 54 rules.

Prior year reserves in the amounts of \$2,270,278 classified to retirement had no formal documented commitment from City Council. In as much as our current credit rating was based on the fact that we had dedicated debt service funds it is prudent for the City to formally commit these funds under GASB 54. Properly funding OPEB will help strengthen the City's credit rating and still be in line with "intentions" of prior administrations.

Subsequent to June 30, both amounts were submitted to Council for formal action to commit to reserves the two amounts listed above. As of this time, both reserve amounts have been committed on first reading.

CITY OF ELIZABETHTON, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

In addition, \$104,983 of the reserves in the police equipment fund 134, which have been derived from fines collected over time, has been reclassified to the general fund. Under the requirements for a special revenue fund the flow of funds has to be committed by formal council action, contract or council's budgetary allocation. To place the fine revenue in the police equipment fund specific allocation of the revenue stream must be done by ordinance. Currently, we are evaluating the fine revenue to provide the council guidance in their decision.

In aggregate the unassigned fund balance would have reflected a reduction of \$344,864 had the above reallocations not been required.

As the result of a water and sewer cost rate study by the city finance director, water and sewer rates were recommended to be increased by 10% in fiscal year 2009 and a 3% increase for each year until fiscal year 2014 to fund inflationary costs associated with operations and planned capital improvements. Sewer rate adjustments were implemented by council with a rate increase of 10% for fiscal year 2011 and a 5% increase each year until fiscal year 2016. Residential garbage collection rates, as well as commercial and industrial collection rates, remained steady. The City added a residential collection fee of \$10.00.

CITY OF ELIZABETHTON, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

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, 2011

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Elizabethton Board of Education	Elizabethton Municipal Golf Course
ASSETS					
Cash and Cash on Hand	\$ 895,481	5,255,149	6,150,630	951,672	32,366
Certificates of Deposit - Long-Term	484,645	1,351,466	1,836,111	-	-
Investments	221,735	14,550,429	14,772,164	-	-
Receivables (Net of Allowances for Uncollectibles)					
Taxes	5,009,160	-	5,009,160	-	-
Accounts	52,042	5,368,098	5,420,140	10,917	-
Notes	151,589	-	151,589	-	-
Internal Balances	61,534	(61,534)	-	-	-
Due from Other Governments	1,187,899	268,962	1,456,861	3,757,395	-
Inventories	32,996	1,553,991	1,586,987	30,942	15,026
Prepaid Expense	2,813	-	2,813	-	291
Restricted Assets					
Investments	4,698,427	-	4,698,427	-	-
Cash	-	2,733,815	2,733,815	-	-
Bond Issue Cost (Net of Accumulated Amortization)	115,896	-	115,896	-	-
Other Assets	-	2,695,236	2,695,236	-	-
Capital Assets					
Land	2,212,594	3,568,389	5,780,983	216,170	-
Water Right	-	5,000,000	5,000,000	-	-
Construction In Progress	356,486	24,112,097	24,468,583	4,550,719	-
Library Infrastructure	699,117	-	699,117	-	-
Buildings and Improvements	7,116,328	30,192,990	37,309,318	17,997,410	72,334
Motor Equipment	4,964,548	8,177,321	13,141,869	1,309,529	633,848
Office Equipment	2,164,367	967,224	3,131,591	-	13,442
Infrastructure	10,837,022	75,393,951	86,230,973	-	1,424,926
Less: Accumulated Depreciation	(14,794,648)	(48,693,169)	(63,487,817)	(9,369,648)	(1,513,949)
Total Assets	<u>26,470,031</u>	<u>132,434,415</u>	<u>158,904,446</u>	<u>19,455,106</u>	<u>678,284</u>
LIABILITIES					
Cash Overdraft	-	-	-	144,297	-
Accounts Payable	254,580	7,596,173	7,850,753	516,222	39,642
Wages Payable	-	-	-	23,835	-
Customer Deposits	-	2,733,940	2,733,940	-	-
Advance from TVA	-	1,569,857	1,569,857	-	-
Accrued Expenses	84,354	1,415,039	1,499,393	-	2,909
Due to Other Governments	92,249	-	92,249	-	-
Other Liabilities	-	1,717,841	1,717,841	20,000	-
Unearned Revenues	4,459,833	53,886	4,513,719	2,372,185	115,188
OPEB Liability	585,516	463,424	1,048,940	1,819,077	-
Long-Term Liabilities					
Due within one year	1,073,861	2,087,633	3,161,494	9,078	80,750
Due within more than one year	8,165,703	51,257,628	59,423,331	24,195	162,486
Total Liabilities	<u>14,716,096</u>	<u>68,895,421</u>	<u>83,611,517</u>	<u>4,928,889</u>	<u>400,975</u>
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	4,890,080	45,788,517	50,678,597	14,704,180	387,365
Unrestricted	<u>6,863,855</u>	<u>17,750,477</u>	<u>24,614,332</u>	<u>(177,963)</u>	<u>(110,056)</u>
TOTAL NET ASSETS	<u>\$ 11,753,935</u>	<u>63,538,994</u>	<u>75,292,929</u>	<u>14,526,217</u>	<u>277,309</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, 2011

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 Board of Education	Elizabethton Municipal Golf Course
Primary Government									
Governmental Activities									
General Government	\$ 2,315,622	988,337	-	-	(1,327,285)	-	(1,327,285)	-	-
Public Safety	5,121,019	329,206	15,000	-	(4,776,813)	-	(4,776,813)	-	-
Public Works	2,096,641	548,678	-	-	(1,547,963)	-	(1,547,963)	-	-
Health and Welfare	164,820	12,528	-	-	(152,292)	-	(152,292)	-	-
Building Code Enforcement	300,851	-	-	-	(300,851)	-	(300,851)	-	-
Community Development	189,330	-	-	-	(189,330)	-	(189,330)	-	-
Culture and Recreation	1,231,555	172,812	32,830	34,858	(991,055)	-	(991,055)	-	-
Education	4,491,562	-	-	-	(4,491,562)	-	(4,491,562)	-	-
Other	319,608	-	-	-	(319,608)	-	(319,608)	-	-
Interest on Long-Term Debt	303,926	-	-	-	(303,926)	-	(303,926)	-	-
Total Governmental Activities	16,534,934	2,051,561	47,830	34,858	(14,400,685)	0	(14,400,685)	0	0
Business-Type Activities									
Water and Sewer Fund	7,287,257	6,986,586	-	420,497	-	119,826	119,826	-	-
Electric Department	55,127,228	57,456,596	-	-	-	2,329,368	2,329,368	-	-
Municipal Airport	1,050,289	877,999	-	598,850	-	426,560	426,560	-	-
Total Business-Type Activities	63,464,774	65,321,181	0	1,019,347	0	2,875,754	2,875,754	0	0
Total Primary Government	\$ 79,999,708	67,372,742	47,830	1,054,205	(14,400,685)	2,875,754	(11,524,931)	0	0
Component Units									
Education - School Board	\$ 20,976,705	653,022	6,873,435	2,165,917	-	-	-	(11,284,331)	-
Golf Course	601,200	543,587	-	-	-	-	-	-	(57,613)
Total Component Units	\$ 21,577,905	1,196,609	6,873,435	2,165,917	0	0	0	(11,284,331)	(57,613)
General Revenues									
Taxes									
Property Taxes					\$ 4,008,863	-	4,008,863	1,970,970	-
Sales Taxes					4,137,126	-	4,137,126	1,720,336	-
In-Lieu of Taxes					29,333	-	29,333	-	-
Business Taxes					298,423	-	298,423	-	-
Other Taxes					480,090	-	480,090	47,136	-
Other Local Governments					322,381	-	322,381	2,869	-
State Aid					1,943,661	-	1,943,661	8,974,371	-
Federal Aid					-	-	-	-	-
Unrestricted Investment Earnings					25,810	50,415	76,225	16,970	(4,314)
Miscellaneous					408,839	-	408,839	19,536	-
Transfers					471,286	(471,286)	-	-	-
Total General Revenues and Transfers					12,125,812	(420,871)	11,704,941	12,752,188	(4,314)
Change in Net Assets					(2,274,873)	2,454,883	180,010	1,467,857	(61,927)
Net Assets - Beginning (Restated)					14,028,808	61,084,111	75,112,919	13,058,360	339,236
Net Assets - Ending					\$ 11,753,935	63,538,994	75,292,929	14,526,217	277,309

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

CITY OF ELIZABETHTON, TENNESSEE
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2011

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and Cash on Hand	\$ 419,791	475,690	895,481
Certificates of Deposit - Long-Term	484,645	-	484,645
Investments	142,086	79,649	221,735
Receivables (Net of Allowances for Uncollectibles)			
Taxes	5,009,160	-	5,009,160
Accounts	23,373	28,669	52,042
Notes	151,589	-	151,589
Due From Other Funds	190,404	6,652	197,056
Due From Other Governments	1,187,044	855	1,187,899
Inventories	32,996	-	32,996
Prepaid Expense	2,813	-	2,813
Restricted Assets Investments	4,493,880	204,547	4,698,427
TOTAL ASSETS	<u>\$ 12,137,781</u>	<u>796,062</u>	<u>12,933,843</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts Payable	\$ 226,819	27,761	254,580
Due to Other Governments	92,249	-	92,249
Deferred Revenues	5,039,896	-	5,039,896
Due to Other Funds	116,998	18,524	135,522
TOTAL LIABILITIES	<u>5,475,962</u>	<u>46,285</u>	<u>5,522,247</u>
FUND BALANCES			
Total Non-Spendable	187,398	25,000	212,398
Total Restricted	330,378	327,278	657,656
Total Committed	1,629,890	397,264	2,027,154
Total Assigned	381,351	235	381,586
Total Unassigned	4,132,802	-	4,132,802
TOTAL FUND BALANCES	<u>6,661,819</u>	<u>749,777</u>	<u>7,411,596</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 12,137,781</u>	<u>796,062</u>	<u>12,933,843</u>

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, 2011

Total Fund Balances - Governmental Funds	\$ 7,411,596
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 \$28,350,462 and the accumulated depreciation is \$(14,794,648)	13,555,814
Revenue, for amounts not received during the period of availability, is not considered "available" and has been deferred in the funds.	580,063
Accrued interest is not due and payable in the current period, and therefore, is not reported as a liability in the funds.	(84,354)
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.	115,896
OPEB benefits represent liabilities of the City that are not recorded at the fund level.	(585,516)
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, capital leases and compensated absences.	<u>(9,239,564)</u>
Total Net Assets - Governmental Activities	<u><u>\$11,753,935</u></u>

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, 2011

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes	\$ 8,868,012	-	8,868,012
Licenses and Permits	84,244	-	84,244
Intergovernmental	2,281,042	-	2,281,042
Charges for Services	1,889,433	548,678	2,438,111
Donations	-	32,830	32,830
Grant Income	-	34,858	34,858
Fines and Forfeitures	236,215	92,991	329,206
Miscellaneous	435,415	5,673	441,088
Interest Earnings	24,608	1,202	25,810
TOTAL REVENUES	13,818,969	716,232	14,535,201
EXPENDITURES			
General Government	2,120,084	873,384	2,993,468
Public Safety	4,750,918	84,874	4,835,792
Public Works	1,730,028	-	1,730,028
Health and Welfare	163,984	-	163,984
Building Code Enforcement	300,851	-	300,851
Community Development	189,330	-	189,330
Culture and Recreation	1,211,861	-	1,211,861
Education	4,491,562	-	4,491,562
Special Appropriations	198,330	-	198,330
Debt Service	1,116,683	-	1,116,683
Other Operating Expenses	-	121,278	121,278
Capital Outlay	35,455	229,626	265,081
TOTAL EXPENDITURES	16,309,086	1,309,162	17,618,248
OTHER FINANCING SOURCES (USES)			
Transfers In	721,269	250,000	971,269
Transfers Out	(395,000)	(104,983)	(499,983)
TOTAL OTHER FINANCING SOURCES (USES)	326,269	145,017	471,286
Net Change in Fund Balances	(2,163,848)	(447,913)	(2,611,761)
Fund Balances - Beginning	8,825,667	1,197,690	10,023,357
Fund Balances - Ending	<u>\$ 6,661,819</u>	<u>749,777</u>	<u>7,411,596</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, 2011

Total Net Change in Fund Balances - Governmental Funds \$ (2,611,761)

Amounts reported for governmental activities in the Statement of Activities 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 \$720,398 exceeds capital outlay expense of \$376,297. (344,101)

The net effect of various transactions involving capital assets (i.e., sales, trade-ins) is an decrease to net assets. (32,249)

Because some property taxes and grants will not be collected for several months after the City's fiscal year end, they are not considered "available" revenues and are deferred in the governmental funds. Deferred tax revenues increased by this amount for the current year. 85,823

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 increased by this amount for the current year. (10,923)

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. 814,430

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. 2,683

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds: OPEB Liability (174,419)

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. (4,356)

Change in Net Assets of Governmental Activities \$ (2,274,873)

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, 2011

	Budgeted Amounts		Actual Amounts Budgetary and GAAP Basis	Variance with Final Budget- Favorable (Unfavorable)
	Original	Final		
REVENUES				
Taxes				
General Property Taxes				
Current Property Taxes	\$ 3,838,504	3,838,504	3,473,351	(365,153)
Delinquent Property Taxes	180,000	380,000	378,611	(1,389)
Interest, Penalty and Attorney Fees	64,549	76,549	71,078	(5,471)
Total General Property Taxes	4,083,053	4,295,053	3,923,040	(372,013)
General Sales Tax				
Local Option Sales Tax	3,700,328	3,700,328	3,384,921	(315,407)
Selective Use and Sales Tax				
Local Beer Tax 17%	480,000	480,000	480,090	90
In-Lieu of Taxes				
Elizabethton Housing Authority	18,631	18,631	15,456	(3,175)
AY McDonald	6,000	6,000	-	(6,000)
Brookhaven Homes for Elderly	3,300	4,300	3,877	(423)
Star Industry	20,000	20,000	10,000	(10,000)
Sycamore Shoals State Park	634	634	-	(634)
Total In-Lieu of Taxes	48,565	49,565	29,333	(20,232)
Gross Receipts Taxes	275,000	302,000	298,423	(3,577)
Local Option	673,650	673,650	752,205	78,555
Total Taxes	9,260,596	9,500,596	8,868,012	(632,584)

(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, 2011

	Budgeted Amounts		Actual Amounts Budgetary and GAAP Basis	Variance with Final Budget- Favorable (Unfavorable)
	Original	Final		
REVENUES (CONTINUED)				
Licenses and Permits				
Licenses				
Business License	7,500	7,500	1,785	(5,715)
Interest and Penalty	3,050	3,050	669	(2,381)
Beer License	4,125	4,125	4,430	305
Recording Fee	3,100	3,100	610	(2,490)
Electric, Gas and Plumbing	1,300	1,300	330	(970)
Mixed Drinks Sales Permit	800	800	-	(800)
Flea Market Table Rentals	200	200	-	(200)
Transit Vendors	200	200	-	(200)
Fireworks	1,200	1,200	2,400	1,200
	<u>21,475</u>	<u>21,475</u>	<u>10,224</u>	<u>(11,251)</u>
Total Licenses				
Special Permits				
Electrical	7,500	7,500	18,500	11,000
Building	44,000	44,000	40,378	(3,622)
Plumbing	2,670	2,670	8,140	5,470
Gas	750	750	1,432	682
Demolition	500	500	700	200
Curb Cuts	90	90	240	150
Street Cuts	300	300	-	(300)
Miscellaneous Permits	50	50	4,290	4,240
Pool	-	-	140	140
Moving	-	-	200	200
Erosion and Sediment	5,000	5,000	-	(5,000)
	<u>60,860</u>	<u>60,860</u>	<u>74,020</u>	<u>13,160</u>
Total Special Permits				
Total Licenses and Permits	<u>82,335</u>	<u>82,335</u>	<u>84,244</u>	<u>1,909</u>
Intergovernmental Revenue				
Federal through State				
Unclaimed Property	-	-	1,232	1,232
HIDTA	-	-	15,000	15,000
Federal Grants	22,450	22,450	-	(22,450)
	<u>22,450</u>	<u>22,450</u>	<u>16,232</u>	<u>(6,218)</u>
Total Federal through State				

(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, 2011

	Budgeted Amounts		Actual Amounts Budgetary and GAAP Basis	Variance with Final Budget- Favorable (Unfavorable)
	Original	Final		
REVENUES (CONTINUED)				
Intergovernmental Revenue (Continued)				
State Awards				
TN Dept. of Tran.-Highway Maint.	64,272	64,272	62,185	(2,087)
Library Grant	4,200	4,200	26,066	21,866
Total State Awards	68,472	68,472	88,251	19,779
State Shared Revenues				
City Streets	33,000	33,000	30,086	(2,914)
Public Safety Supplemental Pay	33,000	40,000	42,000	2,000
Mixed Drink Tax	40,000	40,000	25,160	(14,840)
Income Tax	175,000	175,000	176,299	1,299
Sales Tax	1,018,500	1,018,500	930,417	(88,083)
State Street Aid	439,400	439,400	385,197	(54,203)
Beer Tax	12,000	12,000	7,313	(4,687)
TVA Replacement Tax	110,000	110,000	159,921	49,921
Excise Tax	150,000	150,000	97,891	(52,109)
Telecommunications Tax	2,410	2,410	1,126	(1,284)
Total State Shared Revenues	2,013,310	2,020,310	1,855,410	(164,900)
Local Government Revenue				
Carter County-Animal Shelter	42,000	42,000	19,450	(22,550)
Carter County-Library	31,588	31,588	39,484	7,896
Carter County-Park and Recreation	45,502	45,502	11,281	(34,221)
Carter County Match/Animal Shelter	-	250,000	250,000	-
First Judicial Drug Task Force	-	-	934	934
Total Local Government Revenue	119,090	369,090	321,149	(47,941)
Total Intergovernmental Revenue	2,223,322	2,480,322	2,281,042	(199,280)

(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, 2011

	Budgeted Amounts		Actual Amounts Budgetary and GAAP Basis	Variance with Final Budget- Favorable (Unfavorable)
	Original	Final		
REVENUES (CONTINUED)				
Charges for Services				
Various General Government Charges				
Garage Services	526,510	526,510	431,180	(95,330)
Utility Services	275,000	275,000	395,474	120,474
Elizabethton Water and Sewer Division	800,000	800,000	800,000	-
Special Police Services	31,250	31,250	77,439	46,189
East TN Railroad Authority	400	400	-	(400)
Total Various General Government Charges	1,633,160	1,633,160	1,704,093	70,933
Health				
Dog Tags	1,950	1,950	1,597	(353)
Animal Control and Shelter Fees	13,000	13,000	10,931	(2,069)
Total Health	14,950	14,950	12,528	(2,422)
Culture and Recreation				
Swimming Pool-Season Tickets	3,346	3,346	240	(3,106)
Swimming Pool-Daily Tickets	28,347	28,347	22,166	(6,181)
Swimming Pool-Concessions	6,857	6,857	8,159	1,302
Swimming Lessons	3,013	3,013	-	(3,013)
Baseball-Season Tickets	5,536	5,536	4,552	(984)
Baseball-Daily Tickets	14,000	14,000	13,592	(408)
Baseball-Souvenir Sales	13,000	13,000	11,813	(1,187)
Baseball-Baseball Cards	5,000	5,000	332	(4,668)
Baseball-Advertising	20,000	20,000	20,310	310
Parks-Concession Sales	45,000	45,000	29,200	(15,800)
Other Miscellaneous - Park and Recreation	14,241	14,241	25,261	11,020
Vendor Fees	12,002	12,002	607	(11,395)
League Entrance Fees	21,495	21,495	26,035	4,540
Pavilion Rental	1,020	1,020	-	(1,020)
Rental	533	533	10,545	10,012
Total Culture and Recreation	193,390	193,390	172,812	(20,578)
Total Charges for Services	1,841,500	1,841,500	1,889,433	47,933

(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, 2011

	Budgeted Amounts		Actual Amounts Budgetary and GAAP Basis	Variance with Final Budget- Favorable (Unfavorable)
	Original	Final		
REVENUES (CONTINUED)				
Fines and Forfeitures				
Non-Moving Traffic Violations	20,410	20,410	-	(20,410)
Moving Traffic Fines	155,030	155,030	98,242	(56,788)
Fines - Defense Driving School	59,500	59,500	34,950	(24,550)
Fines - Impounded Vehicle Fees	300	300	100	(200)
Court Fines	70,000	70,000	84,363	14,363
Illegal Beer Sales	2,000	2,000	250	(1,750)
Sex Offender	5,000	5,000	1,050	(3,950)
Financial Responsibility	20,000	20,000	-	(20,000)
Library Fines	15,000	15,000	17,260	2,260
Total Fines and Forfeitures	347,240	347,240	236,215	(111,025)
Interest Earnings				
Investments	77,300	77,300	24,608	(52,692)
Total Interest Earnings	77,300	77,300	24,608	(52,692)
Miscellaneous Revenue				
Rents and Royalties				
TV Cable Franchise	150,000	150,000	111,169	(38,831)
Natural Gas Franchise	300,000	300,000	149,485	(150,515)
City Property	-	-	10	10
Tennessee Vocational Training Center	78,960	78,960	78,960	-
Total Rents and Royalties	528,960	528,960	339,624	(189,336)
Other				
Miscellaneous	75,703	19,200	62,645	43,445
Donations	14,500	14,500	33,146	18,646
Total Other	90,203	33,700	95,791	62,091
Total Miscellaneous Revenue	619,163	562,660	435,415	(127,245)
TOTAL REVENUES	14,451,456	14,891,953	13,818,969	(1,072,984)

(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, 2011

	Budgeted Amounts		Actual Amounts Budgetary and GAAP Basis	Variance with Final Budget- Favorable (Unfavorable)
	Original	Final		
EXPENDITURES				
General Government				
City Council	54,841	54,841	48,581	6,260
City Judge	16,871	23,670	23,019	651
City Manager	137,007	138,207	137,306	901
Financial	925,497	825,578	484,438	341,140
Fleet Maintenance	636,561	786,180	615,816	170,364
Management Information Systems	66,443	66,443	55,540	10,903
Payroll	-	48,538	-	48,538
Purchasing	192,441	192,441	125,676	66,765
City Attorney	64,231	89,231	86,852	2,379
Personnel	222,983	222,983	187,081	35,902
Electric Department Services	275,000	357,000	355,775	1,225
Capital Outlay	-	-	3,386	(3,386)
Total General Government	2,591,875	2,805,112	2,123,470	681,642
Public Safety				
Police Patrol	2,768,839	2,890,839	2,863,019	27,820
Fire Prevention	1,939,818	1,939,818	1,887,899	51,919
Capital Outlay	35,090	35,090	20,065	15,025
Total Public Safety	4,743,747	4,865,747	4,770,983	94,764
Public Works				
Street Maintenance	887,854	887,854	867,402	20,452
Parks and Special Events	4,500	4,500	3,535	965
Stormwater	32,460	32,460	17,542	14,918
Engineering	333,943	333,943	309,158	24,785
Capital Outlay	-	-	12,004	(12,004)
Total Public Works	1,258,757	1,258,757	1,209,641	49,116
State Street Aid				
Crushed Stone and Gravel	6,000	6,000	3,356	2,644
Concrete Products	15,000	15,000	14,721	279
Salt/Sodium Chloride	60,000	60,000	98,498	(38,498)
Asphalt-Hot Mix	20,000	20,000	8,690	11,310
Infrastructure/Other	58,000	58,000	-	58,000
Electricity	364,500	399,500	407,126	(7,626)
Total State Street Aid	523,500	558,500	532,391	26,109

(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, 2011

	Budgeted Amounts		Actual Amounts Budgetary and GAAP Basis	Variance with Final Budget- Favorable (Unfavorable)
	Original	Final		
EXPENDITURES (CONTINUED)				
Health and Welfare				
Animal Shelter Operations	65,154	95,154	93,958	1,196
Contributions to Non-Profit Organizations	70,026	70,026	70,026	-
Total Health and Welfare	135,180	165,180	163,984	1,196
Building Code Enforcement				
Enforcement	305,161	307,161	300,851	6,310
Total Building Code Enforcement	305,161	307,161	300,851	6,310
Community Development				
Administration	224,060	224,060	189,330	34,730
Total Community Development	224,060	224,060	189,330	34,730
Culture and Recreation				
Administration	75,586	75,586	73,165	2,421
Swimming Pools	64,809	66,809	65,123	1,686
Athletic Fields and Parks	399,765	419,268	411,905	7,363
Recreation Center	72,515	68,015	106,864	(38,849)
Leagues	154,351	175,699	130,283	45,416
Public Library	449,417	449,417	424,521	24,896
Total Culture and Recreation	1,216,443	1,254,794	1,211,861	42,933
Education	2,332,000	4,492,551	4,491,562	989
Debt Service				
Principal	808,282	769,571	769,570	1
Interest	289,846	346,558	346,423	135
Paying Agent Fees	5,000	4,999	690	4,309
Total Debt Service	1,103,128	1,121,128	1,116,683	4,445

(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, 2011

	Budgeted Amounts		Actual Amounts Budgetary and GAAP Basis	Variance with Final Budget- Favorable (Unfavorable)
	Original	Final		
EXPENDITURES (CONTINUED)				
Special Appropriations to Other Governmental Entities	198,329	198,330	198,330	-
TOTAL EXPENDITURES	14,632,180	17,251,320	16,309,086	942,234
Deficiency of Revenues under Expenditures	(180,724)	(2,359,367)	(2,490,117)	(130,750)
OTHER FINANCING SOURCES AND USES				
Sale of Capital Assets	56,225	112,728	-	(112,728)
Transfers				
Elizabethton Electric - In Lieu of Taxes	689,366	689,366	616,286	(73,080)
Police Equipment Fund	-	-	104,983	104,983
Sanitation/Solid Waste Fund	(387,727)	(387,727)	(250,000)	137,727
Elizabethton Municipal Airport	(145,000)	(145,000)	(145,000)	-
Parks and Recreation	(32,140)	-	-	-
Total Transfers	124,499	156,639	326,269	169,630
TOTAL OTHER FINANCING SOURCES AND USES	180,724	269,367	326,269	56,902
Deficiency of Revenues and Other Financing Sources under Expenditures and Other Financing Uses	-	(2,090,000)	(2,163,848)	(73,848)
Fund Balances, July 1, 2010	8,825,667	8,825,667	8,825,667	-
Fund Balances, June 30, 2011	<u>\$ 8,825,667</u>	<u>6,735,667</u>	<u>6,661,819</u>	<u>(73,848)</u>

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, 2011

	Business-Type Activities - Enterprise Funds			
	Elizabethton Water and Sewer Fund	Elizabethton Electric Department	Elizabethton Municipal Airport	Total Enterprise Funds
ASSETS				
Current Assets				
Cash and Cash on Hand	\$ 398,011	4,795,098	62,040	5,255,149
Certificates of Deposit - Long-Term	-	1,351,466	-	1,351,466
Investments	754,281	13,796,148	-	14,550,429
Accounts Receivable-Net	334,386	4,994,728	38,984	5,368,098
Inventories	464,664	1,026,168	63,159	1,553,991
Due from Other Funds	6,013	148,648	-	154,661
Due from Other Governments	120,011	-	148,951	268,962
Total Current Assets	<u>2,077,366</u>	<u>26,112,256</u>	<u>313,134</u>	<u>28,502,756</u>
Capital Assets				
Land	546,025	594,194	2,428,170	3,568,389
Water Right	5,000,000	-	-	5,000,000
Construction In Progress	798,303	23,313,794	-	24,112,097
Buildings and Improvements	23,228,708	2,179,987	4,784,295	30,192,990
Motor Equipment	3,614,993	4,145,686	416,642	8,177,321
Office Equipment	331,840	635,384	-	967,224
Infrastructure	20,317,122	55,076,829	-	75,393,951
Less: Accumulated Depreciation	<u>(24,560,742)</u>	<u>(22,279,378)</u>	<u>(1,853,049)</u>	<u>(48,693,169)</u>
Total Capital Assets	<u>29,276,249</u>	<u>63,666,496</u>	<u>5,776,058</u>	<u>98,718,803</u>
Other Noncurrent Assets				
Restricted Cash	502,627	2,231,188	-	2,733,815
Other Assets	<u>187,465</u>	<u>2,507,516</u>	<u>255</u>	<u>2,695,236</u>
Total Other Noncurrent Assets	<u>690,092</u>	<u>4,738,704</u>	<u>255</u>	<u>5,429,051</u>
TOTAL ASSETS	<u>32,043,707</u>	<u>94,517,456</u>	<u>6,089,447</u>	<u>132,650,610</u>
LIABILITIES AND NET ASSETS				
Liabilities				
Current Liabilities				
Accounts Payable	229,904	7,319,921	46,348	7,596,173
Customer Deposits	502,627	2,231,188	125	2,733,940
Other Current Liabilities	25,591	1,692,250	-	1,717,841
Accrued Payroll	69	2,330	3,321	5,720
Accrued Interest	773,072	636,247	-	1,409,319
Deferred Revenue	15,247	-	38,639	53,886
Due to Other Funds	62,105	154,090	-	216,195
Bonds Payable	1,025,000	760,000	-	1,785,000
State Loans Payable	95,400	-	-	95,400
Notes Payable	-	-	4,095	4,095
Capital Leases	25,210	-	-	25,210
Compensated Absences	66,211	111,717	-	177,928
Total Current Liabilities	<u>2,820,436</u>	<u>12,907,743</u>	<u>92,528</u>	<u>15,820,707</u>

(Continued)

CITY OF ELIZABETHTON, TENNESSEE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2011

	Business-Type Activities - Enterprise Funds			
	Elizabethton Water and Sewer Fund	Elizabethton Electric Department	Elizabethton Municipal Airport	Total Enterprise Funds
LIABILITIES AND NET ASSETS (CONTINUED)				
Liabilities (Continued)				
Long-Term Liabilities				
Bonds Payable	11,872,414	36,665,000	-	48,537,414
Bond Discount	-	(64,842)	-	(64,842)
Bond Premium	23,532	424,588	-	448,120
Notes Payable	-	-	714,956	714,956
State Loans Payable	1,333,535	-	-	1,333,535
Capital Lease	73,902	-	-	73,902
Advance from TVA	-	1,569,857	-	1,569,857
Compensated Absences	36,997	163,562	13,984	214,543
OPEB Liability	191,471	271,953	-	463,424
Total Long-Term Liabilities	13,531,851	39,030,118	728,940	53,290,909
TOTAL LIABILITIES	16,352,287	51,937,861	821,468	69,111,616
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	14,850,788	25,881,750	5,055,979	45,788,517
Unrestricted	840,632	16,697,845	212,000	17,750,477
TOTAL NET ASSETS	\$ 15,691,420	42,579,595	5,267,979	63,538,994

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, 2011

	Business-Type Activities - Enterprise Funds			
	Elizabethton Water and Sewer Fund	Elizabethton Electric Department	Elizabethton Municipal Airport	Total Enterprise Funds
OPERATING REVENUES				
Charges for Services	\$ 6,986,586	57,456,596	877,999	65,321,181
OPERATING EXPENSES				
Wages and Employee Benefits	2,463,282	-	289,675	2,752,957
Purchases of Power, Water and Other	-	45,453,172	373,914	45,827,086
Other Operating Expenses	1,520,655	4,232,685	137,508	5,890,848
Maintenance	75,548	2,324,997	26,336	2,426,881
Tax Equivalent	-	365,797	-	365,797
Treatment, Transmissions and Utilities	744,014	-	48,681	792,695
Administrative	800,000	-	-	800,000
Amortization	7,680	-	-	7,680
Depreciation	1,273,775	1,717,862	138,956	3,130,593
TOTAL OPERATING EXPENSES	6,884,954	54,094,513	1,015,070	61,994,537
OPERATING INCOME (LOSS)	101,632	3,362,083	(137,071)	3,326,644
NONOPERATING REVENUES (EXPENSES)				
Interest Income	12,926	37,346	143	50,415
Interest Expense and Fiscal Charges	(402,303)	(995,600)	(35,219)	(1,433,122)
Other Expense	-	(37,115)	-	(37,115)
TOTAL NONOPERATING REVENUES (EXPENSES)	(389,377)	(995,369)	(35,076)	(1,419,822)
Income (Loss) Before Contributions and Transfers	(287,745)	2,366,714	(172,147)	1,906,822
Transfer to General Fund	-	(616,286)	-	(616,286)
Transfer from General Fund	-	-	145,000	145,000
Contributions - Capital Grant Revenue	420,497	-	598,850	1,019,347
Change in Net Assets	132,752	1,750,428	571,703	2,454,883
NET ASSETS, JULY 1, 2010	15,558,668	40,301,042	4,696,276	60,555,986
Prior Period Adjustment	-	528,125	-	528,125
NET ASSETS, JULY 1, 2010, (RESTATED)	15,558,668	40,829,167	4,696,276	61,084,111
NET ASSETS, JUNE 30, 2011	\$ 15,691,420	42,579,595	5,267,979	63,538,994

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, 2011

	Business-Type Activities - Enterprise Funds			Total Enterprise Funds
	Elizabethton Water and Sewer Fund	Elizabethton Electric Department	Elizabethton Municipal Airport	
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Received From Customers	\$ 7,176,998	54,637,958	863,942	62,678,898
Cash Received from City of Elizabethton for Services	-	909,895	-	909,895
Cash Received from Rentals and Other Sales	-	1,234,775	-	1,234,775
Cash Payments for Tax Equivalent	-	(205,322)	-	(205,322)
Cash Payments for Employee Services and Benefits	(2,407,164)	(847,787)	(238,418)	(3,493,369)
Cash Payments for Energy Right Customers	-	(96,107)	-	(96,107)
Cash Payments to Suppliers for Goods and Services	(2,969,070)	(46,121,345)	(663,896)	(49,754,311)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	1,800,764	9,512,067	(38,372)	11,274,459
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and Construction of Capital Assets	(753,142)	(8,776,046)	(623,701)	(10,152,889)
Bond Issue Costs	(48,409)	-	-	(48,409)
Payments on Capital Lease	(24,929)	-	-	(24,929)
Principal Paid on Bonds Payable	(770,000)	(735,000)	-	(1,505,000)
Principal Paid on Notes Payable	-	-	(103,953)	(103,953)
Interest Paid on Bonds and Notes Payable	(308,972)	(742,822)	(35,219)	(1,087,013)
Principal Paid on State Loans Payable	(92,892)	-	-	(92,892)
Payments on Water Authority Loan	(3,111,111)	-	-	(3,111,111)
Bond Issue Proceeds	2,484,135	-	-	2,484,135
Grant Proceeds	483,567	-	614,342	1,097,909
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(2,141,753)	(10,253,868)	(148,531)	(12,544,152)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Transfers to Other Funds	24,533	(616,286)	-	(591,753)
Transfers from Other Funds	(6,013)	-	145,000	138,987
NET CASH PROVIDED BY (USED FOR) NON-CAPITAL FINANCING ACTIVITIES	18,520	(616,286)	145,000	(452,766)
CASH FLOWS FROM INVESTING ACTIVITIES				
Sale of Investments	729,602	9,413,583	-	10,143,185
Purchase of Investments	-	(1,166,702)	-	(1,166,702)
Interest on Investments	12,926	120,335	143	133,404
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	742,528	8,367,216	143	9,109,887
Net Increase (Decrease) in Cash and Cash Equivalents	420,059	7,009,129	(41,760)	7,387,428
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	480,579	17,157	103,800	601,536
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 900,638	7,026,286	62,040	7,988,964

(Continued)

CITY OF ELIZABETHTON, TENNESSEE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2011

	Business-Type Activities - Enterprise Funds			
	Elizabethton Water and Sewer Fund	Elizabethton Electric Department	Elizabethton Municipal Airport	Total Enterprise Funds
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities				
NET OPERATING INCOME (LOSS)	\$ 101,632	3,362,083	(137,071)	3,326,644
Adjustments				
Depreciation and Amortization	1,281,455	1,836,573	138,956	3,256,984
Provision for Uncollectibles	-	(60,373)	-	(60,373)
Changes in Assets and Liabilities				
(Increase) Decrease in Accounts Receivables	190,412	(731,993)	(2,764)	(544,345)
(Increase) Decrease in Inventories	(5,775)	12,627	(33,051)	(26,199)
(Increase) Decrease in Prepaid Expense	-	-	6,645	6,645
Increase (Decrease) in Accounts Payable	179,740	4,525,821	(2,788)	4,702,773
Increase (Decrease) in Customer Deposits	16,923	58,026	-	74,949
Increase (Decrease) in Other Liabilities/Accruals	(19,741)	1,373,824	(11,294)	1,342,789
Increase (Decrease) in Accrued Payroll	(180)	(82,855)	(788)	(83,823)
Increase (Decrease) in Cash Overdraft	-	(243,338)	-	(243,338)
Increase (Decrease) in OPEB Liability	56,653	66,130	-	122,783
Increase (Decrease) in Compensated Absences	(355)	(604,458)	3,783	(601,030)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>\$ 1,800,764</u>	<u>9,512,067</u>	<u>(38,372)</u>	<u>11,274,459</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES				
During the fiscal year ended June 30, 2011, the Water and Sewer Fund incurred \$119,211 of capital asset construction in progress additions which is part of an approved loan program with the State of Tennessee.				
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET ASSETS - PROPRIETARY FUNDS				
Cash and Cash on Hand	\$ 398,011	4,795,098	62,040	5,255,149
Restricted Cash	<u>502,627</u>	<u>2,231,188</u>	<u>-</u>	<u>2,733,815</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 900,638</u>	<u>7,026,286</u>	<u>62,040</u>	<u>7,988,964</u>

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, 2011

	Military Family Support Private-Purpose Trust
ASSETS	
Cash	<u>\$ 2,731</u>
NET ASSETS	
Held in Trust for Military Families	<u>\$ 2,731</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, 2011

	Military Family Support Private-Purpose Trust
ADDITIONS	
Interest	\$ 4
TOTAL ADDITIONS	<u>4</u>
DEDUCTIONS	
Benefits to Military Families	<u>-</u>
TOTAL DEDUCTIONS	<u>0</u>
CHANGE IN NET ASSETS	4
NET ASSETS, JULY 1, 2010	<u>2,727</u>
NET ASSETS, JUNE 30, 2011	<u><u>\$ 2,731</u></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, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Elizabethton, Tennessee (the City) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental 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

The 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, the Elizabethton Municipal Airport, 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, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Individual Component Unit Disclosures (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, Tennessee 37643

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

Blended Component Unit

The Elizabethton Municipal Airport Authority was created in accordance with *Tennessee Code Annotated* 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 do 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.

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 Carter County Tomorrow.

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Watauga River Regional Water Authority

The City is a participant in the Watauga River Regional Water Authority with other area utility districts. The Authority was created by Chapter 29, Private Acts of 2001, to plan, operate, and maintain a water and wastewater system in Carter County and the City. The authority is governed by a five-member board.

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 landfill was closed in 2000. The County has provided financial assurances for estimated postclosure liabilities as required by the State of Tennessee. The postclosure care liability is reported by Carter County. The County bills the City for one-half of the postclosure expenditures per the written agreement. There are no separately issued financial statements for the Landfill.

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

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). 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 is 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, 2011

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 the fiduciary fund, even though the latter is 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 City. 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 and 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, 2011

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 *Elizabethton 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.

The *Elizabethton Municipal Airport* is a general aviation facility which provides aeronautic access to Carter County, the City of Elizabethton and the surrounding area. All activities necessary to provide services including refueling, maintenance, storage, basic amenities and flight training are conducted at the Airport.

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, 2011

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 funds are available for use, it is the City's policy to use restricted resources first, then unrestricted resources unless legal requirements disallow it. When committed, assigned and unassigned funds are available for expenditures, committed funds should be spent first, assigned funds second, and unassigned funds last.

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.

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, 2011

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, 2011. 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, 2011, the 2010 calendar year property tax rate was \$1.78 per \$100.00 of assessed value.

3. Inventories and Prepaid Items

Inventories in the General, Water and Sewer, and Electric Department Funds are valued at cost using the first-in/first-out (FIFO) method. Inventories of gasoline and vehicle parts are carried during the fiscal year with a 10% to 25% 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 Elizabethton 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, 2011

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 Fund'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 asset 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, 2011

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 Tennessee Valley Authority(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. \$118,711 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, 2011

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 the proprietary funds financial statements.

The proprietary fund financial statements reflect \$392,471 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 \$403,995 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 Vacation:

Employees earn various days of vacation based on the number of years of service. Employees with more than 20 years of service are entitled to a maximum of 25 days of vacation per year. A maximum of 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 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.

A liability for compensated absences and related fringe benefits is reflected on the Statement of Net Assets at June 30, 2011, in the amount of \$275,279. The portion of this liability expected to be paid within one year is classified as a current liability and the remainder as a long-term liability.

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities and Equity (Continued)

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

Beginning with fiscal year 2011, the City implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Nonspendable fund balance – amounts that are not in nonspendable form (such as inventory) or are required to be maintained intact.
- Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance – amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority. To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities and Equity (Continued)

8. Fund Equity (Continued)

- Assigned fund balance – amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority.
- Unassigned fund balance – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

Where applicable, beginning fund balance has been restated to reflect the above classifications.

City Council established that an amount equal to at least 15% of the City's most recent approved operating budget shall be established as a minimum Unassigned Fund Balance. Then annually, following the completion of the City's audit, the City Manager shall review the Unassigned Fund Balance and propose to utilize, through the annual budget process, surplus funds above the 15% minimum, if any. Proposed use of Unassigned Fund Balance funds should be dedicated to projects in the Capital Improvement Program or other unanticipated one-time expenses. The Council may vote to establish certain committed accounts from the Unassigned Fund Balance for the purpose of funding specific capital improvement needs in the future. The Council may also, by a two-thirds vote, decide to expend or to reserve amounts greater than that listed above based on the immediate or long-term needs of the City. The council has the authority to establish a financial stabilization account that will be a committed fund balance. A financial stabilization account is established for the purpose of providing funds for an urgent event that affects the safety of the general public. The recognition of an urgent event must be established by the Council or the City Manager, who must report the specific urgent event to the Council at its next meeting. A budget amendment to spend financial stabilization funds must be approved by the City's governing body.

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, 2011

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 the lower 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 as Non-Spendable for the amount of inventories on hand at year end.

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 \$37,668.

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, 2011

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 cost 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 Golf Course capitalizes assets that have a life of five years or more and cost more than \$5,000. The land occupied by the Golf Course 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, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities and Equity (Continued)

Discretely Presented Component Units (Continued)

Elizabethton Municipal Golf Course (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 Golf Course 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 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, capital leases and compensated absences.” The details of this \$(9,239,564) difference are as follows:

Bonds Payable	\$ (6,355,000)
Notes Payable	(2,432,637)
Capital Leases	(47,932)
Compensated Absences	<u>(403,995)</u>
Net adjustment to reduce <i>fund balance-total governmental funds</i> to arrive at <i>net assets-governmental activities</i>	\$ <u>(9,239,564)</u>

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

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 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 “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”. The detail of this \$814,430 difference is as follows:

Principal Repayments:

General Obligation Debt	\$ 450,000
Notes Payable	319,571
Capital Lease	<u>44,859</u>

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

\$ 814,430

Another element of that reconciliation states that “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 increased by this amount for the current year.”

Compensated absences for the prior year	\$ 393,072
Compensated absences for the current year	<u>(403,995)</u>

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

\$ (10,923)

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

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.

B. BUDGET VARIANCES

For the fiscal year ended June 30, 2011, total General Fund Revenues were lower than final budget by \$1,072,984.

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.

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 4 - DEPOSITS AND INVESTMENTS (CONTINUED)

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 (LGIP); obligations of the Public Housing Authority and bonds of the Tennessee Valley Authority.

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 City does not have a policy for interest rate risk or other credit risk other than pledging securities for amounts in excess of Federal Deposit Insurance Corporation (FDIC) coverage.

Deposits

The City's carrying amount of deposits was \$10,720,556 and the bank balance was \$11,183,602.

The bank balances are collateralized or insured as follows:

Amount insured by FDIC or collateralized	
with State of Tennessee Bank Collateral Pool	\$ <u>11,183,602</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 \$2,731 and the bank balance was \$2,731. 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 Board of Education and Municipal Golf Course, discretely presented component units, had deposits with a balance per books of \$839,741 and a bank balance of \$1,315,356. The deposits in excess of FDIC limits were fully collateralized by the State of Tennessee Collateral Pool.

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 4 - DEPOSITS AND INVESTMENTS (CONTINUED)

Deposits (Continued)

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

	City of Elizabethton	Discretely Presented Component Units
Carrying Amount of Deposits	\$ 10,720,556	839,741
Amounts per Statement of Net Assets:		
Cash and Cash on Hand	\$ 6,150,630	984,038
Cash Overdraft	-	(144,297)
Certificates of Deposit	1,836,111	-
Restricted Cash	2,733,815	-
Total Per Statement of Net Assets	\$ 10,720,556	839,741

Investments

The City and Electric Department invest funds in the State of Tennessee's Local Government Investment Pool and bond proceeds with an investment advisor. The City and Electric Department's interest in the Investment Pool is recorded at fair market value and at June 30, 2011, funds were \$7,138,618. The total investment with the investment firm is recorded at fair value and is \$12,331,973 at June 30, 2011.

Disclosures Relating to Interest Rate and Credit Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is 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.

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is the measure by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required for each investment type.

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 4 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

As of June 30, 2011, the City and Electric Department had the following investments:

	<u>Carrying Amount</u>	<u>Market Value</u>
Local Government Investment Pool	\$ 7,138,618	7,138,618
Bond Fund Investments		
Municipal Securities	7,832,063	7,832,063
Treasury Securities	4,499,910	4,499,910
Total Bond Fund Investments	<u>12,331,973</u>	<u>12,331,973</u>
Total Investments	<u>\$ 19,470,591</u>	<u>19,470,591</u>

The Electric Department's bond fund investments had the following credit risk structure as of June 30, 2011:

Investment Type	<u>Moody's Credit Rating</u>	<u>Fair Value</u>	<u>Percent of Total</u>
Municipal Securities			
Taxable Municipals	AA2	\$ 1,241,272	10%
Taxable Municipals	AA3	751,747	6%
Taxable Municipals	Aaa/AAA	151,017	1%
Taxable Municipals	AA	750,508	6%
Taxable Municipals	M1G1	497,947	4%
Tax-free Municipals	Aaa/AAA	333,028	3%
Tax-free Municipals	Aaa/AA+	200,150	2%
Tax-free Municipals	AA1	1,060,927	9%
Tax-free Municipals	AA2	823,508	7%
Tax-free Municipals	AA3	938,494	8%
Tax-free Municipals	AA	136,375	1%
Tax-free Municipals	SP1+	499,870	4%
Tax-free Municipals	Unrated	447,220	4%
		<u>7,832,063</u>	
Treasury Securities			
U.S. Treasury Bill	Unrated	4,499,910	36%
		<u>4,499,910</u>	
Total Bond Fund Investments		<u>\$ 12,331,973</u>	

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 4 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

The Electric Department's investment maturities by type are as follows:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1 - 5	6 - 10	More Than 10
Municipal Securities	\$ 7,832,063	7,832,063	-	-	-
Treasury Securities	4,499,910	4,499,910	-	-	-
Total Bond Fund Investments	<u>\$ 12,331,973</u>	<u>12,331,973</u>	<u>0</u>	<u>0</u>	<u>0</u>

A reconciliation of investments to the amounts reflected on the Statement of Net Assets is as follows:

Amounts Per Statement of Net Assets

	Governmental Activities	Business-Type Activities	Total
Investments	\$ 221,735	14,550,429	14,772,164
Restricted Assets - Investments	4,698,427	-	4,698,427
Total	<u>\$ 4,920,162</u>	<u>14,550,429</u>	<u>19,470,591</u>

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 5 - RECEIVABLES

Receivables as of fiscal 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	Elizabethton Municipal Airport	Nonmajor Governmental Funds	Component Units	Total
Receivables:							
Accounts	\$ 23,373	353,508	5,136,859	38,984	28,669	10,917	5,592,310
Taxes	5,041,149	-	-	-	-	-	5,041,149
Notes Receivable	151,589	-	-	-	-	-	151,589
Due from Other Governments	1,187,044	120,011	-	148,951	855	3,757,395	5,214,256
Gross Receivables	6,403,155	473,519	5,136,859	187,935	29,524	3,768,312	15,999,304
Less: Allowance for Uncollectibles	(31,989)	(19,122)	(142,131)	-	-	-	(193,242)
Total Receivables	\$ 6,371,166	454,397	4,994,728	187,935	29,524	3,768,312	15,806,062

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	\$ -	4,459,833
Property tax levied but not collected in period of availability and Other Taxes	<u>580,063</u>	<u>-</u>
	<u>\$ 580,063</u>	<u>4,459,833</u>

On the fund financial statement level, deferred revenue is \$5,039,896 for the current year.

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011 is as follows:

Primary Government

	Beginning Balance	Increases	Decreases	Adjustments	Ending Balance
Governmental Activities					
Capital assets, not being depreciated:					
Land	\$ 2,212,594	-	-	-	2,212,594
Construction in Progress	345,066	46,259	(34,839)	-	356,486
Library Infrastructure	587,901	111,216	-	-	699,117
Total capital assets, not being depreciated	<u>3,145,561</u>	<u>157,475</u>	<u>(34,839)</u>	<u>0</u>	<u>3,268,197</u>
Capital assets, being depreciated:					
Buildings and Improvements	7,047,123	186,322	-	(117,117)	7,116,328
Motor Equipment	5,169,715	-	(177,782)	(27,385)	4,964,548
Office Equipment	1,951,089	67,339	-	145,939	2,164,367
Infrastructure	10,837,022	-	-	-	10,837,022
Total capital assets, being depreciated	<u>25,004,949</u>	<u>253,661</u>	<u>(177,782)</u>	<u>1,437</u>	<u>25,082,265</u>
Less accumulated depreciation for:					
Buildings and Improvements	(2,916,009)	(186,446)	-	-	(3,102,455)
Motor Equipment	(3,306,096)	(241,208)	144,096	-	(3,403,208)
Office Equipment	(1,657,246)	(67,345)	-	-	(1,724,591)
Infrastructure	(6,338,995)	(225,399)	-	-	(6,564,394)
Total accumulated depreciation	<u>(14,218,346)</u>	<u>(720,398)</u>	<u>144,096</u>	<u>0</u>	<u>(14,794,648)</u>
Total capital assets, being depreciated, net	<u>10,786,603</u>	<u>(466,737)</u>	<u>(33,686)</u>	<u>1,437</u>	<u>10,287,617</u>
Governmental activities, Capital assets, net	<u>\$ 13,932,164</u>	<u>(309,262)</u>	<u>(68,525)</u>	<u>1,437</u>	<u>13,555,814</u>

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 6 - CAPITAL ASSETS (CONTINUED)

Primary Government (Continued)

	<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	\$ 2,289,169	1,279,220	-	-	3,568,389
Water Right	5,000,000	-	-	-	5,000,000
Construction in Progress	21,837,029	5,257,232	(3,623,717)	641,553	24,112,097
Total capital assets, not being depreciated	<u>29,126,198</u>	<u>6,536,452</u>	<u>(3,623,717)</u>	<u>641,553</u>	<u>32,680,486</u>
Capital assets, being depreciated:					
Buildings and Improvements	28,285,258	1,907,732	-	-	30,192,990
Motor Equipment	8,137,105	179,399	(2,684)	(136,499)	8,177,321
Office Equipment	946,865	20,364	(5)	-	967,224
Infrastructure	71,539,496	4,719,053	(758,501)	(106,097)	75,393,951
Total capital assets, being depreciated	<u>108,908,724</u>	<u>6,826,548</u>	<u>(761,190)</u>	<u>(242,596)</u>	<u>114,731,486</u>
Less accumulated depreciation for:					
Buildings and Improvements	(11,368,324)	(822,287)	-	1,686	(12,188,925)
Motor Equipment	(4,771,138)	(323,928)	2,684	(163,258)	(5,255,640)
Office Equipment	(688,816)	(32,408)	5	78,873	(642,346)
Infrastructure	(29,912,346)	(2,070,681)	1,294,070	82,699	(30,606,258)
Total accumulated depreciation	<u>(46,740,624)</u>	<u>(3,249,304)</u>	<u>1,296,759</u>	<u>0</u>	<u>(48,693,169)</u>
Total capital assets, being depreciated, net	<u>62,168,100</u>	<u>3,577,244</u>	<u>535,569</u>	<u>(242,596)</u>	<u>66,038,317</u>
Business-type Activities, Capital assets, net	<u>\$ 91,294,298</u>	<u>10,113,696</u>	<u>(3,088,148)</u>	<u>398,957</u>	<u>98,718,803</u>

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

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	\$ 94,000
Public Safety	180,987
Public Works - including general infrastructure assets	283,766
Health and Welfare	836
Culture and Recreation	100,638
Drug Fund	2,606
Solid Waste/Sanitation	57,565
Total Depreciation Expense - Governmental Activities	<u>\$ 720,398</u>

Business-Type Activities

Electric Department	\$ 1,836,573
Water and Sewer	1,273,775
Airport	138,956
Total Depreciation Expense - Business-Type Activities	<u>\$ 3,249,304</u>

A total of \$118,711 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 fiscal year ended June 30, 2011 are as follows:

Municipal Golf Course	Beginning Balance	Increases	Decreases	Adjustments	Ending Balance
Capital Assets, Being Depreciated:					
Buildings and Improvements	\$ 72,334	-	-	-	72,334
Motor Equipment	603,193	30,655	-	-	633,848
Office Equipment	13,442	-	-	-	13,442
Infrastructure	1,424,926	-	-	-	1,424,926
Total Capital Assets, Being Depreciated	<u>2,113,895</u>	<u>30,655</u>	<u>0</u>	<u>0</u>	<u>2,144,550</u>

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 6 - CAPITAL ASSETS (CONTINUED)

Discretely Presented Component Units (Continued)

Municipal Golf Course (Continued)

	Beginning Balance	Increases	Decreases	Adjustments	Ending Balance
Less Accumulated Depreciation For:					
Buildings and Improvements	(54,478)	(2,719)	-	-	(57,197)
Motor Equipment	(509,558)	(32,795)	-	-	(542,353)
Office Equipment	(13,443)	-	-	-	(13,443)
Infrastructure	(872,817)	(28,139)	-	-	(900,956)
Total Accumulated Depreciation	(1,450,296)	(63,653)	0	0	(1,513,949)
Total Capital Assets, Being Depreciated, Net	\$ 663,599	(32,998)	0	0	630,601

Board of Education

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated:				
Land	\$ 216,170	-	-	216,170
Construction in Progress	2,510,855	2,145,136	(105,272)	4,550,719
Total Capital Assets, Not Being Depreciated	2,727,025	2,145,136	(105,272)	4,766,889
Capital Assets, Being Depreciated				
Buildings and Improvements	17,862,471	134,939	-	17,997,410
Motor Equipment	1,117,017	192,512	-	1,309,529
Total Capital Assets, Being Depreciated	18,979,488	327,451	0	19,306,939
Less Accumulated Depreciation For:				
Buildings and Improvements	(8,304,196)	(380,217)	-	(8,684,413)
Motor Equipment	(626,569)	(58,666)	-	(685,235)
Total Accumulated Depreciation	(8,930,765)	(438,883)	0	(9,369,648)
Total Capital Assets, Being Depreciated, Net	10,048,723	(111,432)	0	9,937,291
Total Capital Assets, Net	\$ 12,775,748	2,033,704	(105,272)	14,704,180

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

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 was renewed in the current year and is effective for the period March 1, 2011 through March 1, 2014. Total lease expense for the fiscal year was \$13,500.

The Golf Course also leases golf carts from Yamaha. The monthly payments are \$2,230 and the final payment and the term of the lease will be during the 2015 fiscal year. Total lease expense, including interest, for the fiscal year was \$26,756.

Future payments required under the operating leases are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Amount</u>
2012	\$ 40,260
2013	40,260
2014	40,260
2015	<u>26,760</u>
TOTAL	\$ <u>147,540</u>

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 8 - CAPITAL LEASES

Primary Government

The general fund leases police vehicles that are part of a capital lease. Amortization of the leased equipment is included in depreciation expense.

The following is an analysis of the leased assets included in the vehicles of the General Fund.

Police Vehicles	\$ 115,205
Less: Accumulated Depreciation	<u>(28,801)</u>
	<u>\$ 86,404</u>

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Police Vehicles	\$ 92,791	-	44,859	47,932	47,932
	<u>\$ 92,791</u>	<u>0</u>	<u>44,859</u>	<u>47,932</u>	<u>47,932</u>

Future payments required under the capital leases are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$ 47,932	3,284	51,216
	<u>\$ 47,932</u>	<u>3,284</u>	<u>51,216</u>

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 8 - CAPITAL LEASES (CONTINUED)

Primary Government (Continued)

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 the leased assets included in the equipment of the Water and Sewer Fund.

Sewer Equipment	\$ 215,557
Less: Accumulated Depreciation	<u>(17,083)</u>
	<u>\$ 198,474</u>

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Sewer Equipment	\$ 116,867	-	20,898	95,969	22,068
Water Equipment	7,173	-	4,031	3,142	3,142
	<u>\$ 124,040</u>	<u>0</u>	<u>24,929</u>	<u>99,111</u>	<u>25,210</u>

Future payments required under the capital leases are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$ 25,210	5,816	31,026
2013	23,304	4,139	27,443
2014	24,609	2,833	27,442
2015	25,988	1,455	27,443
	<u>\$ 99,111</u>	<u>14,243</u>	<u>113,354</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, 2011

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	\$ 37,555
Less: Accumulated Depreciation	<u>(7,128)</u>
	<u>\$ 30,427</u>

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Capital Lease - Turf Equipment	\$ 5,609	-	1,624	3,985	1,750
Capital Lease - John Deere	<u>-</u>	<u>30,655</u>	<u>4,598</u>	<u>26,057</u>	<u>6,131</u>
	<u>\$ 5,609</u>	<u>30,655</u>	<u>6,222</u>	<u>30,042</u>	<u>7,881</u>

Future payments required under the capital leases are as follows:

Fiscal Year Ending June 30	Amount
2012	\$ 7,881
2013	8,016
2014	6,481
2015	6,131
2016	1,533
	<u>\$ 30,042</u>

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 9 - LONG-TERM DEBT

During the fiscal year ended June 30, 2011, the following debt transactions occurred.

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Governmental Activities:					
General Obligation Debt	\$ 6,805,000	-	450,000	6,355,000	480,000
Capital Leases	92,791	-	44,859	47,932	47,932
Compensated Absences	393,072	233,018	222,095	403,995	222,095
Notes Payable	2,752,208	-	319,571	2,432,637	323,834
Governmental Activities Long-Term Liabilities	10,043,071	233,018	1,036,525	9,239,564	1,073,861
Business-Type Activities:					
Tax Refunding and					
Improvement Bonds	11,207,414	2,460,000	770,000	12,897,414	1,025,000
Revenue Bonds	38,160,000	-	735,000	37,425,000	760,000
Add: Deferred Amount on Issuance					
Premium	445,874	24,135	21,889	448,120	-
Less: Deferred Amount on Refunding	70,563	-	5,721	64,842	-
Total Bonds	49,742,725	2,484,135	1,521,168	50,705,692	1,785,000
Notes Payable	823,005	-	103,953	719,052	4,095
Payable to Water Authority	3,111,111	-	3,111,111	-	-
Capital Lease	124,040	-	24,929	99,111	25,210
State Loans Payable	1,402,616	119,211	92,892	1,428,935	95,400
Compensated Absences	993,501	209,746	810,776	392,471	177,928
Business-Type Activities Long-Term Liabilities	56,196,998	2,813,092	5,664,829	53,345,261	2,087,633
Total Changes in Long-Term Debt	\$ 66,240,069	3,046,110	6,701,354	62,584,825	3,161,494

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 9 – 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 bonds are payable from unlimited ad valorem taxes to be levied on all taxable property within the City. The General Obligation School Bonds Series 2010B are also secured by a pledge of the one half percent addition to the City's Local Option Sales and Use Tax. The following is a summary of general obligation bonds currently outstanding from the General Fund:

	<u>Date Issued</u>	<u>Amount Issued</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Outstanding June 30, 2011</u>
<u>General Fund</u>					
General Obligation-School Bonds					
Series 2008	12-16-08	\$6,750,000	2.25-4.4%	09-01-23	\$5,850,000
General Obligation-Series 2010B	03-11-10	\$ 505,000	3.0-3.75%	6-01-25	<u>505,000</u>
					<u>\$ 6,355,000</u>

General Obligation Bonds issued 12-16-08 debt service requirements to maturity are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 450,000	211,838	661,838
2013	450,000	198,900	648,900
2014	450,000	184,838	634,838
2015	450,000	169,875	619,875
2016	450,000	154,237	604,237
2017-2021	2,250,000	515,026	2,765,026
2022-2024	1,350,000	87,975	1,437,975
	<u>\$ 5,850,000</u>	<u>1,522,689</u>	<u>7,372,689</u>

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 9 - LONG TERM DEBT (CONTINUED)

Governmental Activity Debt (Continued)

Bonds Payable (Continued)

General Obligation Bonds issued 03-11-10 debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$ 30,000	16,450	46,450
2013	30,000	15,550	45,550
2014	30,000	14,650	44,650
2015	30,000	13,750	43,750
2016	35,000	12,850	47,850
2017-2021	180,000	48,325	228,325
2022-2025	170,000	15,844	185,844
	<u>\$ 505,000</u>	<u>137,419</u>	<u>642,419</u>

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

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$ 480,000	228,288	708,288
2013	480,000	214,450	694,450
2014	480,000	199,488	679,488
2015	480,000	183,625	663,625
2016	485,000	167,087	652,087
2017-2021	2,430,000	563,351	2,993,351
2022-2025	1,520,000	103,819	1,623,819
	<u>\$ 6,355,000</u>	<u>1,660,108</u>	<u>8,015,108</u>

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 9 – LONG-TERM DEBT (CONTINUED)

Governmental Activity Debt (Continued)

Notes Payable

Capital outlay notes are issued for various capital additions and projects city-wide. The full faith and credit of the City is pledged for payment. The City pledges its taxing power as to all taxable property. 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, 2011</u>
Capital Outlay Notes	10-23-06	\$1,250,000	4.38%	10-23-18	\$ 831,806
Capital Outlay Notes	02-12-04	\$1,250,000	3.95%	11-20-15	520,831
Capital Outlay Notes	10-16-09	\$1,200,000	3.74%	10-15-19	<u>1,080,000</u>
					\$ <u>2,432,637</u>

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

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 99,667	34,447	134,114
2013	104,122	29,993	134,115
2014	108,775	25,340	134,115
2015	113,636	20,478	134,114
2016	118,714	15,400	134,114
2017-2019	286,892	14,890	301,782
	<u>\$ 831,806</u>	<u>140,548</u>	<u>972,354</u>

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 9 – 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:

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$ 104,167	18,836	123,003
2013	104,166	14,618	118,784
2014	104,166	10,446	114,612
2015	104,166	6,275	110,441
2016	104,166	2,103	106,269
	\$ 520,831	52,278	573,109

Capital Outlay Note issued 10-16-09 debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$ 120,000	38,784	158,784
2013	120,000	34,134	154,134
2014	120,000	29,583	149,583
2015	120,000	25,033	145,033
2016	120,000	20,533	140,533
2017-2020	480,000	36,427	516,427
	\$ 1,080,000	184,494	1,264,494

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

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$ 323,834	92,067	415,901
2013	328,288	78,745	407,033
2014	332,941	65,369	398,310
2015	337,802	51,786	389,588
2016	342,880	38,036	380,916
2017-2020	766,892	51,317	818,209
	\$ 2,432,637	377,320	2,809,957

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 9 – 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 2010 Series are payable from unlimited ad valorem taxes to be levied on all taxable property within the City. The full faith and credit of the City is pledged for payment. Although not secured by the net revenues of the water system, proceeds of the Bonds will be used to fund water projects. Debt service on that portion of the bonds will be paid in its entirety from the net revenues of the water system. The 2002 Series have pledged the net revenues of the water system. In the event of a deficiency of net revenues for such purposes, the bonds are payable from direct annual taxes to be levied on all taxable property in the City. The full faith and credit of the City is pledged. The Electric Department bonds are secured by a pledge of the net revenues of the Department. Neither the full faith and credit nor taxing power of the City is pledged. The 2010 Electric Department Revenue Bonds are additionally payable from, but not secured by, direct payment credits received in respect of such emission of bonds. 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, 2011</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	\$1,745,000
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
Water and Sewer General Obligation Improvement Bonds - Series 2010B	04-30-10	\$3,540,000	3.0-4.0%	06-01-30	3,035,000
Water and Sewer General Obligation Improvement Bonds - Series 2010C	12-13-10	\$2,460,000	2.0-4.1%	06-01-30	2,460,000

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 9 – LONG-TERM DEBT (CONTINUED)

Business-Type Activity Debt (Continued)

Bonds Payable (Continued)

Elizabethton Electric Department

Revenue Refunding Bonds	08-24-05	\$3,495,000	3.5-4.15%	09-01-22	2,915,000
Revenue Bonds	12-20-07	\$15,000,000	4.0-5.0%	12-27-27	13,925,000
Revenue Bonds	04-20-10	\$20,585,000	1.75-6.25%	09-01-35	<u>20,585,000</u>
					<u>\$50,322,414</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 Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 800,000	76,925	876,925
2013	730,000	42,525	772,525
2014	215,000	9,675	224,675
	<u>\$ 1,745,000</u>	<u>129,125</u>	<u>1,874,125</u>

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

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ -	-	-
2013	61,740	43,260	105,000
2014	364,802	290,198	655,000
2015	458,238	416,762	875,000
2016	430,045	444,955	875,000
2017-2021	1,800,916	2,574,084	4,375,000
2022-2026	1,459,694	3,385,306	4,845,000
2027-2031	1,081,979	3,678,021	4,760,000
	<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 Statement of Net Assets.

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 9 – LONG-TERM DEBT (CONTINUED)

Business-Type Activity Debt (Continued)

Bonds Payable (Continued)

Water and Sewer General Obligation Improvement Bonds – Series 2010B issued 04-30-10 debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$ 70,000	107,694	177,694
2013	75,000	105,594	180,594
2014	80,000	103,344	183,344
2015	95,000	100,944	195,944
2016	105,000	98,094	203,094
2017-2021	680,000	436,518	1,116,518
2022-2026	900,000	309,900	1,209,900
2027-2030	1,030,000	105,412	1,135,412
	\$ 3,035,000	1,367,500	4,402,500

Water and Sewer General Obligation Improvement Bonds – Series 2010C issued 12-13-10 debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$ 155,000	78,909	233,909
2013	155,000	75,809	230,809
2014	150,000	72,709	222,709
2015	145,000	69,709	214,709
2016	140,000	65,358	205,358
2017-2021	655,000	265,744	920,744
2022-2026	605,000	161,231	766,231
2027-2030	455,000	46,420	501,420
	\$ 2,460,000	835,889	3,295,889

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 9 – LONG-TERM DEBT (CONTINUED)

Business-Type Activity Debt (Continued)

Bonds Payable (Continued)

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

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$ 190,000	112,733	302,733
2013	200,000	105,170	305,170
2014	205,000	97,070	302,070
2015	215,000	88,670	303,670
2016	225,000	79,870	304,870
2017-2021	1,285,000	255,852	1,540,852
2022-2023	595,000	24,723	619,723
	<u>\$ 2,915,000</u>	<u>764,088</u>	<u>3,679,088</u>

Revenue Bonds issued 12-20-07 debt service requirement to maturity are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$ 570,000	595,200	1,165,200
2013	595,000	571,900	1,166,900
2014	620,000	547,600	1,167,600
2015	645,000	519,075	1,164,075
2016	675,000	486,075	1,161,075
2017-2021	3,855,000	1,940,950	5,795,950
2022-2026	4,745,000	1,046,963	5,791,963
2027-2028	2,220,000	101,025	2,321,025
	<u>\$ 13,925,000</u>	<u>5,808,788</u>	<u>19,733,788</u>

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 9 – LONG-TERM DEBT (CONTINUED)

Business-Type Activity Debt (Continued)

Bonds Payable (Continued)

Revenue Bonds issued 4-20-10 debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$ -	1,185,844	1,185,844
2013	130,000	1,184,706	1,314,706
2014	135,000	1,181,965	1,316,965
2015	140,000	1,178,350	1,318,350
2016	145,000	1,173,981	1,318,981
2017-2021	775,000	5,780,987	6,555,987
2022-2026	1,880,000	5,507,547	7,387,547
2027-2031	6,630,000	4,490,422	11,120,422
2032-2036	10,750,000	1,722,919	12,472,919
	<u>\$ 20,585,000</u>	<u>23,406,721</u>	<u>43,991,721</u>

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

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$ 1,785,000	2,157,305	3,942,305
2013	1,946,740	2,128,964	4,075,704
2014	1,769,802	2,302,561	4,072,363
2015	1,698,238	2,373,510	4,071,748
2016	1,720,045	2,348,333	4,068,378
2017-2021	9,050,916	11,254,135	20,305,051
2022-2026	10,184,694	10,435,670	20,620,364
2027-2031	11,416,979	8,421,300	19,838,279
2032-2036	10,750,000	1,722,919	12,472,919
	<u>\$ 50,322,414</u>	<u>43,144,697</u>	<u>93,467,111</u>

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 9 – LONG-TERM DEBT (CONTINUED)

Business-Type Activity Debt (Continued)

Bonds Payable (Continued)

The 2010 Revenue Bonds in the Electric Department are taxable Build America Bonds. The bonds provide for a 35% federal subsidy on the total interest requirements, which are paid semiannually corresponding with the interest payment dates to the bondholders. The interest requirements for this bond in the schedule of maturities are shown at the gross amount. The remaining federal subsidy totals \$8,192,351 through the term of the bonds.

Notes Payable

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

Elizabethton Municipal Airport

<u>Date Issued</u>	<u>Amount Issued</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Outstanding June 30, 2011</u>
8/27/2004	\$ 41,988	Variable	12/28/2010	\$ 23,552
5/31/2007	1,350,000	4.80%	5/30/2011	<u>695,500</u>
				<u>\$ 719,052</u>

The interest rates on airport debt are variable for the simulator loan and fixed for the expansion loan. The 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>
2012	\$ 4,095	34,089	38,184
2013	699,730	6,134	705,864
2014	15,227	233	15,460
	<u>\$ 719,052</u>	<u>40,456</u>	<u>759,508</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, 2011

NOTE 9 - LONG-TERM DEBT (CONTINUED)

Business-Type Activity Debt (Continued)

State Loans Payable (Continued)

Water and Sewer Fund

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

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$ 95,400	33,804	129,204
2013	97,980	31,224	129,204
2014	100,632	28,584	129,216
2015	103,344	25,860	129,204
2016	106,140	23,064	129,204
2017-2021	575,328	70,740	646,068
2022-2023	350,111	6,216	356,327
	<u>\$ 1,428,935</u>	<u>219,492</u>	<u>1,648,427</u>

Water Right – Payable to Water Authority

The City entered into a long-term contractual agreement with the Watauga River Regional Water Authority (the Authority). The Authority is in the process of constructing a water plant with anticipated sufficient capacity to serve the City's additional potable water capacity needs. The City, per the terms of the agreement, agrees to purchase potable water from the Authority and the Authority agrees to provide the City, during the term of the contract, up to 1,000,000 gallons of potable water per day pursuant to the price established per the agreement. The performance of this contract cannot occur until the Authority has constructed the related plant and lines, which is anticipated to be in late 2012. The term of the agreement is 20 years from the date water is first made available to the City with the option to renew for 5 years at the end of the initial 20 years. The City, per the agreement, has agreed to pay the Authority a capital contribution for construction. This contribution is \$5,000,000. Upon the commencement of construction, the City was required to pay 20% or \$1,000,000 of this contribution. Thereafter, the City will make equal monthly payments to the Authority of \$222,222. The first payment was made in March 2010. All payments had been made as of June 30, 2011. In accordance with the provisions of GASB 51, *Accounting and Financial Reporting for Intangible Assets*, the asset is reflected in the Water and Sewer Fund at \$5,000,000 and amortization expense will be taken once the Authority has completed the plant and the City begins to obtain water from the Authority. Also, reflected is the corresponding liability to the Authority which is \$0 at June 30, 2011.

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 9 – LONG-TERM DEBT (CONTINUED)

Component Unit Long-Term Debt

Elizabethton Municipal Golf Course

During the fiscal year ended June 30, 2011, the following debt transactions occurred for the Elizabethton Municipal Golf Course:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Capital Outlay Note	\$ 53,655	-	17,051	36,604	17,869
Capital Leases	5,609	30,655	6,222	30,042	7,881
Note Payable - Primary Government	181,590	-	30,000	151,590	30,000
Line of Credit	-	25,000	-	25,000	25,000
	<u>\$ 240,854</u>	<u>55,655</u>	<u>53,273</u>	<u>243,236</u>	<u>80,750</u>

Notes Payable

The Golf Course entered into a seven-year loan agreement with the City in the amount 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 postponed the first principal payment until fiscal year end 2008 and extends maturity until 2016. Requirements for repayment are as follows:

Fiscal Year Ending June 30	Principal	Total
2012	\$ 30,000	30,000
2013	30,000	30,000
2014	30,000	30,000
2015	30,000	30,000
2016	31,590	31,590
	<u>\$ 151,590</u>	<u>151,590</u>

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 9 – LONG-TERM DEBT (CONTINUED)

Component Unit Long-Term Debt (Continued)

Elizabethton Municipal Golf Course (Continued)

The Golf Course renewed a line of credit during the current year. A draw of \$25,000 was outstanding on the line of credit at year end. The interest rate on the line of credit is 5.25%. The total amount the Golf Course can draw on is \$50,000. Debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$ 25,000	1,313	26,313
	<u>\$ 25,000</u>	<u>1,313</u>	<u>26,313</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:

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$ 17,869	1,347	19,216
2013	18,735	482	19,217
	<u>\$ 36,604</u>	<u>1,829</u>	<u>38,433</u>

During the fiscal year ended June 30, 2011, the following debt transactions occurred for the Elizabethton Board of Education:

Elizabethton Board of Education

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Governmental Activities: Compensated Absences	\$ 34,107	8,244	9,078	33,273	9,078
Governmental Activities Long-Term Liabilities	<u>\$ 34,107</u>	<u>8,244</u>	<u>9,078</u>	<u>33,273</u>	<u>9,078</u>

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 10 - FUND BALANCES – GOVERNMENTAL FUNDS

As of June 30, 2011, fund balances are composed of the following:

	General Fund	Other Governmental Funds	Total
	<hr/>	<hr/>	<hr/>
Fund Balances:			
Non-Spendable:			
Elizabethton Golf Course	\$ 151,589	-	151,589
Inventories	32,996	-	32,996
Prepaid Expense	2,813	-	2,813
Bolling Trust	-	25,000	25,000
Total - Non-Spendable	<hr/> 187,398	<hr/> 25,000	<hr/> 212,398
Restricted for:			
Library Donation	65,240	-	65,240
Carter County Animal Shelter	250,000	-	250,000
Library Grant	15,138	-	15,138
Police Community Relations	-	2,032	2,032
Drug-Department of Justice	-	15,386	15,386
Police Drug Enforcement Fund	-	74,499	74,499
East TN Railroad Authority Fund	-	18,761	18,761
Fundraiser	-	1,819	1,819
Veteran's Walk of Honor	-	22,504	22,504
Veteran's Walk of Honor Phase II	-	94,296	94,296
Veteran's War Memorial	-	6,058	6,058
Debt Issue - Lynn Avenue Project	-	86,620	86,620
Bolling Trust	-	5,303	5,303
Total - Restricted	<hr/> 330,378	<hr/> 327,278	<hr/> 657,656

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 10 - FUND BALANCES – GOVERNMENTAL FUNDS (CONTINUED)

	General Fund	Other Governmental Funds	Total
Committed to:			
City Schools	748,136	-	748,136
OPEB LGIP	631,271	-	631,271
Animal Shelter	250,483	-	250,483
Solid Waste / Sanitation	-	64,604	64,604
Special Capital Projects	-	48,181	48,181
Park and Recreation Capital Projects	-	42,456	42,456
Debt Issue	-	181,562	181,562
Police Technology Fee	-	60,461	60,461
Total - Committed	1,629,890	397,264	2,027,154
Assigned:			
Police	2,117	-	2,117
Christmas Tree	180	-	180
Sidewalk	11,774	-	11,774
Industrial Development	8,160	-	8,160
Bond Funds	254,138	-	254,138
Police Equipment	104,982	-	104,982
Joe O'Brien Field	-	235	235
Total - Assigned	381,351	235	381,586
Unassigned:	4,132,802	-	4,132,802
Total Fund Balances	\$ 6,661,819	749,777	7,411,596

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 11 - OTHER REQUIRED INDIVIDUAL FUND DISCLOSURES

A. Interfund receivables, payables and transfers at June 30, 2011 were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	Elizabethton Water and Sewer	\$ 17,790	Reimbursement for Charges
General	Solid Waste/Sanitation	15,226	Reimbursement for Charges
Elizabethton Electric Department	General	104,333	Utilities
Elizabethton Electric Department	Elizabethton Water and Sewer	44,315	Utilities
Elizabethton Water and Sewer	General	6,013	Reimbursement for Charges
General	Police Drug Enforcement	3,298	Reimbursement for Charges
Solid Waste/Sanitation	General	4,394	Reimbursement
Police Drug Enforcement	General	2,258	Reimbursement
General	Elizabethton Electric Department	<u>154,090</u>	Reimbursement for Charges
Total		<u>\$ 351,717</u>	

The outstanding balances between funds result mainly from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded and payments between funds are made.

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Solid Waste / Sanitation	General	\$ 250,000
Elizabethton Municipal Airport	General	145,000
General	Police Equipment	104,983
General	Elizabethton Electric Department	<u>616,286</u>
Total		<u>\$1,116,269</u>

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

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

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 the City are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of the *Tennessee Code Annotated* (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as the City 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, 2011

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, Tennessee 37243-0230 or can be accessed at <http://www.tn.gov/treasury/tcrs/PS/>.

Funding Policy

The City has adopted a noncontributory retirement plan for its employees by assuming employee contributions up to 5.00 percent of annual covered payroll. The City is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2011 was 15.24% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the City is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the fiscal year ending June 30, 2011, the City's annual pension cost of \$1,160,983 to TCRS was equal to the City's required and actual contributions. The required contribution was determined as part of the July 1, 2009 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 7.50 percent a year compounded annually, (b) projected 3.00 percent annual rate of inflation, (c) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), and (d) projected 3.50 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 ten-year period. The City's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2009 was 20 years. An actuarial valuation was performed as of July 1, 2009, which established contribution rates effective July 1, 2010.

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2011	\$1,160,983	100.00%	\$ 0.00
June 30, 2010	\$1,040,237	100.00%	\$ 0.00
June 30, 2009	\$ 989,726	100.00%	\$ 0.00

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 12 - RETIREMENT COMMITMENTS (CONTINUED)

City of Elizabethton (Continued)

Funding Status and Funding Progress

As of July 1, 2009, the most recent actuarial valuation date, the plan was 70.36% funded. The actuarial accrued liability for benefits was \$21.3 million, and the actuarial value of assets was \$15.0 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$6.3 million. The covered payroll (annual payroll of active employees covered by the plan) was \$7.0 million, and the ratio of the UAAL to the covered payroll was 90.37%.

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)

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, 2009	\$ 14,995	21,311	6,316	70.36%	6,989	90.37%
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, 2011

NOTE 12 - RETIREMENT COMMITMENTS (CONTINUED)

Component Unit - Elizabethton Board Of Education

Description

Employees of the Elizabethton City 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 five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service, and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of the *Tennessee Code Annotated* (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as the 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, Tennessee 37243-0230 or can be accessed at www.tn.gov/treasury/tcrs/PS/.

Funding Policy

The Elizabethton City Board of Education requires employees to contribute 5.00 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, 2011 was 8.79% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the Elizabethton City 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, 2011

NOTE 12 - RETIREMENT COMMITMENTS (CONTINUED)

Component Unit - Elizabethton Board Of Education (Continued)

Annual Pension Cost

For the fiscal year ending June 30, 2011, the Elizabethton City Board of Education's annual pension cost of \$215,955 to TCRS was equal to the Elizabethton City Board of Education's required and actual contributions. The required contribution was determined as part of the July 1, 2009 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 7.50 percent a year compounded annually, (b) projected 3.00 percent annual rate of inflation, (c) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.50 percent annual increase in the Social Security wage base, and (d) projected post retirement increases of 2.50 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten-year period. The Elizabethton City 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, 2009, was 6 years. An actuarial valuation was performed as of July 1, 2009, which established contribution rates effective July 1, 2010.

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2011	\$215,955	100.00%	\$ 0.00
June 30, 2010	\$228,582	100.00%	\$ 0.00
June 30, 2009	\$214,097	100.00%	\$ 0.00

As of July 1, 2009, the most recent actuarial valuation date, the plan was 86.03% funded. The actuarial accrued liability for benefits was \$6.6 million, and the actuarial value of assets was \$5.7 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.9 million. The covered payroll (annual payroll of active employees covered by the plan) was \$2.3 million, and the ratio of the UAAL to the covered payroll was 40.70%.

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 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.

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 12 - RETIREMENT COMMITMENTS (CONTINUED)

Component Unit - Elizabethton Board Of Education (Continued)

Defined Benefit Plan

Plan Description

The Elizabethton City Schools 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 five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan on or after July 1, 1979, are vested after five years of service. Members joining prior to July 1, 1979 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. 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 SETHEEPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230 or can be accessed at www.tn.gov/treasury/tcrs.

Funding Policy

Most teachers are required by state statute to contribute 5.00 percent of salary to the plan. The employer contribution rate for the Elizabethton City Schools is established at an actuarially determined rate. The rate for the fiscal year ending June 30, 2011 was 9.05% of annual covered payroll. The employer contribution requirement for the Elizabethton City Schools is established and may be amended by the TCRS Board of Trustees. The employer's contributions to TCRS for the fiscal years ending June 30, 2011, 2010 and 2009 were \$822,686, \$570,804, and \$545,446, respectively, equal to the required contributions for each fiscal year.

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 12 - RETIREMENT COMMITMENTS (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, 2010 and 2009 were \$758,605 and \$703,981, respectively. The recommended contribution was \$800,282 and \$818,112 for the plan years October 1, 2010 and 2009 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 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 3% and 4% for the plan years October 1, 2010 and 2009 respectively, the actuarial method is the frozen entry-age method and the amortization period is 21 years.

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, 2010. The total plan liability for the 2010 plan year was \$15,948,500 and the actuarial value of assets was \$9,203,280, leaving an unfunded liability of \$6,745,220 and a funded ratio of 57.71%. The total plan liability for the 2009 plan year was \$15,844,265 and the actuarial value of plan assets was \$9,180,054, leaving an unfunded liability of \$6,664,211 and a funded ratio of 57.94%. The total plan liability for the 2008 plan year was \$15,752,582 and the actuarial value of assets \$9,233,359 leaving an unfunded liability of \$6,519,223 and a funded ratio of 58.61%.

As of October 1, 2010, the pension benefit obligation is \$15,948,500 and was \$15,844,265 as of October 1, 2009.

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, Mississippi 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, 2011

NOTE 12 - RETIREMENT COMMITMENTS (CONTINUED)

Elizabethton Municipal Airport

The Airport management was covered through the Tennessee Consolidated Retirement System. Total employer contributions during the fiscal year were \$15,691. 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.

Other Post-Employment Benefits – OPEB

Elizabethton City Schools

The Elizabethton, Tennessee City Schools participate in the state-administered Teacher Group Insurance Plan and Local Government Group Insurance Plan for healthcare benefits. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by *Tennessee Annotated Code* (TCA) 8-27-302 (teachers) or TCA 8-27-207 (local governments). Prior to reaching age 65, all members have the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in a state-administered Medicare supplement plan that does not include pharmacy. The plans are reported in the State of Tennessee Comprehensive Annual Financial Report (CAFR). The CAFR is available on the state's website at <http://tennessee.gov/finance/act/cafr.html>.

Funding Policy

The premium requirements of plan members are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claim liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. The employers in each plan develop their own contribution policy in terms of subsidizing active employees or retired employees' premiums since the committee is not prescriptive on that issue.

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 12 - RETIREMENT COMMITMENTS (CONTINUED)

Other Post-Employment Benefits – OPEB (Continued)

Elizabethton City Schools (Continued)

Funding Policy (Continued)

The school system pays 100% of the monthly premium for individual coverage. Monthly premiums vary based upon the plan selected and for 2010 are as follows:

Monthly Premiums – Retiree:

PPO \$258 to \$504 (single coverage)

Monthly Premiums – Active:

PPO \$469 to \$503 (single coverage)

The system will pay 100% of eligible retirees' coverage upon retirement for the shorter of 5 years or age 65.

	07/01/2010 - 06/30/2011
Annual OPEB Cost and Net OPEB Obligation	
1. Annual Required Contribution (ARC)	\$ 728,000
2. Interest on net OPEB Obligation	54,797
3. Adjustment to ARC	(51,903)
4. Annual OPEB Cost (Expense) (1+2+3)	730,894
5. Contribution made (assumed end of year)*	129,519
6. Increase (Decrease) in net OPEB Obligation (4 - 5)	601,375
7. Net OPEB Obligation - beginning of year	1,217,702
8. Net OPEB Obligation - end of year (6 + 7)	\$ 1,819,077

**Contribution made was assumed to equal Expected Benefit Payments*

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 12 - RETIREMENT COMMITMENTS (CONTINUED)

Other Post-Employment Benefits – OPEB (Continued)

Elizabethton City Schools (Continued)

Funding Policy (Continued)

<u>Year End</u>	<u>Plan</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation at Year End</u>
6/30/2011	Teacher & Local Government	\$ 730,894	17.7%	\$ 1,819,077
6/30/2010	Teacher & Local Government	\$ 724,452	16.3%	\$ 1,217,702
6/30/2009	Teacher & Local Government	\$ 733,000	16.6%	\$ 611,000

Funded Status and Funding Progress

The funded status of the plan as of June 30, 2011, was as follows:

Actuarial Valuation Date	July 1, 2010
Actuarial Accrued Liability (AAL)	\$ 5,606,000
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	5,606,000
Actuarial Value of Assets as a % of the AAL	0%
Covered Payroll	11,963,166
UAAL as a Percentage of Covered Payroll	47%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 12 - RETIREMENT COMMITMENTS (CONTINUED)

Other Post-Employment Benefits – OPEB (Continued)

Elizabethton City Schools (Continued)

Actuarial Methods and Assumptions (Continued)

In the actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 10.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent after ten years. Both rates include a 3.0 percent inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30 year period beginning with June 30, 2008. Fiscal year 2009 was the year of implementation of GASB Statement No. 45 and the System elected to implement prospectively, therefore prior year comparative data is not available.

Total On-behalf payments were \$125,341.

City of Elizabethton and Elizabethton Electric Department

A Brief Description of the Retiree Medical and Life Insurance Plan:

Plan Types:

The City of Elizabethton, Tennessee will pay up to the level of the single premium paid for full-time City employees until the retiree reaches age 65. The actuarial valuation assumes the City will pay 98% of the single premium, which is the current level paid by the City for full-time employees.

The City of Elizabethton, Tennessee offers post-employment health care benefits to certain eligible employees. Full service eligible retirees are those age 60 or older with a minimum of 5 years of creditable city service at retirement, or retiring at any age with at least 30 years of service. Early retirees are those age 55 or older with a minimum 10 years of creditable city service at retirement, or retiring at any age with at least 25 years of service. The co-insurance rate of reimbursement depends on the plan the employee is covered by. The base plan has a \$1,500 deductible and out-of-pocket maximum of \$3,000 with an 80% co-insurance rate. The buy-up plan has a \$750 deductible and out-of-pocket maximum of \$1,500 with an 80% co-insurance rate. Fiscal year 2009 was the year of implementation of GASB Statement 45 and the City and Electric Department elected to implement prospectively, therefore, prior year comparable data is not available.

Full-time employees who retire after attaining eligibility for either full service or retirement are eligible to receive retirement benefits referred to as a retirement bonus and retirement gift. The amount of the retirement bonus is equal to \$2,500 for full service retirement with less than twenty years of service, \$3,000 with twenty to thirty years of service or \$3,500 with thirty or more years of service.

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 12 - RETIREMENT COMMITMENTS (CONTINUED)

Other Post-Employment Benefits – OPEB (Continued)

City of Elizabethton and Elizabethton Electric Department (Continued)

Plan Types (Continued):

The amount of the retirement bonus is equal to \$2,500 for early retirement. This benefit is paid in the form of single sum payment upon retirement. An additional retirement gift of \$25 per year of service is paid at the time of retirement to any employee retiring with a full service, early or disability retirement. Benefits are included in the Net OPEB Obligation as reflected on the Statement of Net Assets. An actuary study was performed and dated July 1, 2010 for these benefits and the same assumptions as disclosed for the retiree medical and life insurance plan were used.

Funding Policy:

The contribution requirements of plan members are based on pay-as-you go financing requirements.

Annual OPEB Cost and Net OPEB Obligation:

The City and Electric Department's other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (of funding excess) over a period not to exceed thirty years. The following table shows the components of the City and Electric Department's costs for the year, the amount actually contributed to the plan, and changes in the OPEB obligation.

	City	Electric Department
Annual OPEB Cost and Net OPEB Obligation		
Annual Required Contribution (ARC)	\$ 499,280	185,008
Interest on net OPEB Obligation	21,837	8,233
Adjustment to ARC	(66,082)	(12,352)
Annual OPEB Cost (Expense)	455,035	180,889
Contribution Made (assumed end of year)	223,963	114,759
Increase in Net OPEB Obligation	231,072	66,130
Net OPEB Obligation - Beginning of Year	545,915	205,823
Net OPEB Obligation - End of Year	\$ 776,987	271,953

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 12 - RETIREMENT COMMITMENTS (CONTINUED)

Other Post-Employment Benefits – OPEB (Continued)

City of Elizabethton and Elizabethton Electric Department (Continued)

Annual OPEB Cost and Net OPEB obligation (Continued):

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2011, 2010 and 2009 are as follows:

	Fiscal Year Ending	Annual OPEB Cost	Percentage Annual OPEB Cost Contributed	Net OPEB Obligation
City	6/30/2011	\$ 455,035	49%	\$ 776,987
City	6/30/2010	\$ 410,190	33%	\$ 545,515
City	6/30/2009	\$ 411,136	34%	\$ 271,011
Electric Department	6/30/2011	\$ 180,899	62%	\$ 271,953
Electric Department	6/30/2010	\$ 184,288	41%	\$ 205,823
Electric Department	6/30/2009	\$ 184,288	48%	\$ 97,472

Funded Status and Funding Progress:

As of July 1, 2010, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was \$4,236,054 for the City and \$1,892,996 for the Electric Department. The covered payroll was \$6,543,385 for the City and \$2,412,356 for the Electric Department and the ratio of the unfunded actuarial accrued liability (UAAL) to the covered payroll was 65% for the City and 78% for the Electric Department. The funding ratio was 0% for both.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 12 - RETIREMENT COMMITMENTS (CONTINUED)

Other Post-Employment Benefits – OPEB (Continued)

City of Elizabethton and Elizabethton Electric Department – OPEB (Continued)

Actuarial Methods and Assumptions:

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The following methods and assumptions were used.

The valuation date is July 1, 2010 and year one represents the period of July 1, 2010 to June 30, 2011. A discount rate of 4.0% was used to discount expected liabilities to the valuation dates. Future salaries are expected to increase at an annual rate of 3.0%. Average health care trend costs rates are assumed to increase by 10.0% (year 1), 9.5% (year 2), 9.0% (year 3), 8.5% (year 4), 8.0% (year 5 and 6), 7.5% (year 7 and 8), 7.0% (year 9 and 10), 6.5% (year 11 and 12), 6.0% (years 13 and 14) and 5.5% thereafter. The ARC was calculated using the level dollar amortization method, amortizing costs over 30 years on an open basis.

NOTE 13 - LITIGATION

Workers Compensation Claims

During the fiscal year ended June 30, 2011, 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 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 (TDEC) 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 the fiscal year.

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

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 arrangements 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.

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.

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. The landfill was closed in 2000 and there are no separately issued financial statements. The County has active permits on file with the State Department of Environment and Conservation and has provided the financial assurances for estimated postclosure liabilities as required by the State of Tennessee. The City and County each pay 50 percent of the monitoring costs. The County has recorded the full liability in their funds and bills the City for one-half of associated expenses in accordance to the written agreement.

NOTE 16 - COMMITMENTS

The Electric Department has active construction projects as of June 30, 2011 for substations and transmission lines. At year end the Department's commitments for the projects total approximately \$563,000.

NOTE 17 - PRIOR PERIOD ADJUSTMENT

A prior period adjustment was made to capitalize interest in relation to cost of borrowing and the fixed assets that the 2005, 2007 and 2010 Revenue Bond funds were used to purchase. The total amount of the adjustment was \$528,125.

CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 18 - CONCENTRATION

The City depends upon financial resources flowing from, or associated with, both the Federal Government and the State of Tennessee. Because of this dependency, the City is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State appropriations.

NOTE 19 - ACCOUNTING CHANGE

Provision of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* became effective for the year ended June 30, 2011.

GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. These classifications include nonspendable, restricted, committed, assigned, and unassigned and are based on the relative strength of the constraints that control how specific amounts can be spent. Also, Statement No. 54 clarified the definitions of the General Fund and the special revenue, capital projects, debt service, and permanent fund types. The City has implemented provisions of this statement in the financial statements of this report for their governmental funds.

NOTE 20 - SUBSEQUENT EVENTS

The Tennessee Department of Environment and Conservation approved the City's request for a State Revolving Fund Loan, DWO Project No. 2011-2012, New Well and Waterlines on June 24, 2011. This loan is in the amount of \$3,800,000 consisting of \$3,040,000 loan and \$760,000 in principal forgiveness. This loan will have an interest rate of 1.99% with repayment over 20 years. The timeline for this began in August 2011. In addition, a second request for a State Revolving Fund Loan 2011-2012 replacement of sewer lines, rehabilitation of pumping station and upgrade of treatment plant was approved on June 27, 2011. This loan is for \$2,800,000 with an interest rate of 1.84% and repayment over 20 years. As of June 30, 2011, a total of \$119,211 had been requested for this loan and is reflected as long-term debt as payment terms have not been finalized until the project is complete.

The City passed a property tax increase as well as increase in the water capital improvement monthly fee from \$4 to \$10. In addition, a Solid Waste Fee was approved as well as restructuring the Sanitation Fund as an Enterprise Fund.

The City has passed, on First reading, actions to commit previous fund balance reserves.

CITY OF ELIZABETHTON, TENNESSEE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
For the Fiscal Year Ended June 30, 2011

City of Elizabethton

(\$ amounts in thousands)		(AAL)				
Actuarial Valuation Date	Actuarial Value of Assets (a)	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, 2009	\$ 14,995	21,311	6,316	70.36%	6,989	90.37%
July 1, 2007	14,353	18,308	3,955	78.40%	6,232	63.46%

Elizabethton Board of Education

(\$ amounts in thousands)		(AAL)				
Actuarial Valuation Date	Actuarial Value of Assets (a)	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, 2009	\$ 5,684	6,607	923	86.03%	2,268	40.70%
July 1, 2007	5,388	6,143	755	87.71%	2,033	37.14%

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 method went into affect during the year of the 2007 actuarial valuation, therefore only the two most recent valuations are presented.

Elizabethton Electric Department

		(AAL)				
Actuarial Valuation Date	Actuarial Value of Assets (a)	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)
October 1, 2010	9,203,280	15,948,500	6,745,220	57.71%	2,114,294	319%
October 1, 2009	9,180,054	15,844,265	6,664,211	57.94%	2,076,560	321%
October 1, 2008	9,233,359	15,752,582	6,519,223	58.61%	2,303,866	283%

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS OF OTHER POST EMPLOYMENT
BENEFITS OTHER THAN PENSIONS
For the Fiscal Year Ended June 30, 2011

City of Elizabethton

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, 2010	\$ -	4,236,054	4,236,054	0.00%	6,543,385	64.74%
July 1, 2009	-	4,212,634	4,212,634	0.00%	5,952,293	70.77%
July 1, 2008	-	4,212,634	4,212,634	0.00%	5,952,293	70.77%

Elizabethton Electric Department

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, 2010	\$ -	1,892,996	1,892,996	0.00%	2,412,356	78.47%
July 1, 2009	-	2,213,194	2,213,194	0.00%	2,624,138	84.00%
July 1, 2008	-	2,212,211	2,212,211	0.00%	2,547,707	86.83%

Elizabethton City Schools

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, 2010	\$ -	5,606,000	5,606,000	0.00%	11,963,166	46.86%
July 1, 2009	-	5,589,000	5,589,000	0.00%	11,584,000	48.25%
July 1, 2007	-	5,515,000	5,515,000	0.00%	11,225,500	49.13%

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2011

	Special Revenue Funds						Permanent Fund	
	Police Drug Enforcement Fund	Police Community Relations Fund	Police Equipment Fund	Solid Waste/ Sanitation Fund	East TN Railroad Authority Fund	Total Capital Projects Funds	E. Bolling Memorial Trust Fund	Total Nonmajor Governmental Funds
ASSETS								
Cash	\$ 40,724	2,032	62,213	71,936	18,761	280,024	-	475,690
Due from Other Governments	855	-	-	-	-	-	-	855
Accounts Receivable	-	-	-	28,669	-	-	-	28,669
Due from Other Funds	2,258	-	-	4,394	-	-	-	6,652
Investments	49,346	-	-	-	-	-	30,303	79,649
Restricted Investments	-	-	-	-	-	204,547	-	204,547
TOTAL ASSETS	\$ 93,183	2,032	62,213	104,999	18,761	484,571	30,303	796,062
LIABILITIES AND FUND BALANCES								
Liabilities								
Accounts Payable	\$ -	-	1,752	25,169	-	840	-	27,761
Due to Other Funds	3,298	-	-	15,226	-	-	-	18,524
TOTAL LIABILITIES	3,298	0	1,752	40,395	0	840	0	46,285
FUND BALANCES								
Non-Spendable								
Bolling Trust	-	-	-	-	-	-	25,000	25,000
Restricted for:								
Police Community Relations	-	2,032	-	-	-	-	-	2,032
Department of Justice	15,386	-	-	-	-	-	-	15,386
Police Drug Fund	74,499	-	-	-	-	-	-	74,499
Railroad Fund	-	-	-	-	18,761	-	-	18,761
Fundraiser	-	-	-	-	-	1,819	-	1,819
Veteran's Walk of Honor	-	-	-	-	-	22,504	-	22,504
Vet Walk-Phase II	-	-	-	-	-	94,296	-	94,296
Veteran's Memorial	-	-	-	-	-	6,058	-	6,058
Debt Issue-Lynn Avenue	-	-	-	-	-	86,620	-	86,620
Bolling Trust	-	-	-	-	-	-	5,303	5,303
Committed to:								
Sanitation	-	-	-	64,604	-	-	-	64,604
Special Capital Projects	-	-	-	-	-	48,181	-	48,181
Park and Rec Capital Projects	-	-	-	-	-	42,456	-	42,456
Debt Issue	-	-	-	-	-	181,562	-	181,562
Tech Fee	-	-	60,461	-	-	-	-	60,461
Assigned:								
Joe O'Brien Field	-	-	-	-	-	235	-	235
TOTAL FUND BALANCES	89,885	2,032	60,461	64,604	18,761	483,731	30,303	749,777
TOTAL LIABILITIES AND FUND BALANCES	\$ 93,183	2,032	62,213	104,999	18,761	484,571	30,303	796,062

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE
COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECT FUNDS
June 30, 2011

Capital Projects Funds								
	Park and Recreation Capital Projects Fund	Joe O'Brien Field Fund	Special Capital Projects Fund	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 Project Funds
ASSETS								
Cash	\$ 43,296	2,054	48,181	63,635	22,504	94,296	6,058	280,024
Restricted Investments	-	-	-	204,547	-	-	-	204,547
TOTAL ASSETS	\$ 43,296	2,054	48,181	268,182	22,504	94,296	6,058	484,571
LIABILITIES AND FUND BALANCES								
Liabilities								
Accounts Payable	\$ 840	-	-	-	-	-	-	840
TOTAL LIABILITIES	840	0	0	0	0	0	0	840
FUND BALANCES								
Restricted For:								
Fundraiser	-	1,819	-	-	-	-	-	1,819
Veteran's Walk of Honor	-	-	-	-	22,504	-	-	22,504
Vet Walk-Phase II	-	-	-	-	-	94,296	-	94,296
Veteran's Memorial	-	-	-	-	-	-	6,058	6,058
Debt Issue-Lynn Avenue	-	-	-	86,620	-	-	-	86,620
Committed to:								
Special Capital Projects	-	-	48,181	-	-	-	-	48,181
Park and Rec Capital Projects	42,456	-	-	-	-	-	-	42,456
Debt Issue	-	-	-	181,562	-	-	-	181,562
Assigned to:								
Joe O'Brien Field	-	235	-	-	-	-	-	235
TOTAL FUND BALANCES	42,456	2,054	48,181	268,182	22,504	94,296	6,058	483,731
TOTAL LIABILITIES AND FUND BALANCES	\$ 43,296	2,054	48,181	268,182	22,504	94,296	6,058	484,571

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 For the Fiscal Year Ended June 30, 2011

	Special Revenue Funds					Permanent Fund	Total Nonmajor Governmental Funds
	Police Drug Enforcement Fund	Police Community Relations Fund	Police Equipment Fund	Solid Waste/ Sanitation Fund	East TN Railroad Authority Fund	E. Bolling Memorial Trust Fund	
REVENUES							
Charges for Services	\$ -	-	-	548,678	-	-	548,678
Fines and Forfeitures	54,666	-	38,325	-	-	-	92,991
Interest Income	102	3	-	-	29	63	1,202
Miscellaneous	1,027	-	-	4,646	-	-	5,673
Donations	50	1,025	-	-	-	-	32,830
Grant Income	-	-	-	-	-	-	34,858
TOTAL REVENUES	55,845	1,028	38,325	553,324	29	63	716,232
EXPENDITURES							
General Government	4,614	-	-	868,770	-	-	873,384
Public Safety	62,866	-	22,008	-	-	-	84,874
Capital Outlay	-	-	-	-	-	-	229,626
Other Expenditures	-	-	-	-	-	-	121,278
TOTAL EXPENDITURES	67,480	0	22,008	868,770	0	0	1,309,162
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(11,635)	1,028	16,317	(315,446)	29	63	(592,930)
OTHER FINANCING SOURCES (USES)							
Transfer from General Fund	-	-	-	250,000	-	-	250,000
Transfer to General Fund	-	-	(104,983)	-	-	-	(104,983)
TOTAL OTHER FINANCING SOURCES (USES)	0	0	(104,983)	250,000	0	0	145,017
Net Change in Fund Balance	(11,635)	1,028	(88,666)	(65,446)	29	63	(447,913)
FUND BALANCE, JULY 1, 2010	101,520	1,004	149,127	130,050	18,732	30,240	1,197,690
FUND BALANCES, JUNE 30, 2011	\$ 89,885	2,032	60,461	64,604	18,761	30,303	749,777

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR CAPITAL PROJECT FUNDS
 For the Fiscal Year Ended June 30, 2011

	Capital Projects Funds							Total
	Park and Recreation Capital Projects Fund	Joe O'Brien Field Fund	Special Capital 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	Nonmajor Capital Projects Funds
REVENUES								
Interest Income	\$ 91	-	76	769	36	22	11	1,005
Grant Income	34,858	-	-	-	-	-	-	34,858
Donations	-	555	-	-	-	31,200	-	31,755
TOTAL REVENUES	34,949	555	76	769	36	31,222	11	67,618
EXPENDITURES								
Capital Outlay	63,357	-	-	166,269	-	-	-	229,626
Other Expenditures	22,900	504	-	93,545	776	2,776	777	121,278
TOTAL EXPENDITURES	86,257	504	0	259,814	776	2,776	777	350,904
Net Change in Fund Balance	(51,308)	51	76	(259,045)	(740)	28,446	(766)	(283,286)
FUND BALANCE, JULY 1, 2010	93,764	2,003	48,105	527,227	23,244	65,850	6,824	767,017
FUND BALANCES, JUNE 30, 2011	\$ 42,456	2,054	48,181	268,182	22,504	94,296	6,058	483,731

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, 2011

	Budgeted Amounts			Variance
	Original	Final	Actual	Favorable (Unfavorable)
REVENUES				
Task Force	\$ 3,000	3,000	7,316	4,316
Interest Earned	400	400	102	(298)
Drug Fines - Courts	20,060	58,060	41,209	(16,851)
Fines and Forfeitures	1,000	10,000	6,141	(3,859)
Auction Proceeds	-	3,000	1,027	(1,973)
Donations	-	-	50	50
TOTAL REVENUES	24,460	74,460	55,845	(18,615)
EXPENDITURES				
General Government		500	4,614	(4,114)
Salaries and Benefits	9,207	9,207	7,691	1,516
Insurance	951	951	901	50
Vehicle Maintenance and Fuel	5,802	30,302	21,427	8,875
Police Grants	-	32,500	32,230	270
Appropriation - Task Force	8,500	-	617	(617)
Contracted Services	-	1,000	-	1,000
TOTAL EXPENDITURES	24,460	74,460	67,480	6,980
DEFICIENCY OF REVENUES UNDER EXPENDITURES	-	-	(11,635)	(11,635)
FUND BALANCE, JULY 1, 2010	101,520	101,520	101,520	-
FUND BALANCE, JUNE 30, 2011	\$ 101,520	101,520	89,885	(11,635)

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, 2011

	Budgeted Amounts			Variance
	Original	Final	Actual	Favorable (Unfavorable)
REVENUES				
Donations	\$ 1,000	1,000	1,025	25
Interest Earned	-	-	3	3
TOTAL REVENUES	1,000	1,000	1,028	28
EXPENDITURES				
Public Safety	1,000	1,000	-	1,000
TOTAL EXPENDITURES	1,000	1,000	0	1,000
EXCESS OF REVENUES OVER EXPENDITURES	-	-	1,028	1,028
FUND BALANCE, JULY 1, 2010	1,004	1,004	1,004	-
FUND BALANCE, JUNE 30, 2011	\$ 1,004	1,004	2,032	1,028

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, 2011

	Budgeted Amounts			Variance
	Original	Final	Actual	Favorable (Unfavorable)
REVENUES				
Fines and Forfeitures	\$ 65,000	65,000	38,325	(26,675)
TOTAL REVENUES	65,000	65,000	38,325	(26,675)
EXPENDITURES				
Public Safety	65,000	65,000	22,008	42,992
TOTAL EXPENDITURES	65,000	65,000	22,008	42,992
EXCESS OF REVENUES OVER EXPENDITURES	-	-	16,317	16,317
OTHER FINANCING SOURCES (USES)				
Transfer to General	-	-	(104,983)	(104,983)
TOTAL OTHER FINANCING SOURCES (USES)	0	0	(104,983)	(104,983)
Net Change in Fund Balance	-	-	(88,666)	(88,666)
FUND BALANCE, JULY 1, 2010	149,127	149,127	149,127	-
FUND BALANCE, JUNE 30, 2011	\$ 149,127	149,127	60,461	(88,666)

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, 2011

	Budgeted Amounts			Variance
	Original	Final	Actual	Favorable (Unfavorable)
REVENUES				
Bulk Container Fees	\$ 540,500	540,500	546,644	6,144
Miscellaneous	200	200	4,646	4,446
Sale of Containers	2,600	2,600	2,034	(566)
TOTAL REVENUES	543,300	543,300	553,324	10,024
EXPENDITURES				
Salary	308,497	308,497	298,009	10,488
Employee Benefits	39,737	39,737	-	39,737
Containers	5,000	5,000	5,271	(271)
Contracted Services	1,000	21,450	34,775	(13,325)
Uniforms	4,200	4,200	2,955	1,245
Supplies and Materials	33,850	21,900	12,399	9,501
Vehicle Maintenance	125,500	117,000	112,996	4,004
Insurance	7,744	7,744	9,175	(1,431)
Rental	500	500	38	462
Landfill and Other Fees	405,000	405,000	393,152	11,848
TOTAL EXPENDITURES	931,028	931,028	868,770	62,258
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(387,728)	(387,728)	(315,446)	72,282
OTHER FINANCING SOURCES (USES)				
Transfer from General	387,728	387,728	250,000	(137,728)
TOTAL OTHER FINANCING SOURCES (USES)	387,728	387,728	250,000	(137,728)
Net Change in Fund Balance	-	-	(65,446)	(65,446)
FUND BALANCE, JULY 1, 2010	130,050	130,050	130,050	-
FUND BALANCE, JUNE 30, 2011	\$ 130,050	130,050	64,604	(65,446)

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, 2011

	Budgeted Amounts			Variance
	Original	Final	Actual	Favorable (Unfavorable)
REVENUES				
Interest Earned	\$ -	-	29	29
Grant Income	151,000	151,000	-	(151,000)
TOTAL REVENUES	151,000	151,000	29	(150,971)
EXPENDITURES				
Street and Railroad Improvements	151,000	151,000	-	151,000
TOTAL EXPENDITURES	151,000	151,000	0	151,000
EXCESS OF REVENUES OVER EXPENDITURES	-	-	29	29
FUND BALANCE, JULY 1, 2010	18,732	18,732	18,732	-
FUND BALANCE, JUNE 30, 2011	\$ 18,732	18,732	18,761	29

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, 2011

	Budgeted Amounts			Variance
	Original	Final	Actual	Favorable (Unfavorable)
REVENUES				
Grant Income	\$ 431,125	431,125	34,858	(396,267)
Interest Earned	-	-	91	91
TOTAL REVENUES	431,125	431,125	34,949	(396,176)
EXPENDITURES				
Operating Expenses	571,990	571,990	22,900	549,090
Capital Outlay	-	-	63,357	(63,357)
TOTAL EXPENDITURES	571,990	571,990	86,257	485,733
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(140,865)	(140,865)	(51,308)	89,557
OTHER FINANCING SOURCES (USES)				
Transfer from General	32,140	32,140	-	(32,140)
TOTAL OTHER FINANCING SOURCES (USES)	32,140	32,140	0	(32,140)
Net Change in Fund Balance	(108,725)	(108,725)	(51,308)	57,417
FUND BALANCE, JULY 1, 2010	93,764	93,764	93,764	-
FUND BALANCE, JUNE 30, 2011	\$ (14,961)	(14,961)	42,456	57,417

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, 2011

	Budgeted Amounts			Variance
	Original	Final	Actual	Favorable (Unfavorable)
REVENUES				
Interest Earned	\$ 50	50	-	(50)
Donations	-	1,200	555	(645)
TOTAL REVENUES	50	1,250	555	(695)
EXPENDITURES				
Other Expenditures	-	1,200	504	696
Capital Outlay	50	50	-	50
TOTAL EXPENDITURES	50	1,250	504	746
EXCESS OF REVENUES OVER EXPENDITURES	-	-	51	51
FUND BALANCE, JULY 1, 2010	2,003	2,003	2,003	-
FUND BALANCE, JUNE 30, 2011	\$ 2,003	2,003	2,054	51

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, 2011

	Budgeted Amounts			Variance
	Original	Final	Actual	Favorable (Unfavorable)
REVENUES				
Grant Income	\$ 422,000	422,000	-	(422,000)
Interest	-	-	76	76
TOTAL REVENUES	422,000	422,000	76	(421,924)
EXPENDITURES				
Capital Outlay	422,000	422,000	-	422,000
TOTAL EXPENDITURES	422,000	422,000	0	422,000
EXCESS OF REVENUES OVER EXPENDITURES	0	0	76	76
FUND BALANCE, JULY 1, 2010	48,105	48,105	48,105	0
FUND BALANCE, JUNE 30, 2011	\$ 48,105	48,105	48,181	76

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, 2011

	Budgeted Amounts			Variance
	Original	Final	Actual	Favorable (Unfavorable)
REVENUES				
Interest Earned	\$ -	-	769	769
TOTAL REVENUES	0	0	769	769
EXPENDITURES				
Operating Supplies and Materials	-	-	93,545	(93,545)
Capital Outlay	750,000	750,000	166,269	583,731
TOTAL EXPENDITURES	750,000	750,000	259,814	490,186
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(750,000)	(750,000)	(259,045)	490,955
OTHER FINANCING SOURCES (USES)				
Capital Outlay Note Proceeds	500,000	500,000	-	(500,000)
TOTAL OTHER FINANCING SOURCES (USES)	500,000	500,000	0	(500,000)
Net Change in Fund Balance	(250,000)	(250,000)	(259,045)	(9,045)
FUND BALANCE, JULY 1, 2010	527,227	527,227	527,227	-
FUND BALANCE, JUNE 30, 2011	\$ 277,227	277,227	268,182	(9,045)

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, 2011

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
REVENUES				
Interest Earned	\$ 50	50	36	(14)
TOTAL REVENUES	50	50	36	(14)
EXPENDITURES				
Other Operating Expenses	50	1,050	776	274
TOTAL EXPENDITURES	50	1,050	776	274
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	(1,000)	(740)	260
FUND BALANCE, JULY 1, 2010	23,244	23,244	23,244	-
FUND BALANCE, JUNE 30, 2011	\$ 23,244	22,244	22,504	260

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, 2011

	Budgeted Amounts			Variance
	Original	Final	Actual	Favorable (Unfavorable)
REVENUES				
Interest Earned	\$ -	-	22	22
Donations	20,000	20,000	31,200	11,200
TOTAL REVENUES	20,000	20,000	31,222	11,222
EXPENDITURES				
Other Operating Expenses	20,000	20,000	2,776	17,224
TOTAL EXPENDITURES	20,000	20,000	2,776	17,224
EXCESS OF REVENUES OVER EXPENDITURES	-	-	28,446	28,446
FUND BALANCE, JULY 1, 2010	65,850	65,850	65,850	-
FUND BALANCE, JUNE 30, 2011	\$ 65,850	65,850	94,296	28,446

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, 2011

	Budgeted Amounts			Variance
	Original	Final	Actual	Favorable (Unfavorable)
REVENUES				
Interest Earned	\$ 25	25	11	(14)
TOTAL REVENUES	25	25	11	(14)
EXPENDITURES				
General Government	25	1,025	777	248
TOTAL EXPENDITURES	25	1,025	777	248
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	(1,000)	(766)	234
FUND BALANCE, JULY 1, 2010	6,824	6,824	6,824	-
FUND BALANCE, JUNE 30, 2011	\$ 6,824	5,824	6,058	234

See Independent Auditors' Report.

SUPPLEMENTAL
SECTION

CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2011

CFDA Number	Program Name/ Grant Number	Grantor Agency	Balance June 30, 2010	Cash Receipts	Expenditures	Balance June 30, 2011
PRIMARY GOVERNMENT						
ELIZABETHTON MUNICIPAL AIRPORT						
20.106	Corporate Hanger / Z-0703768500	U.S. Department of Transportation	\$ (14,695)	34,365	19,670	-
Total Elizabethton Municpal Airport			(14,695)	34,365	19,670	-
GENERAL FUND						
10.766	Rural Libraries Computer Labs Grant	USDA - Rural Development	-	-	6,728	(6,728) *
16.000	Appalachian High Intensity Drug Trafficking Area	U.S. Department of Justice	(7,844)	13,507	15,000	(9,337) *
45.310	TN State Library and Archives / LSTA Technology Grant		-	4,200	4,200	-
16.710	ARRA - Crime Prevention/Park Monitoring Program 2009-SB-B9-0629	U.S. Department of Justice	-	34,858	34,858	-
Total General Fund			(7,844)	52,565	60,786	(16,065)
WATER AND SEWER FUND						
Pass-Through State of TN Department of Economic and Community Development						
14.228	Community Development Block Grant GG-09-27986-00	U.S. Department of Housing and Urban Development	(62,881)	445,623	382,742	-
Total Water and Sewer Fund			(62,881)	445,623	382,742	0
Total Primary Government			\$ (85,420)	532,553	463,198	(16,065)

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.

* Receivable

** Unused Revenue

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF EXPENDITURES OF STATE AWARDS
For the Fiscal Year Ended June 30, 2011

State Grant Number	Program Name/ Grant Number	Grantor Agency	Balance June 30, 2010	Cash Receipts	Expenditures	Balance June 30, 2011
PRIMARY GOVERNMENT						
ELIZABETHTON MUNICIPAL AIRPORT						
AERO-M11-119	Maintenance	TN Department of Transportation	\$ -	10,076	13,000	(2,924) *
Z-07-037646	Maintenance	TN Department of Transportation	-	9,862	9,862	-
Z-07-037665	Pierce Street Relocation	TN Department of Transportation	(1,823)	570,114	569,318	(1,027) *
Total Elizabethton Municipal Airport			(1,823)	590,052	592,180	(3,951)
GENERAL FUND						
30504-00111-15	Rural Library Computer Lab grant	TN State Library and Archives	-	15,138	15,138	-
CMA 1304 Project 10951-4263-04	Highway Maintenance	TN Department of Transportation	-	53,054	62,185	(9,131) *
Total General Fund			0	68,192	77,323	(9,131)
WATER AND SEWER FUND						
TDOT SR362	Contracts 7440 and 7441	TN Department of Transportation	-	37,756	37,756	-
Total Water and Sewer Fund			0	37,756	37,756	0
Total Primary Government			\$ (1,823)	696,000	707,259	(13,082)
* Receivable ** Unused Revenue						

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF INTERFUND TRANSFERS
June 30, 2011

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
<u>Operating Transfers Among Funds</u>			
General	Solid Waste/Sanitation	To provide for operations	\$ 250,000
General	Elizabethton Municipal Airport	To provide for operations	145,000
Police Equipment	General	To provide for operations	104,983
Elizabethton Electric Department	General	In-Lieu of Taxes	<u>616,286</u>
Total Transfers			<u>\$ 1,116,269</u>

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF CHANGES IN GENERAL BONDED DEBT AND NOTES PAYABLE -
PRIMARY GOVERNMENT
June 30, 2011

	Balance July 1, 2010	General Obligation Debt Additions	General Obligation Debt Retired	Balance June 30, 2011
<u>General Bonded Debt</u>				
General Fund:				
General Obligation - Series 2010B	\$ 505,000	-	-	505,000
General Obligation - School Bond Series 2008	6,300,000	-	450,000	5,850,000
	<u>6,805,000</u>	<u>0</u>	<u>450,000</u>	<u>6,355,000</u>
Total General Bonded Debt	<u>\$ 6,805,000</u>	<u>0</u>	<u>450,000</u>	<u>6,355,000</u>
<u>Notes Payable</u>				
General Fund:				
Capital Outlay Note - 2009	\$ 1,200,000	-	120,000	1,080,000
Capital Outlay Note - 2004	624,998	-	104,167	520,831
Capital Outlay Note - 2006	927,210	-	95,404	831,806
	<u>2,752,208</u>	<u>0</u>	<u>319,571</u>	<u>2,432,637</u>
Total Notes Payable	<u>\$ 2,752,208</u>	<u>0</u>	<u>319,571</u>	<u>2,432,637</u>

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS
ALL FUNDS - PRIMARY GOVERNMENT
June 30, 2011

<u>Fiscal Year Ending</u>	<u>Bond Requirements</u>	<u>Interest Requirements</u>	<u>Total Requirements</u>
6/30/2012	\$ 2,265,000	2,385,593	4,650,593
6/30/2013	2,426,740	2,343,414	4,770,154
6/30/2014	2,249,802	2,502,048	4,751,850
6/30/2015	2,178,238	2,557,135	4,735,373
6/30/2016	2,205,045	2,515,418	4,720,463
6/30/2017	2,230,755	2,466,335	4,697,090
6/30/2018	2,267,463	2,416,479	4,683,942
6/30/2019	2,288,969	2,367,102	4,656,071
6/30/2020	2,327,050	2,313,126	4,640,176
6/30/2021	2,366,680	2,254,551	4,621,231
6/30/2022	2,407,841	2,189,459	4,597,300
6/30/2023	2,426,116	2,172,593	4,598,709
6/30/2024	2,547,525	2,132,575	4,680,100
6/30/2025	2,154,526	2,058,092	4,212,618
6/30/2026	2,168,687	1,986,666	4,155,353
6/30/2027	2,233,682	1,911,889	4,145,571
6/30/2028	2,304,471	1,831,860	4,136,331
6/30/2029	2,371,004	1,738,296	4,109,300
6/30/2030	2,448,844	1,631,558	4,080,402
6/30/2031	2,058,977	1,307,698	3,366,675
6/30/2032	1,985,000	602,212	2,587,212
6/30/2033	2,060,000	480,862	2,540,862
6/30/2034	2,145,000	352,031	2,497,031
6/30/2035	2,235,000	215,157	2,450,157
6/30/2036	2,325,000	72,656	2,397,656
	<u>\$ 56,677,415</u>	<u>44,804,805</u>	<u>101,482,220</u>

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF NOTE PRINCIPAL AND INTEREST REQUIREMENTS
ALL FUNDS - PRIMARY GOVERNMENT
June 30, 2011

<u>Fiscal Year Ending</u>	<u>Note Requirements</u>	<u>Interest Requirements</u>	<u>Total Requirements</u>
6/30/2012	\$ 327,929	126,155	454,084
6/30/2013	1,028,018	84,879	1,112,897
6/30/2014	348,168	65,603	413,771
6/30/2015	337,802	51,786	389,588
6/30/2016	342,880	38,036	380,916
6/30/2017	244,020	26,027	270,047
6/30/2018	249,562	15,934	265,496
6/30/2019	153,310	7,075	160,385
6/30/2020	<u>120,000</u>	<u>2,281</u>	<u>122,281</u>
	<u>\$ 3,151,689</u>	<u>417,776</u>	<u>3,569,465</u>

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF NOTE PRINCIPAL AND INTEREST REQUIREMENTS -
COMPONENT UNITS
June 30, 2011

<u>Fiscal Year Ending</u>	<u>Note Requirements</u>	<u>Interest Requirements</u>	<u>Total Requirements</u>
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>\$ 188,194</u>	<u>1,829</u>	<u>190,023</u>

See Independent Auditors' Report.

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

	Fiscal Year								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
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	4,609,854	4,456,326	4,890,080
Unrestricted	8,168,083	9,215,921	7,031,709	6,789,683	7,194,201	7,018,313	13,995,100	9,572,482	6,863,855
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>	<u>18,604,954</u>	<u>14,028,808</u>	<u>11,753,935</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	49,348,344	36,573,549	45,788,517
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	10,776,548	23,982,437	17,750,477
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>	<u>60,124,892</u>	<u>60,555,986</u>	<u>63,538,994</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	53,958,198	41,029,875	50,678,597
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	24,771,648	33,554,919	24,614,332
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>	<u>78,729,846</u>	<u>74,584,794</u>	<u>75,292,929</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 Nine Fiscal Years
(Accrual Basis of Accounting)

	Fiscal Year								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
EXPENSES									
Governmental Activities									
General Government	\$ 2,030,392	1,134,721	1,838,201	1,964,833	2,092,175	2,312,896	2,313,294	2,320,021	2,315,622
Public Safety	3,427,386	3,708,331	3,819,315	4,220,050	4,498,229	4,691,754	4,761,540	4,921,251	5,121,011
Public Works	1,353,398	1,682,033	1,519,457	1,655,130	1,710,488	1,709,253	1,975,372	1,892,643	2,096,641
Health and Welfare	139,881	149,075	128,225	128,009	133,507	143,386	147,151	147,272	164,820
Building Code Enforcement	212,241	232,388	252,559	245,923	236,687	267,685	279,931	297,039	300,851
Community Development	86,594	95,519	128,953	97,378	128,559	150,503	135,716	190,682	189,330
Culture and Recreation	1,086,283	1,087,214	1,177,105	1,255,737	1,335,822	1,279,218	1,317,757	1,237,217	1,231,555
Education	2,332,000	2,332,000	2,332,000	2,332,000	2,332,000	2,332,000	2,586,950	7,006,578	4,491,562
Other	375,257	749,080	782,368	597,845	1,110,518	511,202	575,514	396,513	319,608
Interest on Long-Term Debt	136,954	168,413	126,176	100,446	124,408	120,050	228,870	336,470	303,926
Total Governmental Activities Expenses	11,180,386	11,338,774	12,104,359	12,597,351	13,702,393	13,517,947	14,322,095	18,745,686	16,534,934
Business-Type Activities									
Water and Sewer	5,240,685	5,924,594	6,101,136	6,258,684	6,351,520	6,421,106	6,891,218	6,775,618	7,287,257
Electric Department	34,580,165	35,949,729	35,655,992	38,562,527	41,233,588	44,584,278	51,200,732	48,649,864	55,127,228
Airport	396,805	462,861	576,956	686,323	737,428	1,101,139	1,110,919	963,492	1,050,289
Total Business-Type Activities Expenses	40,217,655	42,337,184	42,334,084	45,507,534	48,322,536	52,106,523	59,202,869	56,388,974	63,464,774
Total Primary Government Expenses	51,398,041	53,675,958	54,438,443	58,104,885	62,024,929	65,624,470	73,524,964	75,134,660	79,999,708
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	2,079,922	1,977,331	2,051,561
Operating Grants and Contributions	155,364	233,578	77,139	137,993	180,494	634,089	315,366	60,871	47,830
Capital Grants and Contributions	56,287	350,497	255,533	334,270	464,532	60,697	93,220	66,147	34,858
Total Governmental Activities Program Revenues	1,553,625	1,809,697	1,594,533	2,117,878	2,217,084	2,675,276	2,488,508	2,104,349	2,134,249
Business-Type Activities									
Charges for Services	41,249,758	43,380,657	44,050,045	48,187,308	50,749,078	53,113,524	59,673,864	56,637,930	65,321,181
Operating Grants and Contributions	291,766	-	427,175	337,513	257,984	-	-	-	-
Capital Grants and Contributions	-	-	519,040	-	56,040	652,044	871,820	613,273	1,019,347
Total Business-Type Activities Program Revenues	41,541,524	43,380,657	44,996,260	48,524,821	51,063,102	53,765,568	60,545,684	57,251,203	66,340,528
Total Primary Government Program Revenues	\$43,095,149	45,190,354	46,590,793	50,642,699	53,280,186	56,440,844	63,034,192	59,355,552	68,474,777

(Continued)

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

	Fiscal Year								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
NET (EXPENSE) REVENUE									
Governmental Activities	\$ (7,294,761)	(9,529,077)	(10,509,826)	(10,479,473)	(11,485,309)	(10,842,671)	(11,833,587)	(16,641,337)	(14,400,685)
Business-Type Activities	1,323,869	1,043,473	2,662,176	3,017,287	2,740,566	1,659,045	1,342,815	862,229	2,875,754
Total Primary Government Net (Expense) Revenue	<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>	<u>(10,490,772)</u>	<u>(15,779,108)</u>	<u>(11,524,931)</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	3,921,523	3,982,150	4,008,863
Sales Taxes	2,724,745	2,811,594	3,215,945	3,631,223	3,805,354	4,127,085	4,507,121	4,110,095	4,137,126
In-Lieu of Taxes	714,784	16,203	47,644	29,861	26,124	36,733	29,903	27,805	29,333
Business Taxes	193,140	200,805	217,419	251,306	240,944	250,850	259,183	150,884	298,423
Other Taxes	-	-	-	-	-	-	462,971	477,250	480,090
Other Local Governments	116,946	100,885	160,733	166,627	108,421	93,987	67,687	65,246	322,381
State Aid	1,719,320	1,672,268	1,720,914	1,773,976	2,195,451	1,649,418	1,943,782	1,947,533	1,943,661
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	149,530	74,730	25,810
Miscellaneous	-	(3,570)	42,056	56,370	24,893	35,582	519,837	683,002	408,839
Special Item - Donations of Assets	1,486,963	-	-	-	-	-	14,482	-	-
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	349,788	546,496	471,286
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>	<u>12,225,807</u>	<u>12,065,191</u>	<u>12,125,812</u>
Business-Type Activities									
Unrestricted Investment Earnings	89,701	77,409	161,073	285,842	540,614	601,753	493,865	115,361	50,415
Miscellaneous	272	52,773	-	1,159	4,879	-	-	-	-
Transfers	40,500	-	(651,408)	(652,642)	(286,823)	(367,314)	(349,788)	(546,496)	(471,286)
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>	<u>144,077</u>	<u>(431,135)</u>	<u>(420,871)</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>	<u>12,369,884</u>	<u>11,634,056</u>	<u>11,704,941</u>
CHANGE IN NET ASSETS									
Governmental Activities	1,506,291	845,299	341,649	521,005	(449,119)	427,597	392,220	(4,576,146)	(2,274,873)
Business-Type Activities	1,454,342	1,173,655	2,171,841	2,651,646	2,999,236	1,893,484	1,486,892	431,094	2,454,883
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>	<u>1,879,112</u>	<u>(4,145,052)</u>	<u>180,010</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 Nine Fiscal Years
(Modified Accrual Basis of Accounting)

	Fiscal Year								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
General Fund									
Non-Spendable	\$ -	-	-	-	-	-	-	-	187,398
Restricted	-	-	-	-	-	-	-	-	330,378
Committed	-	-	-	-	-	-	-	-	1,629,890
Assigned	-	-	-	-	-	-	-	-	381,351
Unassigned	-	-	-	-	-	-	-	-	4,132,802
Designated	4,121,618	4,168,892	4,000,273	4,178,565	4,085,787	3,651,625	11,171,656	7,289,320	-
Unreserved	3,320,969	3,351,326	2,363,630	1,951,297	1,646,915	2,201,376	1,741,002	1,536,347	-
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>	<u>12,912,658</u>	<u>8,825,667</u>	<u>6,661,819</u>
All Other Governmental Funds									
Non-Spendable	-	-	-	-	-	-	-	-	25,000
Restricted	-	-	-	-	-	-	-	-	327,278
Committed	-	-	-	-	-	-	-	-	397,264
Assigned	-	-	-	-	-	-	-	-	235
Unassigned	-	-	-	-	-	-	-	-	-
Unreserved, Reported in:									
Special Revenue Funds	64,008	101,729	15,509	201,206	128,398	199,524	374,442	400,433	-
Capital Projects Funds	258,729	1,197,712	309,109	494,150	974,305	916,396	915,604	767,017	-
Permanent Fund	25,143	25,409	25,939	27,011	28,465	29,652	30,133	30,240	-
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>	<u>1,320,179</u>	<u>1,197,690</u>	<u>749,777</u>

Beginning in the Fiscal Year 2011, the presentation of fund balance was changed to conform with GASB 54.

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 Nine Fiscal Years
(Modified Accrual Basis of Accounting)

	Fiscal Year								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
REVENUES									
Taxes	\$ 7,234,119	6,528,005	7,066,193	7,604,318	7,868,022	8,429,613	9,130,476	8,709,195	8,868,012
Licenses and Permits	54,434	98,223	75,465	93,181	97,991	95,095	130,030	96,781	84,244
Intergovernmental	1,899,574	1,908,501	1,859,661	1,925,234	2,045,305	2,192,700	2,052,531	2,039,177	2,281,042
Charges for Services	1,861,406	1,800,276	1,874,032	2,005,518	2,125,682	2,433,889	2,405,205	2,460,199	2,438,111
Donations	56,287	180,895	23,210	176,801	140,796	141,807	14,482	34,473	32,830
Grant Income	81,427	253,514	253,920	348,354	702,489	134,028	367,524	66,147	34,858
Fines and Forfeitures	286,211	233,385	229,768	314,885	273,425	260,435	444,687	320,351	329,206
Miscellaneous	459,253	402,720	503,053	642,254	552,244	487,078	519,837	694,911	441,088
Interest Earned	133,909	104,744	111,514	241,377	301,217	233,457	149,530	74,730	25,810
TOTAL REVENUES	12,066,620	11,510,263	11,996,816	13,351,922	14,107,171	14,408,102	15,214,302	14,495,964	14,535,201
EXPENDITURES									
General Government	2,550,823	2,362,721	2,444,515	2,559,403	2,859,524	3,086,714	3,030,589	3,060,510	2,993,468
Public Safety	3,417,453	3,460,461	3,667,343	4,045,478	4,294,937	4,493,299	4,456,234	4,627,091	4,835,792
Public Works	1,127,023	1,288,844	1,148,397	1,290,099	1,363,400	1,355,854	1,570,336	1,492,740	1,730,028
Health and Welfare	138,991	144,000	127,125	125,157	132,641	142,785	145,815	146,388	163,984
Building Code Enforcement	207,111	221,218	252,127	245,905	236,743	268,427	278,497	297,039	300,851
Community Development	88,577	91,331	128,737	97,354	128,608	151,174	134,677	190,682	189,330
Education	2,332,000	2,332,000	2,332,000	2,332,000	2,332,000	2,332,000	2,586,950	7,006,578	4,491,562
Culture and Recreation	1,005,781	975,717	1,092,553	1,175,390	1,238,513	1,174,843	1,178,826	1,173,744	1,211,861
Special Appropriations	220,438	224,625	280,657	225,432	197,632	285,114	202,146	202,146	198,330
Capital Outlay	261,925	362,768	2,088,323	690,096	1,128,103	281,060	110,588	1,540,221	265,081
Debt Service:									
Principal	564,856	2,090,000	589,166	599,167	679,542	717,844	736,583	785,489	769,570
Interest	142,393	137,264	123,041	105,453	127,822	117,289	141,732	329,227	346,423
Paying Agent Fees	874	33,537	3,136	1,487	-	1,383	133,485	3,539	690
Lease Payments	2,754	886	-	-	-	-	-	51,215	-
Other Operating Expenses	154,819	524,455	501,712	411,724	912,888	232,927	373,368	194,367	121,278
TOTAL EXPENDITURES	12,215,818	14,249,827	14,778,832	13,904,145	15,632,353	14,640,713	15,079,826	21,100,976	17,618,248
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(149,198)</u>	<u>(2,739,564)</u>	<u>(2,782,016)</u>	<u>(552,223)</u>	<u>(1,525,182)</u>	<u>(232,611)</u>	<u>134,476</u>	<u>(6,605,012)</u>	<u>(3,083,047)</u>
OTHER FINANCING SOURCES (USES)									
Capital Outlay Note Proceeds	-	1,250,000	-	-	1,250,000	-	-	1,200,000	-
Bond Proceeds	-	1,675,000	-	-	-	-	6,750,000	505,000	-
Capital Lease	-	-	-	-	-	-	-	144,036	-
Sale of Fixed Assets	-	265,000	-	-	-	-	-	-	-
Transfers In	342,041	1,013,397	1,012,413	1,334,342	1,364,173	929,314	943,288	1,417,455	971,269
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>	<u>(593,500)</u>	<u>(870,959)</u>	<u>(499,983)</u>
TOTAL OTHER FINANCING SOURCES (Uses)	(40,500)	3,794,165	651,408	689,992	1,536,823	367,314	7,099,788	2,395,532	471,286
Net Change in Fund Balances	\$ (189,698)	1,054,601	(2,130,608)	137,769	11,641	134,703	7,234,264	(4,209,480)	(2,611,761)
Debt Service as a Percentage of Noncapital Expenditures	5.92%	16.04%	5.61%	5.33%	5.57%	5.82%	5.87%	5.70%	6.43%

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, 2010	Add Taxes Leined	Deduct Collections	Adjustments, Releases/ Abatements, Late Listings/Discoveries	Taxes Receivable at June 30, 2011
2011	\$ -	4,459,832	-	-	4,459,832
2010	3,985,860	-	(3,592,128)	(34,225)	359,507
2009	290,742	-	(221,403)	(5,134)	64,205
2008	79,577	-	(35,843)	(31)	43,703
2007	40,202	-	(7,780)	(37)	32,385
2006	24,219	-	(4,716)	(532)	18,971
2005	13,248	-	(496)	-	12,752
2004	13,708	-	(95)	-	13,613
2003	19,231	-	-	-	19,231
2002	4,436	-	-	-	4,436
2001	1,760	-	-	-	1,760
2000	3,707	-	-	-	3,707
1999	2,988	-	-	-	2,988
1998	4,059	-	-	-	4,059
Total	<u>\$ 4,483,737</u>	<u>4,459,832</u>	<u>(3,862,461)</u>	<u>(39,959)</u>	<u>5,041,149</u>

As of October 1, 2011, 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		
2010	\$ 217,582,031	731,318,801	30%	1.78
2009	216,807,173	727,791,154	30%	1.78
2008	214,686,906	721,095,965	30%	1.78
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

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE
COMPUTATION OF LEGAL DEBT MARGIN (UNAUDITED)
June 30, 2011

	Fiscal Year 2011
	<hr/>
Total Assessed Property	\$ 217,582,031
	<hr/>
Legal Debt Limit - 10% of Assessed Value	21,758,203
General Obligation Debt	<hr/> (6,355,000)
Margin for Additional Borrowing	<hr/> \$ 15,403,203
	<hr/>

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 (UNAUDITED)
 LAST TEN FISCAL YEARS

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General Bonded Debt	<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>	<u>6,890,000</u>	<u>6,805,000</u>	<u>6,355,000</u>
Assessed Valuation	<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>	<u>214,686,906</u>	<u>216,807,173</u>	<u>217,582,031</u>
Ratio of General Bonded Debt to Assessed Value	<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>	<u>3.21%</u>	<u>3.14%</u>	<u>2.92%</u>
Bonded Debt per Capita 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>	<u>14,017</u>	<u>14,017</u>	<u>14,017</u>
Bonded Debt per Capita	<u>\$ 245</u>	<u>216</u>	<u>188</u>	<u>155</u>	<u>122</u>	<u>87</u>	<u>49</u>	<u>492</u>	<u>485</u>	<u>453</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 (UNAUDITED)
LAST TEN YEARS

<u>Fund</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
General Fund	\$ 2.30	2.30	2.30	2.30	2.30	1.78	1.78	1.78	1.78	1.78
<u>Assessed Valuation</u>										
Real and Personal	\$ 140,540,336	151,671,448	145,919,809	148,756,011	156,216,923	213,075,562	214,594,913	214,599,241	216,807,173	217,582,031
Public Utility	126,920	124,635	112,161	119,592	94,182	88,765	87,665	87,665	87,035	93,880
Total Assessed Valuation	\$ 140,667,256	151,796,083	146,031,970	148,875,603	156,311,105	213,164,327	214,682,578	214,686,906	216,894,208	217,675,911

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, 2011

	<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 \$ 7.28	Minimum 13.58
Above 1,000 to 500,000 gallons	3.08	5.88
Above 500,000 to 1,000,000 gallons	2.36	4.05
Above 1,000,000 gallons	2.26	3.8
<u>Wholesale Rates for Water for Utility Districts</u>		
First 100,000 gallons or less		Minimum 462.00
Above 100,000 gallons		4.30/m
<u>Sewer Rates for Residential, Industrial and Commercial</u>		
Base Rate	10.42	13.79
Cost per 1,000 gallons up to 9,000 gallons	2.46	4.61
Cost per 1,000 gallons over 9,000 gallons	2.46	3.36
<u>Number of Customers</u>		
Water (Inside and Outside)	11,288	
Sewer (Inside and Outside)	5,425	

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF UNACCOUNTED FOR WATER (UNAUDITED)
For the Fiscal Year Ended June 30, 2011

Schedule of Unaccounted for Water

(All amounts in gallons)

A	Water Treated and Purchased:		
B	Water Pumped (potable)	1,846,246,000	
C	Water Purchased	4,367,900	
D	Total Water Treated and Purchased		1,850,613,900
	(Sum Lines B and C)		
E	Accounted for Water:		
F	Water Sold	802,361,563	
G	Metered for Consumption (in house usage)	116,384	
H	Fire Department(s) Usage	102,125	
I	Flushing	27,471,723	
J	Tank Cleaning/Filling	0	
K	Street Cleaning	0	
L	Bulk Sales	0	
M	Water Bill Adjustments/plus(minus)	4,226,911	
N	Total Accounted for Water		834,278,706
	(Sum Lines F thru M)		
O	Unaccounted for Water		1,016,335,194
	(Line D minus Line N)		
P	Percent Unaccounted for Water		54.919%
	(Line O divided by Line D times 100)		

Q **Other (explain)** See Below

Explain Other: Missing a large part of Fire Departments usage, and limited meters at other facilities.
(Flushing also includes flushing for repairs and new lines)

All amounts included in this schedule are supported by documentation on file at the water system. If no support is on file for a line item or if line item is not applicable, a "0" is shown.

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE
CURRENT UTILITY RATES AND NUMBER OF CUSTOMERS (UNAUDITED)
June 30, 2011

<u>Residential Rate Schedule</u>	<u>RS</u>	
Customer Charge -		
per delivery point per month		
(\$9.50 less \$1.71 hydro allocation credit)	\$11.18	
Energy Charge - per kWh per month	\$0.92620	
<u>General Power Rate Schedule</u>	<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	\$14.46	\$1,500.00
Energy Charge - per kWh per month	\$0.10302	
Per kWh up to 620 hours per month		\$0.94830
Per kWh all additional per month		\$0.02771
Demand Charge - per kW per month		\$21.03
<i>Part 2.</i>		
Customer Charge		
Per delivery point per month	\$55.00	
Demand Charge - per kW per month		
First 50 kW	\$0.00	
Excess over 50kW per month	\$12.14	
Energy charge - per kWh per month		
First 15,000 kWh	\$0.10302	
Additional kWh per month	\$0.06367	
<i>Part 3.</i>		
Customer Charge		
Per delivery point per month	\$150.00	
Demand Charge - per kW per month		
First 1,000 kW	\$12.73	
Excess over 1,000 kW	\$13.97	
Excess of higher of 2,500 kW or contract demand	\$0.00	
Energy Charge - per kWh per month		
First 15,000 kWh	\$0.06367	
Additional kWh	\$0.06367	
<u>Outdoor Lighting Rate Schedule</u>	<u>LS</u>	
Customer Charges		
Per delivery point per month	\$3.70	
Energy Charge - per kWh	\$0.06700	
<u>Number of Customers</u>		
Residential	22,717	
General	3,098	
Street, Athletic and Outdoor Lighting	172	
Total Customers	<u>25,987</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 City Manager
City of Elizabethton, Tennessee 37643

We have audited the 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 fiscal year ended June 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 7, 2011. Our report includes a reference to other auditors. 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. Other auditors audited the financial statements of the Elizabethton Municipal Airport, a blended component unit, as described in our report on the City of Elizabethton, Tennessee's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City'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 the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration on internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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

We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses: 2010-04 and 2010-05.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and responses to be significant deficiencies: 2011-01 through 2011-04, 2010-07, and 2007-03.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2011-01 through 2011-04, 2010-04, 2010-05, 2010-07 and 2007-03.

We noted certain other matters that we reported to management of the City of Elizabethton, Tennessee in a separate letter dated December 7, 2011.

The City of Elizabethton, Tennessee's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. 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 management, the City Council, others within the City, and is not intended to be and should not be used by anyone other than these specified parties.

Blackburn, Childers & Steagall, PLC
BLACKBURN, CHILDERS & STEAGALL, PLC

December 7, 2011

CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2011

CURRENT YEAR FINDINGS

2011-01: Significant Deficiency: City – Net Loss and Cash Flow

Condition: The General Fund experienced a significant decline of approximately \$2,485,000 in total cash, certificates of deposit and investments. The General Fund incurred a net loss of approximately \$2,164,000. Also, the Water and Sewer Fund experienced a significant decline of approximately \$310,000 in cash and cash equivalents, investments and certificates of deposit.

Criteria: In both funds, the cash balances should be adequate to properly cover expenditures as well as unanticipated expenditures.

Effect: The effect of this deficiency could result in cash flow constraints and concern for the continuation of needed services and programs.

Recommendation: The Government Finance Officers Association (GFOA) recommends, at a minimum, that general-purpose governments should maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures. In addition, state statutes require water and sewer fund operations to have a rate structure sufficient to cover expenditures. Municipal officials should ensure cash reserves are in place in order to meet obligations.

Management's Response: The Elizabethton City Council recognized a cash flow issue in the last budget cycle and implemented the first property tax increase in 19 years. In addition, the Council moved solid waste collection, which in the past had been subsidized by the general fund, into an enterprise fund and added a new residential fee in addition to the previous commercial fee. A fund balance policy was also approved that set the goal for an unassigned fund balance of 15% of annual operating expenses. The Council has also approved a 3% rate increase for the new fiscal year and increased the water capital improvement fee by \$6. These two actions should be adequate to properly cover expenditures as well as unanticipated expenditures.

2011-02: Significant Deficiency: Elizabethton Electric – Bank Reconciliations

Condition: It appears that monthly bank reconciliations are lacking proper and timely approval. It was also noted that the bank reconciliation form did not contain all reconciling items needed in order to agree the general ledger to the ending bank balance.

Criteria: To enhance internal controls and to increase proper oversight and independent review, all monthly bank reconciliations should appropriately document all reconciling items needed to agree the general ledger to the bank balance and should be properly and timely approved. The *Internal Control and Compliance Manual for Tennessee Municipalities* (Manual) issued by the Tennessee Comptroller in Title 5, Chapter 1, section 9 indicates that municipal officials should ensure that bank statements are reconciled with the cash balances presented in the accounting records. Bank reconciliations should be prepared within 30 days after the bank statements are received from the bank. In addition, the Manual indicated in Title 6, Chapter 1 that municipal officials should provide constant, close supervision to ensure that bank accounts and control accounts in the municipality's accounting records are being reconciled systematically and the reconciliation is documented and retained.

CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2011

CURRENT YEAR FINDINGS (CONTINUED)

2011-02: Significant Deficiency: Elizabethton Electric – Bank Reconciliations (Continued)

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

Recommendation: We recommend that monthly bank reconciliations show in detail how the general ledger agrees to the ending bank balance each month. These reconciliations should be properly documented and approved.

Management's Response: Bank reconciliations will be reviewed timely by the Finance Director and/or the Deputy Finance Director. Reconciliations will be in similar form and include documentation as presented in the general fund.

2011-03: Significant Deficiency: Elizabethton Electric – Software Conversion Billing Adjustments

Condition: It was noted that an independent computer and data consultant, under contract with the City to assist with the Incode data conversion, also assisted the customer service department with billing issues and other customer account issues caused by the conversion. There is no evidence that any adjustments made to the system, or customer account setups, by this consultant have been reviewed or approved.

Criteria: To enhance internal controls and to increase proper oversight and independent review, all adjustments should be appropriately documented and approved.

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

Recommendation: We recommend that the City Council approve a new contract with this independent consultant that specifically states the types of adjustments this individual is approved to make. We also recommend that all adjustments posted by the consultant be appropriately documented and approved.

Management's Response: Independent consultants will not have the authority to make adjustments except under the direct documented supervision of an authorized City employee. The Electric Department is currently revising the standard procedure manual formally identified as SAS 70 to outline necessary requirements for any adjustments to customer accounts.

CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2011

CURRENT YEAR FINDINGS (CONTINUED)

2011-04: Significant Deficiency: City – Excess Water Loss

Condition: The City reported a water loss percentage of 54.919% as of June 30, 2011 which exceeds the excessive water loss percentage of 35% set by the State of Tennessee Utility Management Review Board.

Criteria: In accordance with TCA 7-82-702 and 68-221-1009(a), the Utility Management Review Board and the Water and Wastewater Financing Board have set an excessive water loss percentage at 35%.

Effect: The City is experiencing a water loss in excess of the water loss percentage of 35% set by the State of Tennessee Utility Management Review Board, therefore its annual financial statements will be referred to the appropriate board for further action.

Recommendation: We recommend that the City continue to take the appropriate measures to bring the loss within the limit set by the State of Tennessee Utility Management Review Board.

Management's Response: A four-person crew will be dedicated to finding and fixing water leaks and reducing the water loss in the system. The expenses of the "crew" are expected to be approximately \$500,000 annually and are budgeted in FY 2012. The City has been repairing water leaks for several years but realizes the program must become more aggressive with the dedicated crew and other actions described in the Water Loss Reduction Plan that has been approved by TDEC. A water loss reduction goal of 5% annually has been established for the program.

The Water Loss Reduction Program will consist of the following components: Leakage Detection Program, Water Line Replacement Program, Water Meter Testing, Calibration, and Repair Program, and Automatic Water Meter Reading (AMR) Program.

The first part of the program would initiate the leakage detection program. This would include the purchase of water leakage location and assessment equipment and tools to be used by City personnel for locating and documenting actual system leaks. The leaks will be repaired on a priority basis with the highest leakage setting the priorities.

The initial phase of the water line replacement program would replace approximately 30,000 linear feet of aged galvanized steel water lines. The program will continue each year to include water line replacements and leak repairs by City personnel who are dedicated to these activities as their primary operations responsibilities. A specific lineal footage of water line replacement will be targeted each year based on the leak detection findings and priorities.

The water meter testing, calibration and repair programs to fully detail the extent of the City's leakage problem and prioritize the repair efforts needed to reduce the City's unaccounted for water. The highest priority water meters and water lines would be designated for repair or replacement. The City will also continue a program of large meter testing, calibration, and repair on the large water meters.

CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2011

CURRENT YEAR FINDINGS (CONTINUED)

2011-04: Significant Deficiency: City – Excess Water Loss (Continued)

Management's Response (Continued): It is anticipated that all water plant finished water meters, distribution system master meters, and the water meters for the 10-20 largest water customers will be tested, calibrated, and repaired/replaced if necessary to minimize unaccounted for water due to measurement errors.

Additionally, the initiation of an automatic water meter reading (AMR) system for approximately 25% of the City's water meters will allow the City to reallocate resources and personnel from reading water meters to leak detection and water line repair. The meter replacement program will continue over four years with approximately 25% of the meters replaced each year.

PRIOR YEAR FINDINGS NOT IMPLEMENTED

2010-04: Material Weakness: Elizabethton Electric – Journal Entries (Repeated from 6/30/10 Report)

Condition: It appears that journal entries are lacking proper and timely approval before they are posted to the system. There also appears to be lack of supporting documentation for all posted journal entries.

Criteria: To enhance internal controls and to increase proper oversight and independent review, all adjustments and transfers should be appropriately documented and approved. The *Internal Control and Compliance Manual for Tennessee Municipalities* (Manual) issued by the Tennessee Comptroller in Title 2, Chapter 2 indicates that municipal officials should ensure that a management level employee periodically review journal entries to determine that they are approved.

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 the timely review and approval of all journal entries. Someone other than the preparer should review these items. We suggest that a monthly listing of all entries posted be maintained.

Management's Response: All journal entries will be logged in the same manner that the City's General Fund have been in the past. Supporting documentation will be filed with all journal entries. The Finance Director and/or the Deputy Finance Director will review and approve journal entries.

CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2011

PRIOR YEAR FINDINGS NOT IMPLEMENTED (CONTINUED)

2010-05: Material Weakness: Elizabethton Electric – Audit Adjustments (Repeated from 6/30/2010 Report, with additional current year items noted)

Condition: Under current professional standards, the Electric Department is responsible for the internal control process which includes the preparation of year end financial statements in accordance with generally accepted accounting principles and the accrual basis of accounting. Audit adjustments were necessary to properly state account balances including: investments, capitalized interest, accounts payable and compensated absences.

Criteria: General ledger accounts should be timely reviewed, reconciled to the appropriate supporting documentation or subsidiary ledger reports and adjusted. The Manual indicates in Title 6, Chapter 1 that municipal officials should provide constant, close supervision to ensure that:

- Internal controls are working
- Personnel are following the prescribed routines
- Bank accounts and control accounts in the municipality's accounting records are being reconciled systematically and the reconciliation is documented and retained.

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

Recommendation: We recommend a procedure be in place to prepare routine, monthly and year end reconciliations for general ledger accounts to the supporting documentation and subsidiary ledgers and to make related adjustments. The procedure should require retention of supporting documentation for all entries and transfers, including indication of appropriate review and approval. These routine reconciliations and adjustments will ensure meaningful and accurate financial statements. Reconciliation of Statement of Net Assets and other significant accounts quickly identify errors and needed corrections. If reconciliations are performed infrequently, errors and adjustments can occur, resulting in the need for significant corrections when the reconciliations are performed. Any reconciling differences should be corrected before the books are closed for the month end.

Management's Response: Management recognizes its responsibility to review and reconcile relevant account balances so as to reduce and eliminate audit adjustments. Checklists created for the general fund for yearend closings will be applied to the Electric Department to help prevent and/or detect errors and irregularities.

CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2011

PRIOR YEAR FINDINGS NOT IMPLEMENTED (CONTINUED)

2010-07: Significant Deficiency: Elizabethton Electric – Cash Flow Concerns (Repeated from 6/30/2010 Report, with additional current year items noted)

Condition: While net income increased from prior year by approximately \$1,690,000, cash flow issues continue to remain a concern. With the substantial drop in certificates of deposit and investments at yearend with additional decrease subsequent to year end, the Department's ability to finance operations during another major storm is questionable. The Department also continues to be involved in several large projects that are requiring a considerable amount of the Department's funds.

Criteria: State statutes require electric operations to have a rate structure sufficient to cover expenditures. Enterprise funds should be self-supporting, and cash balances should be adequate to properly cover expenses.

Effect: The effect of this deficiency creates overall concern for cash management.

Recommendation: Revenues and expenses should be reviewed to provide adequate income for the Department. Monthly budgets and financial reports should be prepared and reviewed. Municipal officials should ensure cash reserves are in place in order to meet obligations. The Government Finance Officers Association (GFOA) has issued as a "Best Practice" a summary memorandum titled, Appropriate Levels of Working Capital in Enterprise Funds. Within this best practice, the GFOA recommends that local governments adopt a target amount of working capital to maintain in each of their enterprise funds. GFOA recommends that governments develop a target that best fits local conditions for each fund. However, GFOA recommends that under no circumstances should the target for working capital be less than 45 days worth of annual operating expenses. The memorandum also discusses several items to consider including, "cash cycles", demand services and controls over rates and revenues. The best practices can be obtained from the GFOA's website.

Management's Response: We have scheduled a City Council workshop for October 25, 2011 to discuss a possible rate increase to alleviate long-term concerns with cash. We have also started the application process for a letter of credit to address short-term cash flow concerns.

CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2011

PRIOR YEAR FINDINGS NOT IMPLEMENTED (CONTINUED)

2007-03: Significant Deficiency: Elizabethton Electric – Work Orders (Repeated from 6-30-07 Report, with additional current year items noted)

Condition: Proper work order procedures and controls were not always followed. In some instances, materials and contracted labor were entered as both a purchase order and a payable. This required the reversal of those amounts that were entered twice. It appears that engineering did not always properly describe any aid to construction information on the work order. Several instances were noted of major work orders not being properly and timely closed. It was also noted that the Department did not maintain the proper supporting documentation for changes to work orders during the year. It was noted that there was a lack of proper documentation and/or support for the “retirements” made during the year mainly due to the Department’s decision to discontinue the use of the current work order management system. Some detail was available, but the support did not document dollar values, therefore none of the support could be traced back into the general ledger.

Criteria: Proper work order procedures should be followed to document all aspects of the work 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. The Department should account for work orders using a work order management system, on a continuous basis, that has the ability to post all transactions into the general ledger and generate reports that detail all aspects of each work order.

Effect: The effect of this deficiency results in a weakness in proper controls over financial reporting. The lack of a work order management system for the allocation of costs for open jobs (materials, store expense, transportation, direct labor (hours and cost), direct cost and aid to construction, indirect labor, and contract labor), and the process of properly closing jobs opens the Department to substantial risk of misstatements, errors, and or fraudulent reporting.

Recommendation: We recommend that work orders be completed in full detail, and work orders should be reviewed and properly approved. Since an accurate work order system is the backbone of a utility district’s operations, we also suggest the Department select and implement a new system as soon as possible.

Management’s Response: In our current software conversion, we are specifically addressing work order documentation, timing, flow and coordination through the various individuals needed to complete the process. In as much as the work order portion has not been implemented, it is impossible to describe the specific remedies to individual concerns. However the City, in the conversion process, is using the audit finding as the standard for successful implementation.

CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2011

PRIOR YEAR FINDINGS IMPLEMENTED

<u>Number</u>	<u>Finding</u>	<u>Page</u>
2010-01	Audit Adjustments	131
2010-02	Authorizations	131
2010-03	Disbursements	132
2010-06	Supporting Documentation – Bond Funds	134
2009-01	Net Loss and Cash Flow	136
2009-02	Information Technology Controls	136