



ELIZABETHTON ELECTRIC DEPARTMENT

**AN ENTERPRISE FUND OF THE
CITY OF ELIZABETHTON, TENNESSEE**

AUDITED FINANCIAL STATEMENTS

For the Fiscal Year Ending June 30, 2015

CITY OF ELIZABETHTON ELECTRIC DEPARTMENT

AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE

FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

For the Fiscal Year Ended June 30, 2015

CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
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CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
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SECTION I

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Honorable Mayor, City Council Members and
City Manager
City of Elizabethton Electric Department

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the City of Elizabethton Electric Department (the Department), an enterprise fund of the City of Elizabethton, Tennessee, as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

City of Elizabethton Electric Department
Independent Auditors' Report

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the City of Elizabethton Electric Department, an enterprise fund of the City of Elizabethton, Tennessee, as of June 30, 2015, and the respective changes in financial position and cash flows for the fiscal year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the City of Elizabethton Electric Department and do not purport to, and do not present fairly the financial position of the City of Elizabethton, Tennessee as of June 30, 2015, the changes in its financial position, or where applicable, its cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Change in Accounting Principle

As described in Note 12 to the financial statements, in fiscal year 2015, the City of Elizabethton Electric Department adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No.71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No.68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information on pages 4 through 8 and 41 through 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Elizabethton Electric Department's basic financial statements. The supplemental information section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplemental schedules (audited), as listed in the table of contents, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The supplemental schedules (unaudited), as listed in the table of contents, have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2015, on our consideration of the City of Elizabethton Electric Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Elizabethton Electric Department's internal control over financial reporting and compliance.

Blackburn, Childers & Steagall, PLC

BLACKBURN, CHILDERS & STEAGALL, PLC
Johnson City, Tennessee

December 5, 2015

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015**

The following is the Management's Discussion and Analysis (MD&A) of the financial statements and supporting documents for the City of Elizabethton Electric Department, an enterprise fund of the City of Elizabethton, Tennessee for the fiscal year ended June 30, 2015.

This MD&A should be read in conjunction with the financial statements and all supporting documents that follow this analysis.

Elizabethton Electric provides electric power to over 26,000 customers in a distribution area covering over 150 square miles in Northeast Tennessee that includes the City of Elizabethton, Town of Watauga and parts of Johnson City. Elizabethton Electric also serves Carter and parts of Sullivan, Unicoi and Washington counties.

Overview of the Financial Statements

The annual report consists of three sections. Section I includes the independent auditors' report, the basic financial statements, including the Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, the Statement of Cash Flows, and the notes to the basic financial statements. Section II includes all supplemental information.

The financial statements are prepared using the accrual basis of accounting. All short-term assets and long-term assets are recorded. Revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of related cash flows.

Section III includes the report on Internal Control and Compliance.

Elizabethton Electric Department Activity Highlights

The Elizabethton Electric Department had an overall increase in customer growth this year. The following chart shows the number of customers for each classification for the past two years.

	<u>2015</u>	<u>2014</u>
Residential	22,856	22,896
Small Commercial	2,885	2,869
Large Commercial/Industrial	252	252
Street and Athletic Lighting	50	24
Outdoor Lighting Only	183	20
Total	<u>26,226</u>	<u>26,061</u>

As indicated by the above chart, Residential decreased .17% and Small Commercial increased .55% over the past year. Street and Athletic increased 108% and Outdoor Lighting increased 815%. Overall customers increased .63%.

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015**

Capital Assets

The Elizabethton Electric Department has implemented an infrastructure improvement program, which was developed from our 10 Year System study. The study was conducted to reveal any potential delivery issues and help plan for growth in the upcoming years as indicated in the following chart:

	<u>2015</u>	<u>2014</u>
Transmission Plant	\$ 36,062,634	32,818,869
Distribution Plant	54,005,304	52,914,641
General Plant	8,528,525	7,987,326
Construction Work in Progress	856,007	3,745,990
	<u>\$ 99,452,470</u>	<u>97,466,826</u>

The Construction Work in Progress account includes the total of the balances of work orders for electric plant in process of construction. This account also includes capitalized interest in order to show the relationship between the costs of borrowing and the fixed assets the debt used to fund.

In 2010, the Elizabethton Electric Department received a bond, \$20,585,000, to rebuild and upgrade significant power lines and substation construction. The work has continued through 2015.

Debt

The Elizabethton Electric Department currently has five bond issues outstanding. One in 2005, \$3,495,000, refunding issue. One in 2007, \$15,000,000, that was issued to update and improve three of our substations. The third bond, as mentioned above, was issued in 2010, \$20,585,000, to upgrade and rebuild substations and significant power lines and will be paid in full in 2035. One in 2015, \$9,280,000, refunding issue that will be paid in full in 2028. One in 2015, \$1,905,000, refunding issue that will be paid in full in 2022.

Pensions

Elizabethton Electric Department employees prior to October 1, 2005 participate in a non-governmental CSA pension plan. Monthly contributions are made based on annual evaluations. Last year the unfunded amount was \$7,152,048 with a funded ratio of 57.11%. This year the net pension liability is \$6,133,878 with a net position ratio of 63.24%.

Employees hired after January 12, 2007 participate in a defined benefit public employee retirement plan administered by Tennessee Consolidated Retirement System. The Elizabethton Electric Department's share of the net pension liability is \$556,574.

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015**

Summary of Changes in Net Position

	<u>2015</u>	<u>2014</u>
Operating Revenues	\$ 56,261,166	56,875,926
Operating Expenses	<u>49,212,158</u>	<u>49,334,595</u>
Operating Income Before Depreciation and Amortization	7,049,008	7,541,331
Less: Depreciation	<u>(2,949,579)</u>	<u>(2,013,885)</u>
Operating Income	4,099,429	5,527,446
Non-operating Revenues (Expenses)	(1,429,132)	(954,128)
Transfers	<u>(1,487,838)</u>	<u>(850,126)</u>
Change in Net Position	<u>\$ 1,182,459</u>	<u>3,723,192</u>

Operating and Non-operating Revenue Highlights

The following schedule presents a summary of revenues for the fiscal years ended June 30:

Operating Revenues

	<u>2015</u>	<u>2014</u>
Electric Sales Revenue	\$ 54,893,073	55,398,637
Revenue from Late Payments	309,462	373,805
Miscellaneous Service Revenues	311,616	290,649
Rent from Electric Property	<u>747,015</u>	<u>812,835</u>
Total Operating Revenues	<u>56,261,166</u>	<u>56,875,926</u>
Other Income	<u>44,231</u>	<u>37,067</u>
Total Revenues	<u>\$ 56,305,397</u>	<u>56,912,993</u>

Included in Electric Sales Revenues is Unbilled Revenue or the estimation of electricity used, but not billed.

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015**

- Electric sales revenue decreased by 1% from the prior year.
- Revenue from late payments decreased by 18% from the prior year.
- Rent from electric property due to billing of pole attachment fees decreased by 9% from the prior year.

Operating and Maintenance Expense

	<u>2015</u>	<u>2014</u>
Operations		
Purchased Power	\$ 42,676,758	42,174,807
Transmission Expense	2,496	3,551
Distribution Expense	1,030,015	1,569,002
Customer Accounts Expense	1,039,850	1,120,419
Sales Expense	46,669	54,607
Administrative & General Expense	1,823,913	1,682,589
	<u>46,619,701</u>	<u>46,604,975</u>
Maintenance		
Transmission Expense	159,096	222,740
Distribution Expense	1,717,931	1,749,298
Administrative & General Expense	86,801	148,861
	<u>1,963,828</u>	<u>2,120,899</u>
Other		
Depreciation and Taxes	3,578,208	2,622,606
Interest and Amortization Expense	1,473,363	991,195
	<u>5,051,571</u>	<u>3,613,801</u>
Total Expenses	<u>53,635,100</u>	<u>52,339,675</u>
Transfers	<u>(1,487,838)</u>	<u>(850,126)</u>
Change in Net Position	<u>\$ 1,182,459</u>	<u>3,723,192</u>

- Operation Expense increased by 1% over the prior year.
- Maintenance Expense decreased 8%.
- Other Expense increased by 48% over the prior year.

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015**

Financial Position Summary

A condensed summary of the Elizabethton Electric Department's total net position for the fiscal years ended June 30:

Financial Position Summary	<u>2015</u>	<u>2014</u>
Current Assets	\$ 25,394,955	24,855,904
Restricted Assets	2,515,516	2,522,422
Capital Assets (net)	74,932,334	75,359,780
Other Assets	<u>1,341,146</u>	<u>1,453,484</u>
Total Assets	<u>\$ 104,183,951</u>	<u>104,191,590</u>
Deferred Bond Refunding Costs	\$ 636,660	47,678
Deferred Outflow Related to Pension	<u>882,907</u>	<u>-</u>
Total Deferred Outflow of Resources	<u>\$ 1,519,567</u>	<u>47,678</u>
Current Liabilities	\$ 11,362,183	11,048,880
Non-Current Liabilities	<u>42,420,764</u>	<u>36,129,582</u>
Total Liabilities	<u>53,782,947</u>	<u>47,178,462</u>
Deferred Inflows Related to Pension	<u>237,674</u>	<u>-</u>
Net Investment in Capital Assets	40,620,805	40,266,730
Unrestricted Net Position	<u>11,062,092</u>	<u>16,794,076</u>
Total Net Position	<u>\$ 51,682,897</u>	<u>57,060,806</u>

The financial report is designed to provide a general overview of the Elizabethton Electric Department's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in the report or requests for additional information should be addressed to the Financial Director, City of Elizabethton, 136 S. Sycamore Street, Elizabethton, TN 37643.

CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
STATEMENT OF NET POSITION
June 30, 2015

ASSETS	
Current Assets	
Cash on Hand	\$ 13,744
Cash in Bank	12,767,539
Investments	5,369,798
Accounts Receivable	
Customer Service	2,446,636
Interest, Rents and Other	4,035,050
Allowance for Uncollectible Amounts	(138,265)
Due from Other Funds	10,139
Inventories	890,314
	<hr/>
Total Current Assets	25,394,955
Non-Current Assets	
Capital Assets	
Capital Assets, Not Depreciated	1,458,701
Capital Assets, Depreciated	97,993,769
Accumulated Depreciation	(24,520,136)
	<hr/>
Net Capital Assets	74,932,334
Other Assets	
Restricted Cash in Bank - Customer Deposits	2,515,516
Accounts Receivable - Customers - Energy Right	1,311,309
CSA Stockholder Loan	29,837
	<hr/>
Total Other Assets	3,856,662
	<hr/>
Total Non-Current Assets	78,788,996
	<hr/>
TOTAL ASSETS	104,183,951
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows Related to Pensions	882,907
Deferred Gain on Bond Refunding Costs	636,660
	<hr/>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,519,567
	<hr/>

(Continued)

CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
STATEMENT OF NET POSITION
June 30, 2015

LIABILITIES	
Current Liabilities	
Accounts Payable	6,871,280
Accrued Interest	519,520
Bonds Payable	1,175,000
Compensated Absences	107,796
Due to Other Funds	31,156
Customer Deposits Payable from Restricted Cash	2,515,516
Other Current and Accrued Liabilities	<u>141,915</u>
Total Current Liabilities	<u>11,362,183</u>
Non-Current Liabilities	
Compensated Absences	227,059
Bonds Payable (Net of Bond Premium)	33,773,189
Net Pension Liability	6,690,452
Net OPEB Obligation	407,547
Advance from TVA - Energy Right	<u>1,322,517</u>
Total Non-Current Liabilities	<u>42,420,764</u>
TOTAL LIABILITIES	<u><u>53,782,947</u></u>
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Related to Pensions	<u>237,674</u>
NET POSITION	
Net Investment in Capital Assets	40,620,805
Unrestricted	<u>11,062,092</u>
TOTAL NET POSITION	<u><u>\$ 51,682,897</u></u>

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

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Fiscal Year Ended June 30, 2015**

OPERATING REVENUES	
Sales of Electric Energy	
Residential	\$ 35,503,735
Small Lighting and Power	4,685,257
Large Commercial and Industrial	13,800,643
Street and Outdoor Lighting	963,044
Other Operating Revenues	<u>1,308,487</u>
Total Operating Revenues	<u>56,261,166</u>
OPERATING EXPENSES	
Operation	
Power Purchased from Tennessee Valley Authority	42,676,758
Other Operating Expenses	3,942,943
Maintenance	1,963,828
Provision for Depreciation	2,949,579
Tax and Tax Equivalents	<u>628,629</u>
Total Operating Expenses	<u>52,161,737</u>
Operating Income	<u>4,099,429</u>
NONOPERATING REVENUES (EXPENSES)	
Interest on Invested Funds	44,231
Interest Expense	(1,473,363)
Total Nonoperating Revenues (Expenses)	<u>(1,429,132)</u>
Income Before Transfer	2,670,297
Transfer Out	<u>(1,487,838)</u>
Change in Net Position	<u>1,182,459</u>
Beginning Net Position, July 1, 2014	<u>57,060,806</u>
Prior Period Restatement	<u>(6,560,368)</u>
Beginning Net Position, July 1, 2014, Restated	<u>50,500,438</u>
ENDING NET POSITION, JUNE 30, 2015	<u><u>\$ 51,682,897</u></u>

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

CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Electric Sales	\$ 53,803,884
Cash Received from City of Elizabethton, Tennessee	1,169,693
Cash Received from Rentals and Other Sales	1,148,579
Cash Payments to Suppliers for Goods and Services	(48,249,853)
Cash Payments for Employee Services and Benefits	(678,269)
Cash Payments for Tax Equivalents	<u>(441,197)</u>
Net Cash Provided by Operating Activities	<u>6,752,837</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfer to Other Fund	<u>(1,487,838)</u>
Net Cash Used for Noncapital Financing Activities	<u>(1,487,838)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and Construction of Capital Assets	(2,631,444)
Principal Paid on Revenue Bonds	(11,480,000)
Net Proceeds from Refunding Bonds	10,480,000
Interest Paid on Revenue Bonds	<u>(1,338,211)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(4,969,655)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on Certificates of Deposit	44,231
Purchase of Certificates of Deposit and Investments	<u>(3,774,107)</u>
Net Cash Used for Investing Activities	<u>(3,729,876)</u>
NET DECREASE IN CASH	(3,434,532)
CASH, BEGINNING OF FISCAL YEAR	<u>18,731,331</u>
CASH, END OF FISCAL YEAR	<u><u>\$ 15,296,799</u></u>

(Continued)

CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2015

Reconciliation of Operating Income to
Net Cash Provided by Operating Activities:

Operating Income	\$ 4,099,429
Adjustments	
Depreciation	3,058,892
Change in Net Pension Liability	130,084
Change in Deferred Outflows Related to Pensions	(882,907)
Change in Deferred Inflows Related to Pensions	237,674
(Increase) Decrease in Assets	
Net Accounts Receivable-Customer Service	(213,376)
Net Accounts Receivable-Interest, Rent and Other	89,919
Inventories	43,225
Increase (Decrease) in Liabilities	
Accounts Payable	150,511
Other Current and Accrued Liabilities	(44,879)
Compensated Absences	6,789
Net OPEB Obligation	17,524
Customer Deposits Payable from Restricted Cash	59,952
Net Cash Provided by Operating Activities	\$ 6,752,837

Reconciliation of Cash to Statement of Net Position

Cash on Hand	\$ 13,744
Cash in Bank	12,767,539
Restricted Cash in Bank - Customer Deposits	2,515,516
Total Cash	\$ 15,296,799

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

CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Elizabethton Electric Department (the Department) is a utility furnishing electrical power to Carter County and portions of other Upper East Tennessee counties. The Department purchases its electrical power from the Tennessee Valley Authority (TVA).

The Department is a fund of the City of Elizabethton, Tennessee. These financial statements include only the statements of the Department and not the City of Elizabethton, Tennessee, as a whole.

The financial statements of the Department have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

The Department does not have any net position restricted via constraints. Accordingly, the Department's net position is categorized as net investment in capital assets and unrestricted. The unrestricted category includes the sinking fund which was established by the Department to set aside funds for payment of bonds related to capital improvements and extensions of the Department.

Measurement Focus and Basis of Accounting

Measurement focus indicates the type of resources being measured. Basis of accounting refers to the timing of recognizing revenues and expenses in the financial statements. The accompanying financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under the accrual basis of accounting, revenues and related assets are recognized when earned, and expenses are recognized when obligations are incurred, regardless of the timing of related cash flows.

Use of Estimates

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

Operating Revenues and Expenses

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 Department are charges to customers for sales and services. Operating expenses for the Department include the cost of sales and services, administrative expenses, amortization and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Assets

The Department's restricted assets consist of cash on deposit in the amount of \$2,515,516, which is restricted for the payment of customer deposits.

Deposits and Investments

Cash on the Statement of Cash Flows includes cash on hand and demand deposits in local banks.

Various restrictions on deposits and investments, including repurchase agreements, 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.

INVESTMENTS - The Department is authorized to make direct investments in bonds, notes or treasury bills of the U. S. Government and obligations guaranteed by the U. S. Government or any of its agencies. These investments may not have a maturity greater than two years. The Department may make investments with longer maturities if it follows various restrictions established by state law. The Department is also authorized to make investments in the State Pooled Investment Fund and in repurchase agreements. Repurchase agreements must be approved by the State Director of Local Finance and executed in accordance with procedures established by the State Funding Board. Investments are reported at fair value.

Securities purchased under a repurchase agreement must be obligations of the U. S. Government or obligations guaranteed by the U. S. Government or any of its agencies. When repurchase agreements are executed, the purchase of the securities must be priced at least 2% below the market value of the securities on the day of purchase. No repurchase agreements existed as of June 30, 2015.

The carrying amount of the Department's deposits with financial institutions was \$15,283,055 and the financial institution balance was \$15,385,434. Carrying amounts differ from the financial institution balances primarily due to outstanding checks and deposits in transit.

All deposits are insured with Federal Deposit Insurance Corporation (FDIC) insurance. Amounts in excess of FDIC coverage are secured by the financial institution through the State Collateral Pool.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

The Department invests funds in the State of Tennessee's Local Government Investment Pool (LGIP) and bond proceeds with an investment advisor. Investments for the Department are reported at fair value except for the position in the LGIP. Specifically, the LGIP was established under *Tennessee Code Annotated* (TCA) 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 (CDs), 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 LGIP has been classified as Cash on Deposit with State of Tennessee since they are comprised of short-term investments. The Tennessee LGIP has not been rated by a nationally recognized statistical rating organization. The Department's interest in the Investment Pool, at June 30, 2015, was \$3,366,955. The total investment with the investment firm is \$5,369,798 at June 30, 2015 and is included as Investments on the Statement of Net Position.

Disclosures Relating to Credit, Interest Rate, Concentration and Custodial Credit Risk

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 with the assignment of a rating by a nationally recognized statistical rating organization. The Department will minimize credit risk by limiting the portfolio to the types of investments pursuant to TCA §6-56-106, pre-qualifying the financial institutions with which the Department will do business in accordance with Section 4, and diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

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. The Department will minimize interest rate risk by structuring the portfolio to meet the cash requirements of ongoing operations, thereby mitigating the need to liquidate investments at a loss prior to maturity and by investing operating funds primarily in shorter-term investments, CDs or similar investment pools and limiting the average maturity of the portfolio.

Concentration of credit risk is the risk of loss due to having a significant portion of resources invested in a single issuer. The Department will minimize concentration of credit risk by diversifying the investment portfolio. Diversification so that the impact of potential losses from any one type of security or issuer will be minimized. Investments issued or explicitly guaranteed by the U.S. government or Tennessee Bank Collateral Pool, Tennessee Local Government Investment Pool (LGIP) and any other external investment pools authorized by that are authorized by the State are excluded from this requirement.

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
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June 30, 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Disclosures Relating to Credit, Interest Rate, Concentration and Custodial Credit Risk
(Continued)**

Custodial credit risk is the risk that in the event of the failure of a depository financial institution the deposits or collateralized investments that are in the possession of an outside party would not be recovered. The Department will minimize custodial credit risk for deposits and investments through collateralization and safekeeping of assets.

As of June 30, 2015, the Department had the following investments.

	<u>Carrying Amount</u>	<u>Market Value</u>
Local Government Investment Pool	<u>\$ 3,366,955</u>	<u>3,366,955</u>
Bond Fund Investments		
Municipal Securities	<u>2,002,843</u>	<u>2,002,843</u>
Total Bond Fund Investments	<u>2,002,843</u>	<u>2,002,843</u>
Total Investments	<u>\$ 5,369,798</u>	<u>5,369,798</u>

The Department's bond fund investments had the following credit risk structure as of June 30, 2015:

<u>Investment Type</u>	<u>Moody's Credit Rating</u>	<u>Fair Value</u>	<u>Percent of Total</u>
Treasury Securities	AAA	<u>\$ 2,002,843</u>	100%
Total Bond Fund Investments		<u>\$ 2,002,843</u>	

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>Less than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More Than 10</u>
Treasury Securities	<u>\$ 2,002,843</u>	<u>802,843</u>	<u>800,000</u>	<u>400,000</u>	<u>-</u>
Total Bond Fund Investments	<u>\$ 2,002,843</u>	<u>802,843</u>	<u>800,000</u>	<u>400,000</u>	<u>0</u>

Inventories

Materials and supplies inventories are stated at average cost on a per item basis.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Land, buildings, machinery and equipment, and electrical distribution systems are stated at historical cost. Expenses for maintenance and repairs, which do not improve or extend the life of the asset, are charged to expense as incurred. Interest incurred during the construction of large projects is reflected in the capitalized value of the project. Capital assets are defined by the Department as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. The assets are being depreciated on the straight-line method over the useful lives per guidelines of the TVA. 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. The depreciation expense for the fiscal year ended June 30, 2015 was \$2,949,579 with an additional \$109,313 charged to transportation expense.

The estimated useful lives of the utility plant of the City of Elizabethton 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
Transmission and Power Distribution System	12.5 to 44.44 years

Compensated Absences

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 and capped at that balance. 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 Position at June 30, 2015, in the amount of \$334,855. 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.

Power Contract

The Department has a power contract with the TVA whereby the Department purchases all its electric power from TVA and is subject to certain restrictions and conditions as provided in the contract. Either party may terminate this contract upon not less than five years prior written notice.

CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets

The City of Elizabethton Electric Department is not required to demonstrate statutory compliance with budgets. Accordingly, budgetary data is not included in the financial statements. All budgets are prepared in accordance with bond covenants. Unexpended appropriations lapse at fiscal year end.

Transfer

The City of Elizabethton Electric Department transferred \$1,487,838 to the City of Elizabethton's general fund for a payment in lieu of taxes.

Pensions

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

Deferred Outflows / Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense / expenditure) until then. The Department has two items that qualify for reporting in this category. It is the deferred gain on bond refunding costs and the deferred outflows related to pensions which are reported in the Statement of Net Position. Deferred bond refunding costs result from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. See Note 6 for further details on the deferred outflows related to pensions.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Department has one item that qualifies for reporting in this category. See Note 6 for further details on the deferred inflows related to pensions.

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NOTE 2 - LITIGATION

From time to time, the Department has various claims and lawsuits pending against it. Any potential loss is not determinable and legal counsel will vigorously defend the Department.

NOTE 3 - RISK COVERAGE

The Department has provided for coverage of the risks of loss through the purchase of commercial insurance. The coverage has been approximately the same for the past five fiscal years and there have been no settlements in excess of coverage during the past five fiscal years.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts Receivable at fiscal year end was as follows:

Customer Service	\$ 2,446,636
Rent	300,584
Unbilled Revenue	3,461,058
Miscellaneous Billing	<u>273,408</u>
	6,481,686
Less: Allowance for Uncollectible Amounts	<u>(138,265)</u>
	<u>\$ 6,343,421</u>

The allowance for uncollectible amounts is an estimate established by a review of account history and knowledge of the industry. Accounts are directly written off once all methods of collection have been exhausted.

The Department has a program whereby qualifying homeowners may obtain interest-bearing loans to pay for energy conservation measures in their homes. The customer repays the loan over a period of up to ten years at a stated interest rate of 9.25%. Payments are made with the customers' regular monthly bills. Loans are secured by the related real property. The balance of the energy conservation loans as of June 30, 2015 was \$1,311,309.

NOTE 5 - POST-RETIREMENT BENEFITS OTHER THAN PENSIONS

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.

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
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NOTE 5 - POST-RETIREMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

A Brief Description of the Retiree Medical and Life Insurance Plan (Continued)

Plan Types (Continued)

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. For the Electric Department, there are 60 employees covered by this arrangement. 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.

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.

The amount of the retirement bonus is equal to \$2,500 for early retirement. This benefit is paid in the form of a 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 currently funded on a pay-as-you-go basis. For the purposes of reporting, the liability for such benefits are included in the Net OPEB Obligation as reflected on the Statement of Net Position. An actuary study was performed and dated July 1, 2014 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 Department's other post-employment 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 Department's costs for the fiscal year, the amount actually contributed to the plan, and changes in the Department's OPEB obligation.

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NOTE 5 - POST-RETIREMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

Annual OPEB Cost and Net OPEB Obligation (Continued)

Annual OPEB Cost and Net OPEB Obligation	
Annual Required Contribution (ARC)	\$ 155,419
Interest on Net OPEB Obligation	15,601
Adjustment to ARC	(24,410)
Annual OPEB Cost (Expense)	<u>146,610</u>
Contribution Made (Assumed End of Year)	<u>129,086</u>
Increase in Net OPEB Obligation	17,524
Net OPEB Obligation - Beginning of Fiscal Year	<u>390,023</u>
Net OPEB Obligation - End of Fiscal Year	<u><u>\$ 407,547</u></u>

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2015, 2014 and 2013 are as follows:

Fiscal Year Ending	Annual OPEB Cost	Percentage Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2015	\$ 146,610	88%	\$ 407,547
6/30/2014	\$ 154,067	81%	\$ 390,023
6/30/2013	\$ 154,067	81%	\$ 360,954

Funded Status and Funding Progress

As of July 1, 2014, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was \$1,541,345. The covered payroll was \$2,263,143 and the ratio of the unfunded actuarial accrued liability (UAAL) to the covered payroll was 68%. The funded ratio was 0%.

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.

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NOTE 5 - POST-RETIREMENT BENEFITS OTHER THAN PENSIONS (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, 2014 and year one represents the period of July 1, 2014 to June 30, 2015. A discount rate of 4.0% was used to discount expected liabilities to the valuation dates based on the expected rate of return on employer assets. Average health care trend costs rates are assumed to increase by 8.5% (year 1), 8.0% (year 2 and 3), 7.5% (years 4 and 5), 7.0% (years 6 and 7), 6.5% (years 8 and 9), 6.0% (years 10 and 11), and 5.5% thereafter. The ARC was calculated using the level dollar amortization method, amortizing costs over 30 years.

NOTE 6 - RETIREMENT COMMITMENTS

A. TENNESSEE CONSOLIDATED RETIREMENT SYSTEM (TCRS)

Plan Description

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

Benefits Provided

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

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
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NOTE 6 - RETIREMENT COMMITMENTS (CONTINUED)

A. TENNESSEE CONSOLIDATED RETIREMENT SYSTEM (TCRS)

Benefits Provided (Continued)

The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

Employees Covered by Benefit Terms

At the measurement date of June 30, 2014, the following employees were covered by the benefit terms:

Total Elizabethton Plan	
Inactive employees or beneficiaries currently receiving benefits	142
Inactive employees entitled to but not yet receiving benefits	139
Active employees	216
	<u>497</u>

Note total above is for the City of Elizabethton's plan as a whole and not per fund.

Contributions

Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Beginning in fiscal year 2011, the employee non-contributory status was reversed; therefore as of fiscal year 2011, employees contribute 5 percent of salary. The Department makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the fiscal year ended June 30, 2015, employer contributions for the Department were \$180,941 based on a rate of 14.75 percent of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept the Department's state shared taxes if required employer contributions are not remitted. The employer's actuarially determined contribution (ADC) and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Liability

The Department's net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate net pension liability was determined by an actuarial valuation as of that date.

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
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NOTE 6 - RETIREMENT COMMITMENTS (CONTINUED)

A. TENNESSEE CONSOLIDATED RETIREMENT SYSTEM (TCRS)

Actuarial Assumptions

The total pension liability as of June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary Increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment Rate of Return	7.5 percent, net of pension plan investment expenses, including inflation

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

The actuarial assumptions used in the June 30, 2014 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

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

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NOTE 6 - RETIREMENT COMMITMENTS (CONTINUED)

A. TENNESSEE CONSOLIDATED RETIREMENT SYSTEM (TCRS)

Actuarial Assumptions (Continued)

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. Equity	6.46%	33.00%
Developed Market International Equity	6.26%	17.00%
Emerging Market International Equity	6.40%	5.00%
Private Equity and Strategic Lending	4.61%	8.00%
U.S. Fixed Income	0.98%	29.00%
Real Estate	4.73%	7.00%
Short-Term Securities	0.00%	1.00%
		<u>100.00%</u>

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

Discount Rate

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

CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
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June 30, 2015

NOTE 6 - RETIREMENT COMMITMENTS (CONTINUED)

A. TENNESSEE CONSOLIDATED RETIREMENT SYSTEM (TCRS)

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 6/30/2013	\$ 3,592,785	2,728,758	864,027
Changes for the fiscal year:			
Service Cost	80,156	-	80,156
Interest	267,498	-	267,498
Differences Between Expected and Actual Experience	(20,629)	-	(20,629)
Contributions - Employer	-	175,747	(175,747)
Contributions - Employees	-	9,960	(9,960)
Net Investment Income	-	450,055	(450,055)
Benefit Payments, Including Refunds of Employee Contributions	(212,607)	(212,607)	-
Administrative Expense	-	(1,284)	1,284
Net Changes	114,418	421,871	(307,453)
Balance at 6/30/2014	\$ 3,707,203	3,150,629	556,574

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

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

	1.00% Decrease (6.50%)	Current Discount Rate (7.50%)	1.00% Increase (8.50%)
Net Pension Liability	\$ 1,008,057	556,574	176,067

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
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NOTE 6 - RETIREMENT COMMITMENTS (CONTINUED)

A. TENNESSEE CONSOLIDATED RETIREMENT SYSTEM (TCRS)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension Expense

For the fiscal year ended June 30, 2015, the Department recognized pension expense of \$83,140.

Deferred Outflows of Resources and Deferred Inflows of Resources

For the fiscal year ended June 30, 2015, the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ -	17,682
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	197,164
Contributions Subsequent to the Measurement Date of June 30, 2014	180,941	-
	\$ 180,941	214,846

The amount shown above for "Contributions Subsequent to the Measurement Date of June 30, 2014," will be recognized as a reduction to net pension liability in the following measurement period. Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ended June 30:	
2016	\$ (52,238)
2017	(52,238)
2018	(52,238)
2019	(52,238)
2020	(2,947)
Thereafter	(2,947)

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

CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

NOTE 6 - RETIREMENT COMMITMENTS (CONTINUED)

B. CENTRAL SERVICE ASSOCIATION (CSA)

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

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 57th birthday, with a minimum of 30 years of service, or age 65 with 5 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 plan covers all employees over 21 years of age with six months of service. At the measurement date of October 1, 2014, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	58
Inactive employees entitled to but not yet receiving benefits	12
Active employees	<u>26</u>
	<u><u>96</u></u>

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, Tennessee with the Tennessee Consolidated Retirement System.

Covered employees are required to contribute 1.5% 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 of the Department and CSA.

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, 2014.

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015**

NOTE 6 - RETIREMENT COMMITMENTS (CONTINUED)

B. CENTRAL SERVICE ASSOCIATION (CSA)

Actuarial Assumptions

The total pension liability as of October 1, 2014 valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Measurement Date	October 1, 2014
Discount Rate	7.00%
Mortality	RP-2000 Fully Generational with Scale AA
Salary Scale	3.00%
Assumed Retirement Age	Earlier of age 57 with 30 years, or age 65 with 5 years service
Cost of Living Increase	Not Applicable
Date of Participation Freeze	January 12, 2007
Actuarial Cost Method	Entry age normal, frozen initial liability level percentage of pay
Remaining Amortization Period	13 years
Asset Valuation	5-year smoothed within a 10% corridor to market value
Inflation	1.50%

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 6 - RETIREMENT COMMITMENTS (CONTINUED)

B. CENTRAL SERVICE ASSOCIATION (CSA)

Actuarial Assumptions (Continued)

The target allocation and best estimate of arithmetic real rates for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return*
Fixed Income	50%	2.97% - 3.34%
Large Value	10%	6.80% - 10.16%
Large Growth	10%	6.80% - 10.16%
Mid Value	5%	7.77% - 12.45%
Mid Growth	5%	7.77% - 12.45%
Small Value	4%	8.82% - 15.34%
Small Growth	4%	8.82% - 15.34%
Real Estate	2%	7.53% - 12.71%
International Growth	4%	6.80% - 11.20%
International Core	4%	6.80% - 11.20%
Emerging Markets	2%	9.30% - 22.94%
	<u>100%</u>	<u>5.21% - 7.78%</u>

* These rates are not adjusted for inflation.

The discount rate used to measure the total pension liability was 7.0 percent. The projection of cash flows used to determine the discount rate assumes that employee contributions will be made at the current contribution rate and the employer will continue to contribute the actuarially determined contribution in accordance with the Plan's current funding policy on an annual basis. Based on assumption, the pension plan's fiduciary net position is projected to be available to make all projected future benefit payments of current active an inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015**

NOTE 6 - RETIREMENT COMMITMENTS (CONTINUED)

B. CENTRAL SERVICE ASSOCIATION (CSA)

Changes in the Net Pension Liability

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 10/1/2013	\$ 16,674,266	10,122,711	6,551,555
Changes for the fiscal year:			
Service Cost	107,733	-	107,733
Interest	1,131,940	-	1,131,940
Differences Between Expected and Actual Experience	(3,191)	-	(3,191)
Contributions - Employer	-	905,956	(905,956)
Contributions - Employees	-	25,691	(25,691)
Net Investment Income	-	723,358	(723,358)
Benefit Payments, Including Refunds of Employee Contributions	(1,222,850)	(1,222,850)	-
Administrative Expense	-	(846)	846
Net Changes	<u>13,632</u>	<u>431,309</u>	<u>(417,677)</u>
Balance at 10/1/2014	<u>\$ 16,687,898</u>	<u>10,554,020</u>	<u>6,133,878</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Department calculated using the discount rate of 7 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6 percent) or 1-percentage-point higher (8 percent) than the current rate:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Net Pension Liability	\$ 7,922,850	6,133,878	4,518,600

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015**

NOTE 6 - RETIREMENT COMMITMENTS (CONTINUED)

B. CENTRAL SERVICE ASSOCIATION (CSA)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension Expense

For the fiscal year ended June 30, 2015, the Department recognized pension expense of \$511,106.

Deferred Outflows of Resources and Deferred Inflows of Resources

For the fiscal year ended June 30, 2015, the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ -	2,836
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	19,992
Contributions Subsequent to the Measurement Date of October 1, 2014	701,966	-
	\$ 701,966	22,828

The amount shown above for “Contributions Subsequent to the Measurement Date of October 1, 2014,” will be recognized as a reduction to net pension liability in the following measurement period.

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

Fiscal Year Ended June 30:	
2016	\$ (5,353)
2017	(5,353)
2018	(5,353)
2019	(5,353)
2020	(345)
Thereafter	(1,071)

CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

NOTE 7 - CAPITAL ASSETS AND DEPRECIATION

	Beginning Balance	Increases	Decreases	Ending Balance
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Capital assets, not being depreciated:				
Land	\$ 602,694	-	-	602,694
Construction in Progress	<u>3,745,990</u>	<u>2,026,060</u>	<u>(4,916,043)</u>	<u>856,007</u>
Total capital assets, not being depreciated	<u>4,348,684</u>	<u>2,026,060</u>	<u>(4,916,043)</u>	<u>1,458,701</u>
Capital assets, being depreciated:				
Buildings	2,314,160	11,701	-	2,325,861
Office Equipment	1,066,548	148,295	-	1,214,843
Transportation Equipment	2,665,428	147,219	(53,557)	2,759,090
Other Machinery and Equipment	1,576,620	287,540	-	1,864,160
Transmission and Power Distribution System	<u>85,495,386</u>	<u>4,624,702</u>	<u>(290,273)</u>	<u>89,829,815</u>
Total capital assets, being depreciated	<u>93,118,142</u>	<u>5,219,457</u>	<u>(343,830)</u>	<u>97,993,769</u>
Less accumulated depreciation for:				
Buildings	(1,128,161)	(46,405)	-	(1,174,566)
Office Equipment	(417,158)	(55,883)	-	(473,041)
Transportation Equipment	(815,865)	(109,807)	53,557	(872,115)
Other Machinery and Equipment	(859,686)	(129,847)	-	(989,533)
Transmission and Power Distribution System	<u>(18,886,176)</u>	<u>(2,716,950)</u>	<u>592,245</u>	<u>(21,010,881)</u>
Total accumulated depreciation	<u>(22,107,046)</u>	<u>(3,058,892)</u>	<u>645,802</u>	<u>(24,520,136)</u>
Net Capital Assets, being depreciated	<u>71,011,096</u>	<u>2,160,565</u>	<u>301,972</u>	<u>73,473,633</u>
Net Capital Assets	<u><u>\$ 75,359,780</u></u>	<u><u>4,186,625</u></u>	<u><u>(4,614,071)</u></u>	<u><u>74,932,334</u></u>

CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

NOTE 8 - LONG-TERM DEBT

The Electric Department issued \$3,495,000 of Series 2005 Revenue Refunding Bonds to provide resources that were placed in an irrevocable trust for the purpose of generating resources for the future debt service payments of \$3,521,124 on the City's outstanding Series 1997 Department Revenue Bonds. As a result, the refunded bonds of \$3,350,000 are considered to be defeased at June 30, 2006. The reacquisition price was more than the net carrying amount of the old debt by \$145,000. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is the same as the life of the new debt issued. This advance refunding was undertaken to reduce the total debt service payments over the next seventeen years by \$188,399 and resulted in an economic gain of \$131,152.

During the June 30, 2008 fiscal year, there was a bond issue in the amount of \$15,000,000 for improvements to the Department's electric distribution system. The Series 2007 Bonds were issued on December 27, 2007 for twenty years with an interest rate ranging from 4.0% to 5.0%. The bonds were issued at a premium. The premium and bond costs are amortized over the life of the bonds on the straight-line method.

During the June 30, 2010 fiscal year, bonds were issued in the amount of \$20,585,000 for additional improvements to the electric distribution and transmission system. The bonds, which are taxable Build America Bonds, mature September 2035 and carry an interest rate ranging from 1.75% to 6.25%. The bonds provide for a 35% federal subsidy on the total interest requirements which is 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 \$6,065,936 through the term of the bonds. The bonds were issued at a premium, which along with the bond costs, are being amortized over the life of the bonds on the straight-line method.

During the June 30, 2015 fiscal year, bonds were issued in the amount of \$11,185,000 to refinance in part, two outstanding bond issues. The Series 2015A Bonds were issued in the amount of \$9,280,000 and the Series 2015B Bonds were issued in the amount of \$1,905,000. The objectives of the transaction included, but are not limited to, realizing significant annual aggregate and net present value savings, strengthening the overall financial position of the Department, avoiding the need to create a cash funded debt service reserve fund and to take advantage of better yields resulting from the use of the Department's general obligation pledge without changing the source of all debt service payments on the Bonds. The Series 2015A Bonds refunded, in part, in advance of their maturity, the Department's outstanding \$15,000,000 Electric System Revenue Bonds, Series 2007. Only the Series 2007 Bonds maturing on September 1, 2019 through September 1, 2022, inclusive, and on September 1, 2027 were refunded. The Refunded Series 2007 Bonds are callable on and after September 1, 2017 at a price of par and accrued interest. Series 2007 Bonds maturing on September 1, 2015 through September 1, 2018 will remain in place and will not be advance refunded. The Series 2015B Bonds refunded, in part, in advance of their maturity, the outstanding \$3,495,000 Electric System Revenue Refunding Bonds, Series 2005.

CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

NOTE 8 - LONG-TERM DEBT (CONTINUED)

Only Series 2005 Bonds maturing on September 1, 2016 through September 1, 2022, inclusive, which are callable at par and accrued interest on and after September 1, 2015 will remain in place and will not be advance refunded. There were no dollars released when the Refunded Series 2005 Bonds and the Refunded Series 2007 Bonds were refinanced in part by the Bonds.

The total interest incurred for the fiscal year ended June 30, 2015 was \$1,315,403. Of this amount, \$60,517 was capitalized as a component of the cost of capital assets constructed during the fiscal year and \$1,254,886 was charged to expense.

The following is a summary of revenue bonds currently outstanding:

<u>Electric Department Fund</u>	<u>Date Issued</u>	<u>Amount Issued</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Outstanding June 30, 2015</u>
Revenue Refunding Bonds	8/24/2005	\$ 3,495,000	3.50-4.15%	9/1/2016	\$ 225,000
Revenue Bonds	12/27/2007	15,000,000	4.00-5.00%	12/27/2019	2,895,000
Revenue Bonds	4/20/2010	20,585,000	1.75-6.25%	9/1/2035	20,180,000
Revenue Refunding Bonds	3/19/2015	9,280,000	2.00-2.50%	9/1/2027	9,280,000
Revenue Refunding Bonds	3/19/2015	1,905,000	2.00-3.00%	9/1/2022	1,905,000
					<u>\$ 34,485,000</u>

Long-term liability activity for the fiscal year ended June 30, 2015 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Revenue Bonds Payable - 2005	\$ 2,320,000	-	(2,095,000)	225,000	225,000
Revenue Bonds Payable - 2007	12,140,000	-	(9,245,000)	2,895,000	675,000
Revenue Bonds Payable - 2010	20,320,000	-	(140,000)	20,180,000	145,000
Revenue Bonds Payable - 2015A	-	9,280,000	-	9,280,000	110,000
Revenue Bonds Payable - 2015B	-	1,905,000	-	1,905,000	20,000
Add Deferred Amounts for Issuance Premium	<u>360,728</u>	<u>251,311</u>	<u>(148,850)</u>	<u>463,189</u>	<u>-</u>
Total Bonds Payable	35,140,728	11,436,311	(11,628,850)	34,948,189	1,175,000
Net OPEB Obligation	390,023	17,524	-	407,547	-
Net Pension Liability	7,415,582	1,589,457	(2,314,587)	6,690,452	-
Compensated Absences	<u>328,066</u>	<u>134,047</u>	<u>(127,258)</u>	<u>334,855</u>	<u>107,796</u>
Total Long-Term Liabilities	<u>\$ 43,274,399</u>	<u>13,177,339</u>	<u>(14,070,695)</u>	<u>42,381,043</u>	<u>1,282,796</u>

CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

NOTE 8 - LONG-TERM DEBT (CONTINUED)

Changes in the Deferred Gain on Bond Refunding for the fiscal year ended June 30, 2015 are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Deferred Gain on Bond Refunding	\$ 47,648	652,845	(63,833)	636,660	(51,893)
	<u>\$ 47,648</u>	<u>652,845</u>	<u>(63,833)</u>	<u>636,660</u>	<u>(51,893)</u>

Revenue bonds issued August 24, 2005 debt service requirements to maturity are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 225,000	4,500	229,500
	<u>\$ 225,000</u>	<u>4,500</u>	<u>229,500</u>

The 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 of Elizabethton, Tennessee is pledged.

Revenue bonds issued December 27, 2007 debt service requirements to maturity are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 675,000	64,825	739,825
2017	710,000	95,900	805,900
2018	740,000	247,050	987,050
2019	770,000	404,100	1,174,100
	<u>\$ 2,895,000</u>	<u>811,875</u>	<u>3,706,875</u>

The bonds are secured by a pledge of the net revenues of the Department subject to the prior lien of the outstanding revenue refunding bonds (2005 issue). Neither the full faith and credit nor taxing power of the City of Elizabethton, Tennessee is pledged.

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015**

NOTE 8 - LONG-TERM DEBT (CONTINUED)

Revenue bonds issued April 20, 2010 debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2016	\$ 145,000	1,173,981	1,318,981
2017	145,000	1,168,906	1,313,906
2018	155,000	1,163,088	1,318,088
2019	155,000	1,156,694	1,311,694
2020	160,000	1,149,800	1,309,800
2021-2025	1,510,000	5,594,884	7,104,884
2026-2030	5,250,000	4,828,909	10,078,909
2031-2035	10,335,000	2,366,938	12,701,938
2036	2,325,000	72,656	2,397,656
	<u>\$ 20,180,000</u>	<u>18,675,856</u>	<u>38,855,856</u>

The full faith and credit of the City of Elizabethton, Tennessee is pledged. The bonds are also payable from and are secured by a pledge of the net revenues to be derived from the operation of the Electric Distribution System, subject to prior pledges of net revenues in favor of prior lien obligations. The bonds are additionally payable from, but not secured by, direct payment credits received in respect of such emission of bonds.

Revenue refunding bonds issued March 19, 2015 debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2016	\$ 110,000	196,927	306,927
2017	100,000	205,250	305,250
2018	105,000	203,200	308,200
2019	105,000	201,100	306,100
2020	900,000	191,050	1,091,050
2021-2025	4,800,000	649,675	5,449,675
2026-2028	3,160,000	119,874	3,279,874
	<u>\$ 9,280,000</u>	<u>1,767,076</u>	<u>11,047,076</u>

The 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 of Elizabethton, Tennessee is pledged.

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015**

NOTE 8 - LONG-TERM DEBT (CONTINUED)

Revenue refunding bonds issued March 19, 2015 debt service requirements to maturity are as follows:

Fiscal Year	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>Ending June 30</u>			
2016	\$ 20,000	44,070	64,070
2017	250,000	43,700	293,700
2018	255,000	38,650	293,650
2019	260,000	33,500	293,500
2020	270,000	28,200	298,200
2021-2023	850,000	38,700	888,700
	<u>\$ 1,905,000</u>	<u>226,820</u>	<u>2,131,820</u>

The 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 of Elizabethton, Tennessee is pledged.

Total debt service requirements to maturity for revenue bonds are as follows:

Fiscal Year	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>Ending June 30</u>			
2016	\$ 1,175,000	1,484,303	2,659,303
2017	1,205,000	1,513,756	2,718,756
2018	1,255,000	1,651,988	2,906,988
2019	1,290,000	1,795,394	3,085,394
2020	1,330,000	1,369,050	2,699,050
2021-2025	7,160,000	6,283,259	13,443,259
2026-2030	8,410,000	4,948,783	13,358,783
2031-2035	10,335,000	2,366,938	12,701,938
2036	2,325,000	72,656	2,397,656
	<u>\$ 34,485,000</u>	<u>21,486,127</u>	<u>55,971,127</u>

CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

NOTE 9 - INTERFUND ACTIVITY

As described in Note 1, the Department is a self-supporting fund of the City of Elizabethton, Tennessee (the City). In the normal course of operations, the Department provides electrical service to the City at standard electric rates which generated revenues of approximately \$1,169,693 in fiscal year 2015. As of June 30, 2015, \$10,139 was receivable from the City for electrical services. Payment is due within approximately 30 days of the billing. These transactions were consummated on terms equivalent to those that prevail in arm's length transactions.

The Department made tax equivalent payments to the City of \$1,487,838 in fiscal year 2015. These payments are based on the Department's property, plant and equipment, along with average operating revenues less power costs.

NOTE 10 - OTHER MATTERS

The Department is a member of a cooperative, Central Service Association (CSA), consisting of several utilities in seven states. Instead of paying each member their allocation (patronage), CSA issued a loan payable to each member. The loan amounts were derived from CSA's allocation of its annual excess collections over the past 20+ years. The Department's share is \$29,837.

NOTE 11 - COMMITMENTS

The Department has active construction projects as of June 30, 2015 for substations and transmission lines. At fiscal year end, the Department's commitments for the projects total approximately \$79,367.

NOTE 12 - ACCOUNTING CHANGES

Provisions of Governmental Accounting Standards Board (GASB) Statements No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No.27* and GASB Statement No.71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No.68*, became effective for the fiscal year ended June 30, 2015. As a result of implementing the provisions of these statements, the Department recognized the initial establishment of a net pension liability at July 1, 2013. Accordingly, the Department restated its financial statements for the fiscal year ended June 30, 2014. The effect of the restatement was to decrease the department's net position by \$6,560,368.

CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED
RATIOS BASED ON PARTICIPATION IN THE PUBLIC EMPLOYEE PENSION PLAN OF TCRS
Last Fiscal Year Ending June 30

	2014
TOTAL PENSION LIABILITY	
Service Cost	\$ 80,156
Interest	267,498
Changes in Benefit Terms	-
Differences Between Actual and Expected Experience	(20,629)
Change of Assumptions	-
Benefit Payments, Including Refunds of Employee Contributions	(212,607)
NET CHANGE IN TOTAL PENSION LIABILITY	114,418
TOTAL PENSION LIABILITY - BEGINNING	3,592,785
TOTAL PENSION LIABILITY - ENDING (a)	\$ 3,707,203
PLAN FIDUCIARY NET POSITION	
Contributions - Employer	\$ 175,747
Contributions - Employee	9,960
Net Investment Income	450,055
Benefit Payments, Including Refunds of Employee Contributions	(212,607)
Administrative Expense	(1,284)
NET CHANGE IN PLAN FIDUCIARY NET POSITION	421,871
PLAN FIDUCIARY NET POSITION - BEGINNING	2,728,758
PLAN FIDUCIARY NET POSITION - ENDING (b)	\$ 3,150,629
NET PENSION LIABILITY - ENDING (a) - (b)	\$ 556,574
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF TOTAL PENSION LIABILITY	84.99%
COVERED-EMPLOYEE PAYROLL	\$ 1,202,926
NET PENSION LIABILITY AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	46.27%

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

See Independent Auditors' Report

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS BASED ON PARTICIPATION
IN THE PUBLIC EMPLOYEE PENSION OF TCRS
Last Fiscal Year Ending June 30**

	2014	2015
Actuarially Determined Contribution	\$ 175,747	\$ 180,941
Contributions in Relation to the Actuarially Determined Contribution	175,747	180,941
Contribution Deficiency (Excess)	\$ 0	\$ 0
Covered-Employee Payroll	\$ 1,202,926	\$ 1,226,928
Contributions as a Percentage of Covered-Employee Payroll	14.61%	14.75%

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

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION - TCRS
June 30, 2015**

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

Valuation date : Actuarially determined contribution rates for 2015 were calculated based on the July 1, 2013 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Frozen initial liability
Amortization Method	Level dollar, closed (not to exceed 20 years)
Remaining Amortization Period	12 years
Asset Valuation	10-year smoothed within a 20 percent corridor to market value
Inflation	3.00 percent
Salary Increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment Rate of Return	7.50 percent, net of investment expense, including inflation
Retirement Age	Pattern of retirement determined by experience study
Mortality	Customized table based on actual experience including an adjustment for some anticipated improvement

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED
RATIOS BASED ON PARTICIPATION IN THE GOVERNMENTAL EMPLOYEES PENSION PLAN OF CSA
Last Fiscal Year Ending June 30**

	2014
TOTAL PENSION LIABILITY	
Service Cost	\$ 107,733
Interest	1,131,940
Changes in Benefit Terms	-
Differences Between Actual and Expected Experience	(3,191)
Change of Assumptions	-
Benefit Payments, Including Refunds of Employee Contributions	(1,222,850)
NET CHANGE IN TOTAL PENSION LIABILITY	13,632
TOTAL PENSION LIABILITY - BEGINNING	16,674,266
TOTAL PENSION LIABILITY - ENDING (a)	\$ 16,687,898
PLAN FIDUCIARY NET POSITION	
Contributions - Employer	\$ 905,956
Contributions - Employee	25,691
Net Investment Income	723,358
Benefit Payments, Including Refunds of Employee Contributions	(1,222,850)
Administrative Expense	(846)
NET CHANGE IN PLAN FIDUCIARY NET POSITION	431,309
PLAN FIDUCIARY NET POSITION - BEGINNING	10,122,711
PLAN FIDUCIARY NET POSITION - ENDING (b)	\$ 10,554,020
NET PENSION LIABILITY - ENDING (a) - (b)	\$ 6,133,878
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF TOTAL PENSION LIABILITY	63.24%
COVERED-EMPLOYEE PAYROLL	\$ 1,766,956
NET PENSION LIABILITY AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	347.14%

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

See Independent Auditors' Report

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS BASED ON PARTICIPATION
IN THE GOVERNMENTAL EMPLOYEES PENSION PLAN OF CSA
Last Fiscal Year Ending June 30**

	2014	2015
Actuarially Determined Contribution	\$ 905,956	\$ 701,966
Contributions in Relation to the Actuarially Determined Contribution	905,956	701,966
Contribution Deficiency (Excess)	\$ 0	\$ 0
 Covered-Employee Payroll	\$ 1,766,956	\$ 1,705,269
Contributions as a Percentage of Covered-Employee Payroll	51.27%	41.16%

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

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION – GOVERNMENTAL
EMPLOYEES PENSION PLAN OF CSA
June 30, 2015**

CENTRAL SERVICE ASSOCIATION (CSA)

Valuation date : Actuarially determined contribution rates for 2015 were calculated based on the October 1, 2014 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry age normal, frozen initial liability level percentage of pay
Amortization Method	Level dollar, closed
Remaining Amortization Period	13 years
Salary Increases	3.00%
Discount Rate	7.00%
Retirement Age	Earlier of age 57 with 30 years or age 65 with 5 years of service
Mortality	RP-2000 Fully Generational with Scale AA
Cost of Living Adjustments	N/A
Date of Participation Freeze	January 12, 2007
Inflation	1.50%
Asset Valuation	5-year smoothed within a 10% corridor to market value

See Independent Auditors' Report

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS OF POST-RETIREMENT BENEFITS
OTHER THAN PENSIONS
For the Fiscal Year Ended June 30, 2015**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	(UAAL) Unfunded AAL	Funded Ratio	Covered Payroll	UAAAL as a Percentage of Covered Payroll
7/1/2014	\$ -	\$ 1,541,345	\$ 1,541,345	0.00%	\$ 2,263,143	68%
7/1/2012	\$ -	\$ 1,593,123	\$ 1,593,123	0.00%	\$ 2,060,573	77%
7/1/2010	\$ -	\$ 1,892,996	\$ 1,892,996	0.00%	\$ 2,412,356	78%

See Independent Auditors' Report

SECTION II

SUPPLEMENTAL INFORMATION

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS
SERIES 2010A
June 30, 2015**

<u>Fiscal Year Ending</u>	<u>Bond Requirements</u>	<u>Interest Requirements</u>	<u>Total Requirements</u>
6/30/2016	\$ 145,000	1,173,981	1,318,981
6/30/2017	145,000	1,168,906	1,313,906
6/30/2018	155,000	1,163,088	1,318,088
6/30/2019	155,000	1,156,694	1,311,694
6/30/2020	160,000	1,149,800	1,309,800
6/30/2021	160,000	1,142,500	1,302,500
6/30/2022	165,000	1,134,675	1,299,675
6/30/2023	180,000	1,126,050	1,306,050
6/30/2024	495,000	1,108,866	1,603,866
6/30/2025	510,000	1,082,793	1,592,793
6/30/2026	530,000	1,055,163	1,585,163
6/30/2027	545,000	1,025,931	1,570,931
6/30/2028	565,000	995,053	1,560,053
6/30/2029	1,770,000	928,275	2,698,275
6/30/2030	1,840,000	824,487	2,664,487
6/30/2031	1,910,000	716,675	2,626,675
6/30/2032	1,985,000	602,213	2,587,213
6/30/2033	2,060,000	480,863	2,540,863
6/30/2034	2,145,000	352,031	2,497,031
6/30/2035	2,235,000	215,156	2,450,156
6/30/2036	2,325,000	72,656	2,397,656
	<u>\$ 20,180,000</u>	<u>18,675,856</u>	<u>38,855,856</u>

See Independent Auditors' Report.

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS
SERIES 2015A
June 30, 2015**

<u>Fiscal Year Ending</u>	<u>Bond Requirements</u>	<u>Interest Requirements</u>	<u>Total Requirements</u>
6/30/2016	\$ 110,000	196,927	306,927
6/30/2017	100,000	205,250	305,250
6/30/2018	105,000	203,200	308,200
6/30/2019	105,000	201,100	306,100
6/30/2020	900,000	191,050	1,091,050
6/30/2021	920,000	171,700	1,091,700
6/30/2022	940,000	150,775	1,090,775
6/30/2023	960,000	129,400	1,089,400
6/30/2024	980,000	108,800	1,088,800
6/30/2025	1,000,000	89,000	1,089,000
6/30/2026	1,025,000	66,187	1,091,187
6/30/2027	1,055,000	40,187	1,095,187
6/30/2028	1,080,000	13,500	1,093,500
	<u>\$ 9,280,000</u>	<u>1,767,076</u>	<u>11,047,076</u>

See Independent Auditors' Report.

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS
SERIES 2015B
June 30, 2015**

<u>Fiscal Year Ending</u>	<u>Bond Requirements</u>	<u>Interest Requirements</u>	<u>Total Requirements</u>
6/30/2016	\$ 20,000	44,070	64,070
6/30/2017	250,000	43,700	293,700
6/30/2018	255,000	38,650	293,650
6/30/2019	260,000	33,500	293,500
6/30/2020	270,000	28,200	298,200
6/30/2021	275,000	21,375	296,375
6/30/2022	285,000	12,975	297,975
6/30/2023	290,000	4,350	294,350
	<u>\$ 1,905,000</u>	<u>226,820</u>	<u>2,131,820</u>

See Independent Auditors' Report.

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS
June 30, 2015**

Fiscal Year Ending	Principal	Interest	Total Requirements
6/30/2016	\$ 1,175,000	1,484,303	2,659,303
6/30/2017	1,205,000	1,513,756	2,718,756
6/30/2018	1,255,000	1,651,988	2,906,988
6/30/2019	1,290,000	1,795,394	3,085,394
6/30/2020	1,330,000	1,369,050	2,699,050
6/30/2021	1,355,000	1,335,575	2,690,575
6/30/2022	1,390,000	1,298,425	2,688,425
6/30/2023	1,430,000	1,259,800	2,689,800
6/30/2024	1,475,000	1,217,666	2,692,666
6/30/2025	1,510,000	1,171,793	2,681,793
6/30/2026	1,555,000	1,121,351	2,676,351
6/30/2027	1,600,000	1,066,119	2,666,119
6/30/2028	1,645,000	1,008,553	2,653,553
6/30/2029	1,770,000	928,275	2,698,275
6/30/2030	1,840,000	824,485	2,664,485
6/30/2031	1,910,000	716,675	2,626,675
6/30/2032	1,985,000	602,213	2,587,213
6/30/2033	2,060,000	480,863	2,540,863
6/30/2034	2,145,000	352,031	2,497,031
6/30/2035	2,235,000	215,156	2,450,156
6/30/2036	2,325,000	72,656	2,397,656
	<u>\$ 34,485,000</u>	<u>21,486,127</u>	<u>55,971,127</u>

See Independent Auditors' Report.

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
ADDITIONS AND RETIREMENTS TO UTILITY PLANT
June 30, 2015**

	Balance June 30, 2014	Additions	Retirements	Balance June 30, 2015
Land	\$ 602,694	-	-	602,694
Buildings	2,314,160	11,701	-	2,325,861
Office Equipment	1,066,548	148,295	-	1,214,843
Transportation Equipment	2,665,428	147,219	(53,557)	2,759,090
Other Machinery and Equipment	1,576,620	287,540	-	1,864,160
Transmission and Power Distribution System	85,495,386	4,624,702	(290,273)	89,829,815
Construction in Progress	<u>3,745,990</u>	<u>2,026,060</u>	<u>(4,916,043)</u>	<u>856,007</u>
Totals	<u>\$ 97,466,826</u>	<u>7,245,517</u>	<u>(5,259,873)</u>	<u>99,452,470</u>

See Independent Auditors' Report.

CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
CURRENT UTILITY RATES AND NUMBER OF CUSTOMERS
June 30, 2015

<u>Residential Rate Schedule</u>	<u>RS</u>
Customer Charge -	
per delivery point per month	\$13.29
Energy Charge - per kWh per month	\$0.09691
 <u>General Power Rate Schedule</u>	 GSA
	(Demand 0- 5,000 kW)
 <i>Part 1.</i>	
Customer Charge	
Per delivery point per month	\$14.46
Energy Charge - per kWh per month	\$0.10596
Per kWh up to 620 hours per month	
Per kWh all additional per month	
Demand Charge - per kW per month	
Excess of billing demand over contract demand - per kW per month	
 <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	\$12.97
Energy charge - per kWh per month	
First 15,000 kWh	\$0.10577
Additional kWh per month	\$0.06382
 <i>Part 3.</i>	
Customer Charge	
Per delivery point per month	\$150.00
Demand Charge - per kW per month	
First 1,000 kW	\$13.67
Excess over 1,000 kW	\$15.06
Energy Charge - per kWh per month	
First 15,000 kWh	\$0.06379
Additional kWh	\$0.06379
 <u>Outdoor Lighting Rate Schedule</u>	 <u>LS</u>
Customer Charges	
Per delivery point per month	\$3.70
Energy Charge - per kWh	\$0.06668
 <u>Number of Customers</u>	
Residential	22,856
General	3,137
Street, Athletic and Outdoor Lighting	233
Total Customers	<u>26,226</u>

See Independent Auditors' Report.

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
NET POSITION BY COMPONENT
Last Ten Fiscal Years**

	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Net Investment in Capital Assets	\$ 30,384,839	31,119,505	22,226,537	30,596,682	18,154,567	25,881,750	30,952,626	37,032,893	40,266,730	40,620,805
Unrestricted	5,015,868	6,707,953	17,010,388	9,643,451	22,146,475	16,697,845	15,044,541	16,304,721	16,794,076	11,062,092
Total Net Position	<u>\$ 35,400,707</u>	<u>37,827,458</u>	<u>39,236,925</u>	<u>40,240,133</u>	<u>40,301,042</u>	<u>42,579,595</u>	<u>45,997,167</u>	<u>53,337,614</u>	<u>57,060,806</u>	<u>51,682,897</u>

See Independent Auditors' Report.

CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
CHANGES IN NET POSITION
Last Ten Fiscal Years

Fiscal Year	Operating Revenues	Operating Expenses	Operating Income	Total Nonoperating Revenues (Expenses)	Income before Transfers	Transfer Out	Change in Net Position
2006	\$ 41,633,296	\$ 38,327,297	\$ 3,305,999	\$ (88,519)	\$ 3,217,480	\$ (689,992)	\$ 2,527,488
2007	43,901,756	40,976,797	2,924,959	190,965	3,115,924	(689,173)	2,426,751
2008	46,038,644	44,209,051	1,829,593	97,188	1,926,781	(517,314)	1,409,467
2009	52,304,639	50,351,085	1,953,554	(384,558)	1,568,996	(565,788)	1,003,208
2010	49,208,207	47,728,135	1,480,072	(813,667)	666,405	(605,496)	60,909
2011	57,456,596	54,094,513	3,362,083	(995,369)	2,366,714	(616,286)	1,750,428
2012	52,843,264	47,942,183	4,901,081	(780,219)	4,120,862	(703,290)	3,417,572
2013	56,216,675	50,123,954	6,092,721	(689,659)	5,403,062	(752,416)	4,650,646
2014	56,875,926	51,348,480	5,527,446	(954,128)	4,573,318	(850,126)	3,723,192
2015	56,261,166	52,161,737	4,099,429	(1,429,132)	2,670,297	(1,487,838)	1,182,459

See Independent Auditors' Report.

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
OPERATING REVENUE BY SOURCE
Last Ten Fiscal Years**

Fiscal Year	Residential	Large Commercial and Industrial	Small Lighting and Power	Street and Outdoor Lighting	Other Operating Revenues	Total
2006	\$ 24,678,822	\$ 11,351,765	\$ 3,627,682	\$ 809,565	\$ 1,165,462	\$ 41,633,296
2007	26,252,139	11,837,851	3,816,089	825,495	1,170,182	43,901,756
2008	27,653,761	12,366,936	4,123,824	854,016	1,040,107	46,038,644
2009	32,419,144	13,605,402	4,672,946	961,708	645,439	52,304,639
2010	29,833,411	12,261,591	4,412,045	857,402	1,843,758	49,208,207
2011	36,389,623	13,570,064	4,933,634	1,168,494	1,394,781	57,456,596
2012	32,126,180	13,890,364	4,582,639	925,580	1,318,501	52,843,264
2013	35,036,868	13,996,894	4,749,789	979,627	1,453,497	56,216,675
2014	35,905,223	13,668,097	4,829,017	1,039,480	1,434,109	56,875,926
2015	35,503,735	13,800,643	4,685,257	963,044	1,308,487	56,261,166

See Independent Auditors' Report.

CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
OPERATING EXPENSES
Last Ten Fiscal Years

Fiscal Year	Power Purchased from TVA	Maintenance	Other Operating Expenses	Subtotal, Expenses before Tax and Depreciation	Tax and Tax Equivalents	Provision for Depreciation	Total Operating Expenses
2006	\$ 31,810,791	\$ 1,571,865	\$ 3,167,038	\$ 36,549,694	\$ 357,101	\$ 1,420,502	\$ 38,327,297
2007	34,022,346	1,657,904	3,461,806	39,142,056	355,702	1,479,039	40,976,797
2008	36,245,964	2,025,280	3,846,817	42,118,061	552,623	1,538,367	44,209,051
2009	42,343,783	2,121,113	3,915,170	48,380,066	389,379	1,581,640	50,351,085
2010	37,956,861	3,374,706	4,288,329	45,619,896	454,772	1,653,467	47,728,135
2011	45,453,172	2,324,997	4,232,685	52,010,854	365,797	1,717,862	54,094,513
2012	40,140,811	550,010	5,064,933	45,755,754	434,533	1,751,896	47,942,183
2013	41,510,181	1,245,065	4,937,384	47,692,630	625,778	1,805,546	50,123,954
2014	42,174,807	2,120,899	4,430,168	48,725,874	608,721	2,013,885	51,348,480
2015	42,676,758	1,963,828	3,942,943	48,583,529	628,629	2,949,579	52,161,737

See Independent Auditors' Report.

CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
NONOPERATING REVENUES AND EXPENSES
Last Ten Fiscal Years

Fiscal Year	Interest on Invested Funds	Interest Expense	Amortization Expense	Total Nonoperating Revenues and Expenses
2006	\$ 146,711	\$ (196,329)	\$ (38,901)	\$ (88,519)
2007	344,645	(148,838)	(4,842)	190,965
2008	472,415	(360,613)	(14,614)	97,188
2009	465,089	(831,566)	(18,081)	(384,558)
2010	108,062	(877,369)	(44,360)	(813,667)
2011	37,346	(995,600)	(37,115)	(995,369)
2012	68,188	(811,292)	(37,115)	(780,219)
2013	38,012	(727,671)	-	(689,659)
2014	37,067	(991,195)	-	(954,128)
2015	44,231	(1,473,363)	-	(1,429,132)

See Independent Auditors' Report.

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
RATIO OF OUTSTANDING DEBT BY TYPE (UNAUDITED)
Last Ten Fiscal Years**

Fiscal Year	Revenue Bonds	Advance from TVA	Total		
			Amount	Population	Per Capita
2006	\$ 3,780,000	\$ 1,216,534	\$ 4,996,534	14,017	\$ 356
2007	3,620,000	1,253,795	4,873,795	14,017	348
2008	18,455,000	1,221,192	19,676,192	14,017	1,404
2009	18,280,000	1,429,484	19,709,484	14,017	1,406
2010	38,160,000	1,592,086	39,752,086	14,017	2,836
2011	37,425,000	1,569,857	38,994,857	14,176	2,751
2012	36,665,000	1,472,725	38,137,725	14,176	2,690
2013	35,740,000	1,356,291	37,096,291	14,176	2,617
2014	34,780,000	1,398,023	36,178,023	14,176	2,552
2015	34,485,000	1,322,517	35,807,517	14,176	2,526

* Details regarding the Department's outstanding debt can be found in the notes to the financial statements.

Source: The Population figure comes from the U.S. Census Bureau census of 2010.

See Independent Auditors' Report.

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
NUMBER OF ELECTRIC CUSTOMERS BY TYPE (UNAUDITED)
Last Ten Fiscal Years**

Fiscal Year	Residential	General *	Street and Outdoor Lighting	Total Customers
2006	22,439	3,230	125	25,794
2007	22,484	3,271	160	25,915
2008	22,504	3,300	159	25,963
2009	22,552	3,290	154	25,996
2010	22,605	3,263	154	26,022
2011	22,717	3,098	172	25,987
2012	22,811	3,287	172	26,270
2013	22,734	3,255	42	26,031
2014	22,896	3,121	44	26,061
2015	22,856	3,137	233	26,226

* The General type of Electric Customer includes the Large Commercial and Industrial type and the Small Lighting and Power type. Further breakdown of this information was not available.

See Independent Auditors' Report.

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
ELECTRICITY RATES (UNAUDITED)
Last Ten Fiscal Years**

	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<u>Residential Rate</u>										
Customer Charge -										
per delivery point per month	\$ 7.25	7.79	7.87	7.87	7.87	11.18	13.29	13.29	13.29	13.29
Energy Charge - per kWh per month	0.07291	0.07096	0.08092	0.07726	0.08329	0.92620	0.09625	0.09614	0.10044	0.09691
<u>General Power Rate</u>										
<i>Part 1.</i>										
Customer Charge										
Per delivery point per month										
(Demand 0-5,000 kW)	\$ 13.32	13.32	13.46	13.46	13.46	14.46	14.46	14.46	14.46	14.46
(Demand 5,000 to 12,000 kW)	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
Energy Charge - per kWh per month	0.08289	0.08054	0.09110	0.08782	0.09464	0.10324	0.10494	0.10504	0.10936	0.10596
Per kWh up to 620 hours per month	0.03588	0.03514	0.04234	0.04592	0.04132	0.94830	0.04983	0.04972	-	-
Per kWh all additional per month	0.02928	0.02883	0.03559	0.00000	0.03372	0.02771	0.04983	0.04972	-	-
Demand Charge - per kW per month	13.51	12.95	13.78	13.46	15.40	21.03	21.63	21.63	-	-
Excess of billing demand over										
contract demand - per kW per month	13.51	12.95	13.78	14.21	14.89	18.90	21.63	21.63	-	-
<i>Part 2.</i>										
Customer Charge										
Per delivery point per month	\$ 33.30	33.30	33.64	33.64	33.64	55.00	55.00	55.00	55.00	55.00
Demand Charge - per kW per month										
First 50 kW	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Excess over 50kW per month	12.08	11.65	12.43	12.77	13.70	12.14	12.14	12.44	12.70	12.97
Energy charge - per kWh per month										
First 15,000 kWh	0.08289	0.08054	0.09110	0.08782	0.09464	0.10302	0.10494	0.10483	0.10916	0.10577
Additional kWh per month	0.04320	0.04224	0.05021	0.04592	0.04975	0.06367	0.06464	0.06452	0.06798	0.06382
<i>Part 3.</i>										
Customer Charge										
Per delivery point per month	\$ 88.73	88.73	89.63	89.63	89.63	150.00	150.00	150.00	150.00	150.00
Demand Charge - per kW per month										
First 1,000 kW	11.87	11.41	12.23	12.59	13.57	12.73	13.07	13.07	13.37	13.67
Excess over 1,000 kW	13.28	12.74	13.70	14.12	15.27	13.97	14.36	14.36	14.71	15.06
Excess of higher of 2,500 kW or										
contract demand	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Energy Charge - per kWh per month										
First 15,000 kWh	0.07450	0.07354	0.08183	0.08592	0.08137	0.06367	0.06463	0.06451	0.06796	0.06379
Additional kWh	0.04320	0.04224	0.05021	0.05430	0.04975	0.06367	0.06463	0.06451	0.06796	0.06379
<u>Outdoor Lighting Rate Schedule</u>										
Customer Charges										
Per delivery point per month	\$ 2.50	2.50	3.75	3.75	3.75	3.70	3.70	3.70	3.70	3.70
Energy Charge - per kWh	0.05257	0.05159	0.05935	0.05493	0.05889	0.06700	0.06782	0.06771	0.07112	0.06668

See Independent Auditors' Report.

SECTION III

INTERNAL CONTROL AND COMPLIANCE SECTION

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

Honorable Mayor, City Council Members
and City Manager
City of Elizabethton Electric Department

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the City of Elizabethton Electric Department (the Department), an enterprise fund of the City of Elizabethton, Tennessee, as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated December 5, 2015.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Blackburn, Childers & Steagall, PLC

BLACKBURN, CHILDERS & STEAGALL, PLC
Johnson City, Tennessee

December 5, 2015

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF DISPOSITION OF PRIOR FISCAL YEAR FINDINGS
For the Fiscal Year Ended June 30, 2015**

Financial Statement Findings

Finding Number		Finding Title		Status
2014-001		Significant Deficiency - Work Orders		Corrected

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2015**

CURRENT FISCAL YEAR FINDINGS

None Reported.