



# **CITY OF ELIZABETHTON, TENNESSEE**

## **AUDITED FINANCIAL STATEMENTS**

**For the Fiscal Year Ended June 30, 2012**

CITY OF ELIZABETHTON, TENNESSEE

FINANCIAL STATEMENTS

AND SUPPLEMENTARY INFORMATION

WITH

INDEPENDENT AUDITORS' REPORT

For the Fiscal Year Ended June 30, 2012

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June 30, 2012

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FINANCIAL  
SECTION

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Elizabethton, Tennessee (the City), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Elizabethton Municipal Airport (the Airport), a blended component unit, which represent four percent, eight percent and one percent, respectively, of the assets, net assets and revenues of the enterprise funds. Those financial statements were audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Airport in the business-type activities columns, is based on the report of the other auditor.

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

Regarding the Elizabethton Electric Department, a major proprietary fund, we were unable to obtain sufficient, appropriate audit evidence regarding capital assets, construction in progress and related depreciation expense and we were unable to satisfy ourselves about the carrying value of net capital assets by other auditing procedures.

In our opinion, and the report of the other auditor, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to obtain sufficient, appropriate audit evidence regarding capital assets, construction in progress and depreciation expense for the Elizabethton Electric Department, a major proprietary fund, as discussed in the preceding paragraph, the business-type activities as well as the major proprietary fund's financial statements present fairly, in all material respects, the respective financial position of the business-type activities and each major proprietary fund of the City of Elizabethton, Tennessee as of June 30, 2012, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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Additionally, in our opinion, based on our audit and the report of the other auditor, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, the major governmental fund and the aggregate remaining fund information of the City of Elizabethton, Tennessee as of June 30, 2012, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2012, on our consideration of the City of Elizabethton, Tennessee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information on pages 4 through 12 and 100 and 101 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditor have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Elizabethton, Tennessee's financial statements as a whole. The combining and individual nonmajor fund financial statements and schedules, the supplemental section, and supplemental section (unaudited) are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements and schedules, schedule of expenditures of federal awards, and the supplemental section are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied by us and the other auditor in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting

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

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and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the report of the other auditor, the information is fairly stated in all material respects in relation to the financial statements as a whole. The supplemental section (unaudited) has not been subjected to the auditing procedures applied by us and the other auditor in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

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

December 14, 2012

CITY OF ELIZABETHTON, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2012

As management of the City of Elizabethton, Tennessee (the City), we offer readers of the financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2012.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by **\$80,383,998** (*net assets*). Of this amount, **\$56,731,273** is invested in capital assets (*net of related debt*).
- The City's total net assets increased by **\$5,091,069**.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of **\$7,692,474**. Of this amount, **\$186,312** is Non-Spendable, **\$581,280** is Restricted, **\$4,602,682** is Committed, **\$214,676** is Assigned and **\$2,107,524** is Unassigned Fund Balance.
- At the end of the current fiscal year, fund balance for the general fund was **\$7,141,695** or **49%** of total general fund expenditures including transfers out. This balance included **\$161,312 Non-Spendable, \$395,853 Restricted, \$4,265,560 Committed, \$211,446 Assigned and \$2,107,524 Unassigned Fund Balance**.
- The City's total debt decreased by **\$2,186,095 (4%)** during the current fiscal year.

**Overview of the Financial Statements.**

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

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

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes, licenses and permits, and intergovernmental revenues (governmental activities), from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, public welfare, city services and education. The business-type activities of the City include water and sewer, electric department and airport. The government-wide financial statements can be found on pages 13 through 14 of this report.

CITY OF ELIZABETHTON, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2012

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

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

The City maintains fourteen (14) individual governmental funds. Thirteen (13) of these governmental funds are classified as non-major and are summarized under the heading "Other Governmental Funds" in the governmental fund presentation. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and non-major governmental funds, all of which are combined into a single, aggregate presentation. Individual fund data for non-major governmental funds is provided in the form of combining statements elsewhere in this report. The basic governmental fund financial statements can be found on pages 15 through 26 of this report.

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

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

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information of the water and sewer, electric, sanitation and airport, which (with the exception of the sanitation and airport funds) are considered to be major funds of the City. Data from the other enterprise funds are combined into a single, aggregated presentation. The basic proprietary fund financial statements can be found on pages 27 through 31 of this report.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 34 through 99 of this report.

**Other Information.** The combining statements referred to earlier in connection with non-major governmental and proprietary funds are presented following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 102 through 121 of this report.

CITY OF ELIZABETHTON, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2012

**Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a City's financial position. In the case of the City, assets exceeded liabilities by **\$80,383,998** at the close of the most recent fiscal year.

By far, the largest portion of the City's net assets (**71%**) reflects its investment in capital assets (e.g. land, buildings, equipment); less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<b>Assets:</b>						
Current Assets	\$ 13,063,132	12,798,321	29,136,491	31,020,376	42,199,623	43,818,697
Other Assets	99,120	115,896	2,479,032	2,695,236	2,578,152	2,811,132
Plant and Equipment (Net)	12,804,230	13,555,814	103,239,550	98,718,803	116,043,780	112,274,617
Total Assets	25,966,482	26,470,031	134,855,073	132,434,415	160,821,555	158,904,446
<b>Liabilities:</b>						
Current Liabilities	5,778,697	5,476,532	14,321,399	15,550,160	20,100,096	21,026,692
Other Liabilities	8,598,569	9,239,564	51,738,892	53,345,261	60,337,461	62,584,825
Total Liabilities	14,377,266	14,716,096	66,060,291	68,895,421	80,437,557	83,611,517
<b>Net Assets:</b>						
Invested in Capital Assets, Net of Related Debt	4,762,715	4,890,080	51,968,558	45,788,517	56,731,273	50,678,597
Unrestricted	6,826,501	6,863,855	16,826,224	17,750,477	23,652,725	24,614,332
<b>Total Net Assets</b>	<b>\$ 11,589,216</b>	<b>11,753,935</b>	<b>68,794,782</b>	<b>63,538,994</b>	<b>80,383,998</b>	<b>75,292,929</b>

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

The government's net assets **increased \$5,091,069** during the current fiscal year. Of the total change, governmental activities decreased **\$164,719** while business-type activities increased **\$5,255,788**. The decrease in governmental activities net assets is primarily due to a transfer of the Sanitation/Solid Waste assets to a proprietary status.

CITY OF ELIZABETHTON, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2012

The following is a summary of financial activities for the City during the 2012 fiscal year:

City of Elizabethton CHANGE IN NET ASSETS As of June 30, 2012						
	Governmental Activities		Business-Type Activities		Total	
<b>Revenues</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Program Revenues:						
Charges for Services	\$ 1,238,789	2,051,561	62,703,650	65,321,181	63,942,439	67,372,742
Operating Grants	25,707	47,830	-	-	25,707	47,830
Capital Grants	289,944	34,858	191,821	1,019,347	481,765	1,054,205
Total Program Revenues	1,554,440	2,134,249	62,895,471	66,340,528	64,449,911	68,474,777
General Revenues:						
Property Taxes	4,588,415	4,008,863	-	-	4,588,415	4,008,863
Other Taxes	5,099,334	4,944,972	-	-	5,099,334	4,944,972
Miscellaneous	2,458,486	2,700,691	70,957	50,415	2,529,443	2,751,106
Total General Revenues	12,146,235	11,654,526	70,957	50,415	12,217,192	11,704,941
<b>Total Revenues</b>	<b>13,700,675</b>	<b>13,788,775</b>	<b>62,966,428</b>	<b>66,390,943</b>	<b>76,667,103</b>	<b>80,179,718</b>
<b>Expenses - Governmental Activities</b>						
General Government	1,073,396	2,315,622	-	-	1,073,396	2,315,622
Public Safety	5,160,505	5,121,019	-	-	5,160,505	5,121,019
Public Works	1,804,323	2,096,641	-	-	1,804,323	2,096,641
Health and Welfare	154,745	164,820	-	-	154,745	164,820
Building Code Enforcement	296,729	300,851	-	-	296,729	300,851
Community Development	157,973	189,330	-	-	157,973	189,330
Culture and Recreation	1,359,822	1,231,555	-	-	1,359,822	1,231,555
Education	2,378,756	4,491,562	-	-	2,378,756	4,491,562
Other	753,496	319,608	-	-	753,496	319,608
Interest on Long-Term Debt	290,917	303,926	-	-	290,917	303,926
<b>Total Governmental Activities</b>	<b>13,430,662</b>	<b>16,534,934</b>	<b>-</b>	<b>-</b>	<b>13,430,662</b>	<b>16,534,934</b>
<b>Business-Type Activities:</b>						
Water and Sewer	-	-	7,266,962	7,287,257	7,266,962	7,287,257
Electric Department	-	-	48,790,590	55,127,228	48,790,590	55,127,228
Nonmajor Proprietary Funds	-	-	2,087,820	1,050,289	2,087,820	1,050,289
<b>Total Business-Type Activities</b>	<b>-</b>	<b>-</b>	<b>58,145,372</b>	<b>63,464,774</b>	<b>58,145,372</b>	<b>63,464,774</b>
<b>Total Expenses</b>	<b>13,430,662</b>	<b>16,534,934</b>	<b>58,145,372</b>	<b>63,464,774</b>	<b>71,576,034</b>	<b>79,999,708</b>
Transfers	(434,732)	471,286	434,732	(471,286)	-	-
<b>Change in Net Assets</b>	<b>(164,719)</b>	<b>(2,274,873)</b>	<b>5,255,788</b>	<b>2,454,883</b>	<b>5,091,069</b>	<b>180,010</b>
Net Assets, Beginning	11,753,935	14,028,808	63,538,994	61,084,111	75,292,929	75,112,919
<b>Net Assets, Ending</b>	<b>\$ 11,589,216</b>	<b>11,753,935</b>	<b>68,794,782</b>	<b>63,538,994</b>	<b>80,383,998</b>	<b>75,292,929</b>

**Governmental Activities.** Governmental activities decreased the City's net assets by **\$164,719**. Notes on this can be found in Note 2 on pages 49 through 50 of this report.

**Business-type activities.** Business-type activities increased the City's net assets by **\$5,255,788**.

### Financial Analysis of the City's Funds

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

CITY OF ELIZABETHTON, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2012

**Governmental Funds.** The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a City's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of **\$7,692,474**. Of this amount, **\$186,312** is Non-Spendable, **\$581,280** is Restricted, **\$4,602,682** is Committed, **\$214,676** is Assigned, and **\$2,107,524** is Unassigned.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, total fund balance reached **\$7,141,695**, including **\$161,312** Non-Spendable, **\$395,853** Restricted, **\$4,265,560** Committed, **\$211,446** Assigned and **\$2,107,524** Unassigned. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures and transfers out. Unassigned fund balance represents **15%** of total general fund expenditures and transfers out, while total fund balance represents **49%** of that same amount.

Non-major (other) governmental funds have a fund balance of **\$550,779**. The net **decrease** in fund balance during the current year was **\$198,998**. This net **decrease** is primarily attributed to **Solid Waste & Sanitation reclassified as a non-major proprietary fund and expenditures from the Capital Projects Fund (\$226,826)**.

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

Unrestricted net assets of the proprietary funds at the end of the year amounted to **\$16,826,224**. Other factors concerning the financial position of these funds have already been addressed in the discussion of the City's business-type activities.

**General Fund Budgetary Highlights**

**Original and Final Budgeted Amounts.** Differences between the original budget and the final amended budget represent a **\$539,410 increase** in appropriations and some of the differences include the following:

<b>\$148,410</b>	<b>Funding for Ball Park Lighting</b>
<b>126,500</b>	<b>Funding to cover transfer to Police Equipment Fund</b>
<b>100,000</b>	<b>Funding to cover increases in fuel costs</b>
<b>76,500</b>	<b>Funding to cover transfer to School from Local Option Sales Tax</b>
<b>60,000</b>	<b>Funding to cover transfer to Sanitation Fund for OPEB</b>
<b>22,000</b>	<b>Funding to cover increases in legal services</b>

Of this **increase**, most of the cost was funded from Fund Balance Appropriated. The balance was funded by local taxes and sales tax revenue.

One measure of a general fund budget is to compare revenue generated by departments with total expenditures of the department to determine the amount of supplement required to fund the department. The following charts do that comparison for the year ending June 30, 2012.

CITY OF ELIZABETHTON, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2012

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

2012			
General Government	Expenses	Revenues	General Fund Subsidy
General Government	\$ 1,073,396	692,449	380,947
Public Safety	5,160,505	359,570	4,800,935
Public Works	1,804,323	-	1,804,323
Health and Welfare	154,745	11,259	143,486
Culture and Recreation	1,359,822	175,511	1,184,311
<b>Total General Fund Subsidy</b>			<b>8,314,002</b>

**Capital Asset and Debt Administration**

**Capital Assets.** The City's investment in capital assets for its governmental and business-type activities as of June 30, 2012, amounts to **\$116,043,780** (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, plant in service, equipment and vehicles, paving, transmission and power distribution system, garbage containers, infrastructure and construction in progress.

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

- New Fire Truck.
- Three New Police Vehicles.
- Athletic Field Improvements (Ball Park Lighting).
- Library Cooling Tower.
- New Roof Park & Recreation Building.
- Control System & Mechanical Pumps Lynn Mountain.
- New Excavator Water Fund.
- New Roof Waste Water Plant.
- New Mixer Waste Water Plant.

**City of Elizabethton  
Total Net Capital Assets  
as of June 30, 2012**

	Governmental		Business - Type		Total	
	2012	2011	2012	2011	2012	2011
Net Capital Assets						
Land	\$ 1,897,344	2,212,594	3,892,139	3,568,389	5,789,483	5,780,983
Water Right	-	-	5,000,000	5,000,000	5,000,000	5,000,000
Library Infrastructure	707,583	699,117	-	-	707,583	699,117
Construction in Progress	356,127	356,486	29,453,023	24,112,097	29,809,150	24,468,583
Buildings and Improvements	3,862,247	4,013,873	17,387,271	18,004,065	21,249,518	22,017,938
Motor Equipment	1,158,454	1,561,340	3,230,163	2,921,681	4,388,617	4,483,021
Office Equipment	587,911	439,776	368,143	324,878	956,054	764,654
Infrastructure	4,234,564	4,272,628	43,908,811	44,787,693	48,143,375	49,060,321
<b>Total Net Capital Assets</b>	<b>\$ 12,804,230</b>	<b>13,555,814</b>	<b>103,239,550</b>	<b>98,718,803</b>	<b>116,043,780</b>	<b>112,274,617</b>

CITY OF ELIZABETHTON, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2012

Additional information on the City's capital assets can be found in Note 6 on pages 57 through 60 of this report.

**Long-term debt.** At the end of the current fiscal year, the City had total debt outstanding of **\$60,337,460**. This total includes all of the debt that is backed by the full faith and credit of the government.

City of Elizabethton  
Debt Outstanding  
As of June 30, 2012

	Governmental Funds		Business - Type		Total	
	2012	2011	2012	2011	2012	2011
<b><u>Outstanding Debt</u></b>						
General Obligation	\$ 5,875,000	6,355,000	-	-	5,875,000	6,355,000
Notes Payable	2,360,803	2,432,637	2,315,498	2,147,987	4,676,301	4,580,624
Revenue Bonds	-	-	48,903,920	50,705,692	48,903,920	50,705,692
<b>Total Outstanding Debt</b>	<b>\$ 8,235,803</b>	<b>8,787,637</b>	<b>51,219,418</b>	<b>52,853,679</b>	<b>59,455,221</b>	<b>61,641,316</b>

The City's total debt **decreased \$2,186,095 (4%)** during the current fiscal year. The decrease was due to the reduction of debt in the Utility Department. The City maintains an '**A1**' rating from Moody's Investors Service and Standard & Poor's rating of **A+**, for its General Obligation Debt.

The City is **not** subject to debt limitations imposed by its Charter. Additional information on the City's long-term debt can be found in Note 9 on pages 65 through 79 of this report.

#### Economic Factors and Next Year's Budget and Rates

- The unemployment rate for the metropolitan statistical area is currently **7.9%**, which is a **decrease of 1.5%** from a year ago. This compares to the state's average unemployment rate of **8.1%** as of July 31, 2011.
- Inflationary trends in the region are comparable to national indexes.
- New construction permitted and inspected over the previous year was **\$594,000**, of which **\$65,000** is commercial, including **9 permits issued**.
- Local sales tax collections are expected to increase approximately **1.5%** in fiscal year 2013 as a continuation of the current trend towards moderate improvement of the economy.

All of these factors were considered in preparing the City's budget for fiscal year 2012-13.

During the current fiscal year, unassigned fund balance in the general fund **decreased \$2,025,278**. The significant decrease in June 30, 2012 unassigned fund balance can be attributed to forced reclassifications under GASB 54 rules in FY 2011 and subsequent commitments to re-establish previous reserves.

Prior year reserves in the amounts of \$2,270,278 classified to debt service and \$566,059 classified to retirement had no formal documented commitment from City Council. In as much as our current credit rating was based on the fact that we had dedicated debt service funds it is prudent for the City to formally commit these funds under GASB 54. Properly funding OPEB will help strengthen the City's credit rating and still be in line with "intentions" of prior administrations.

CITY OF ELIZABETHTON, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2012

Subsequent to June 30, 2011 both amounts were submitted to Council for formal action to commit to reserves the two amounts listed above.

In addition, \$104,983 of the reserves in the police equipment fund 134, which have been derived from fines collected over time, had been reclassified to the general fund. Under the requirements for a special revenue fund the flow of funds was committed by formal council action.

In aggregate the unassigned fund balance would have reflected an increase of \$916,042 had the above reallocations not been required.

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

Discretely Presented Component Units

**-EDUCATION FUND-**

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

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

**-GOLF COURSE-**

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

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

Other Separately Issued Reports

**-AIRPORT-**

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

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

CITY OF ELIZABETHTON, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2012

**-ELECTRIC DEPARTMENT-**

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

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

**Requests for Information**

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

CITY OF ELIZABETHTON, TENNESSEE  
STATEMENT OF NET ASSETS  
June 30, 2012

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Elizabethton Board of Education	Elizabethton Municipal Golf Course
<b>ASSETS</b>					
Cash and Cash on Hand	\$ 1,163,164	8,662,998	9,826,162	1,917,623	42,666
Investments	973,363	10,283,730	11,257,093	-	-
Receivables (Net of Allowances for Uncollectibles)					
Taxes	4,971,691	-	4,971,691	-	-
Accounts	35,972	5,584,007	5,619,979	6,647	3,500
Notes	121,589	-	121,589	-	-
Internal Balances	(81,775)	81,775	-	-	-
Due from Other Governments	1,229,442	220,687	1,450,129	3,402,328	-
Inventories	36,910	1,475,088	1,511,998	31,336	13,713
Prepaid Expense	2,813	-	2,813	-	291
Restricted Assets					
Investments	4,609,963	-	4,609,963	-	-
Cash	-	2,828,206	2,828,206	-	-
Bond Issue Cost (Net of Accumulated Amortization)	99,120	-	99,120	-	-
Other Assets	-	2,479,032	2,479,032	-	-
Capital Assets					
Land	1,897,344	3,892,139	5,789,483	216,170	-
Water Right	-	5,000,000	5,000,000	-	-
Construction In Progress	356,127	29,453,023	29,809,150	63,764	-
Library Infrastructure	707,583	-	707,583	-	-
Buildings and Improvements	7,179,193	30,426,640	37,605,833	22,592,083	72,334
Motor Equipment	4,140,918	9,346,298	13,487,216	1,521,908	679,667
Office Equipment	2,379,347	1,041,784	3,421,131	-	13,442
Infrastructure	11,033,437	76,321,577	87,355,014	-	1,424,926
Less: Accumulated Depreciation	(14,889,719)	(52,241,911)	(67,131,630)	(9,873,813)	(1,578,223)
Total Assets	<u>25,966,482</u>	<u>134,855,073</u>	<u>160,821,555</u>	<u>19,878,046</u>	<u>672,316</u>
<b>LIABILITIES</b>					
Cash Overdraft	-	-	-	24,276	-
Accounts Payable	376,590	7,048,824	7,425,414	568,833	35,900
Retainages Payable	-	140,526	140,526	-	-
Customer Deposits	-	2,828,331	2,828,331	-	-
Advance from TVA	-	1,472,725	1,472,725	-	-
Accrued Expenses	82,933	1,510,862	1,593,795	-	26,454
Due to Other Governments	37,659	-	37,659	-	-
Other Liabilities	-	470,932	470,932	-	2,441
Unearned Revenues	4,530,923	225,278	4,756,201	2,627,060	97,541
Other Long-Term Liabilities	-	9,585	9,585	-	-
OPEB Liability	750,592	614,336	1,364,928	2,475,023	-
Long-Term Liabilities					
Due within one year	1,045,714	2,386,561	3,432,275	3,138	106,078
Due within more than one year	7,552,855	49,352,331	56,905,186	38,152	141,997
Total Liabilities	<u>14,377,266</u>	<u>66,060,291</u>	<u>80,437,557</u>	<u>5,736,482</u>	<u>410,411</u>
<b>NET ASSETS</b>					
Invested in Capital Assets, Net of Related Debt	4,762,715	51,968,558	56,731,273	14,520,112	364,071
Unrestricted	<u>6,826,501</u>	<u>16,826,224</u>	<u>23,652,725</u>	<u>(378,548)</u>	<u>(102,166)</u>
TOTAL NET ASSETS	<u>\$ 11,589,216</u>	<u>68,794,782</u>	<u>80,383,998</u>	<u>14,141,564</u>	<u>261,905</u>

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

CITY OF ELIZABETHTON, TENNESSEE  
STATEMENT OF ACTIVITIES  
For the Fiscal Year Ended June 30, 2012

Functions/Programs	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units	
					Governmental Activities	Business-Type Activities	Total	Elizabethton Board of Education	Elizabethton Municipal Golf Course
<b>Primary Government</b>									
Governmental Activities									
General Government	\$ 1,073,396	692,449	-	-	(380,947)	-	(380,947)	-	-
Public Safety	5,160,505	359,570	13,230	-	(4,787,705)	-	(4,787,705)	-	-
Public Works	1,804,323	-	-	-	(1,804,323)	-	(1,804,323)	-	-
Health and Welfare	154,745	11,259	-	-	(143,486)	-	(143,486)	-	-
Building Code Enforcement	296,729	-	-	-	(296,729)	-	(296,729)	-	-
Community Development	157,973	-	-	-	(157,973)	-	(157,973)	-	-
Culture and Recreation	1,359,822	175,511	12,477	289,944	(881,890)	-	(881,890)	-	-
Education	2,378,756	-	-	-	(2,378,756)	-	(2,378,756)	-	-
Other	753,496	-	-	-	(753,496)	-	(753,496)	-	-
Interest on Long-Term Debt	290,917	-	-	-	(290,917)	-	(290,917)	-	-
Total Governmental Activities	13,430,662	1,238,789	25,707	289,944	(11,876,222)	0	(11,876,222)	0	0
Business-Type Activities									
Water and Sewer Fund	7,266,962	7,901,785	-	191,821	-	826,644	826,644	-	-
Electric Department	48,790,590	52,843,264	-	-	-	4,052,674	4,052,674	-	-
Elizabethton Sanitation Fund	1,011,253	1,120,203	-	-	-	108,950	108,950	-	-
Elizabethton Municipal Airport	1,076,567	838,398	-	-	-	(238,169)	(238,169)	-	-
Total Business-Type Activities	58,145,372	62,703,650	0	191,821	0	4,750,099	4,750,099	0	0
Total Primary Government	\$ 71,576,034	63,942,439	25,707	481,765	(11,876,222)	4,750,099	(7,126,123)	0	0
<b>Component Units</b>									
Education - School Board	\$ 21,718,019	617,055	5,730,588	-	-	-	-	(15,370,376)	-
Golf Course	584,375	575,447	-	-	-	-	-	-	(8,928)
Total Component Units	\$ 22,302,394	1,192,502	5,730,588	0	0	0	0	(15,370,376)	(8,928)
General Revenues									
Taxes									
Property Taxes					\$ 4,588,415	-	4,588,415	2,490,899	-
Sales Taxes					4,183,559	-	4,183,559	1,831,744	-
In-Lieu of Taxes					27,741	-	27,741	-	-
Business Taxes					385,646	-	385,646	-	-
Other Taxes					502,388	-	502,388	90,940	-
Other Local Governments					152,092	-	152,092	1,400	-
State Aid					1,889,311	-	1,889,311	10,513,911	-
Unrestricted Investment Earnings					8,426	70,957	79,383	14,522	(6,476)
Miscellaneous					408,657	-	408,657	42,307	-
Transfers					(434,732)	434,732	-	-	-
Total General Revenues and Transfers					11,711,503	505,689	12,217,192	14,985,723	(6,476)
Change in Net Assets					(164,719)	5,255,788	5,091,069	(384,653)	(15,404)
Net Assets - Beginning					11,753,935	63,538,994	75,292,929	14,526,217	277,309
Net Assets - Ending					\$ 11,589,216	68,794,782	80,383,998	14,141,564	261,905

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

CITY OF ELIZABETHTON, TENNESSEE  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2012

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and Cash on Hand	\$ 695,027	468,137	1,163,164
Investments	893,617	79,746	973,363
Receivables (Net of Allowances for Uncollectibles)			
Taxes	4,971,691	-	4,971,691
Accounts	35,032	940	35,972
Notes	121,589	-	121,589
Due From Other Funds	35,637	140	35,777
Due From Other Governments	1,131,147	98,295	1,229,442
Inventories	36,910	-	36,910
Prepaid Expense	2,813	-	2,813
Restricted Assets Investments	4,609,921	42	4,609,963
TOTAL ASSETS	<u>\$ 12,533,384</u>	<u>647,300</u>	<u>13,180,684</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts Payable	\$ 281,067	95,523	376,590
Due to Other Governments	37,659	-	37,659
Deferred Revenues	4,956,409	-	4,956,409
Due to Other Funds	116,554	998	117,552
TOTAL LIABILITIES	<u>5,391,689</u>	<u>96,521</u>	<u>5,488,210</u>
FUND BALANCES			
Total Non-Spendable	161,312	25,000	186,312
Total Restricted	395,853	185,427	581,280
Total Committed	4,265,560	337,122	4,602,682
Total Assigned	211,446	3,230	214,676
Total Unassigned	2,107,524	-	2,107,524
TOTAL FUND BALANCES	<u>7,141,695</u>	<u>550,779</u>	<u>7,692,474</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 12,533,384</u>	<u>647,300</u>	<u>13,180,684</u>

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

CITY OF ELIZABETHTON, TENNESSEE  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
June 30, 2012

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Total Fund Balances - Governmental Funds	\$ 7,692,474
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources, and therefore, are not reported as assets in governmental funds. The cost of the assets is \$27,693,949 and the accumulated depreciation is \$(14,889,719)	12,804,230
Revenue, for amounts not received during the period of availability, is not considered "available" and has been deferred in the funds.	425,486
Accrued interest is not due and payable in the current period, and therefore, is not reported as a liability in the funds.	(82,933)
Governmental funds report the effect of debt issuance costs when debt is issued. These amounts are amortized over the life of the debt for the Statement of Net Assets.	99,120
OPEB benefits represent liabilities of the City that are not recorded at the fund level.	(750,592)
Long-term liabilities are not due and payable in the current period, and therefore, are not reported as liabilities in the funds. Long-term liabilities at year end consist of bonds payable, notes payable, capital leases and compensated absences.	<u>(8,598,569)</u>
Total Net Assets - Governmental Activities	<u><u>\$11,589,216</u></u>

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

CITY OF ELIZABETHTON, TENNESSEE  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS  
For the Fiscal Year Ended June 30, 2012

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes	\$ 9,842,326	-	9,842,326
Licenses and Permits	96,193	-	96,193
Intergovernmental	2,054,633	289,944	2,344,577
Charges for Services	1,583,026	-	1,583,026
Donations	-	12,477	12,477
Fines and Forfeitures	190,064	169,506	359,570
Miscellaneous	443,425	2,548	445,973
Interest Earnings	7,762	664	8,426
TOTAL REVENUES	14,217,429	475,139	14,692,568
EXPENDITURES			
General Government	1,753,962	3,173	1,757,135
Public Safety	4,763,056	93,889	4,856,945
Public Works	1,506,961	-	1,506,961
Health and Welfare	153,858	-	153,858
Building Code Enforcement	296,729	-	296,729
Community Development	157,973	-	157,973
Culture and Recreation	1,227,366	-	1,227,366
Education	2,378,756	-	2,378,756
Special Appropriations	187,080	-	187,080
Debt Service	1,127,328	-	1,127,328
Other Operating Expenses	-	566,416	566,416
Capital Outlay	390,912	490,011	880,923
TOTAL EXPENDITURES	13,943,981	1,153,489	15,097,470
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	273,448	(678,350)	(404,902)
OTHER FINANCING SOURCES (USES)			
Capital Outlay Note Proceeds	-	252,000	252,000
Transfers In	703,290	291,956	995,246
Transfers Out	(496,862)	(64,604)	(561,466)
TOTAL OTHER FINANCING SOURCES (USES)	206,428	479,352	685,780
Net Change in Fund Balances	479,876	(198,998)	280,878
Fund Balances - Beginning	6,661,819	749,777	7,411,596
Fund Balances - Ending	\$ 7,141,695	550,779	7,692,474

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

CITY OF ELIZABETHTON, TENNESSEE  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
For the Fiscal Year Ended June 30, 2012

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Total Net Change in Fund Balances - Governmental Funds	\$ 280,878
Amounts reported for governmental activities in the Statement of Activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay expense of \$889,389 exceeds depreciation expense of \$705,869.	183,520
The net effect of various transactions involving capital assets (i.e., sales, trade-ins) is decrease to net assets.	(37,316)
Because some property taxes and grants will not be collected for several months after the City's fiscal year end, they are not considered "available" revenues and are deferred in the governmental funds. Deferred tax revenues increased by this amount for the current year.	(154,577)
In the Statement of Activities, certain operating expenses such as compensated absences, are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. Compensated absences decreased by this amount for the current year.	41,229
Repayment of bond and note principal and leases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	851,766
The issuance of long-term debt (e.g., capital outlay notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the amount of current year debt proceeds.	(252,000)
This amount is a contribution to the sanitation fund. During the current year, the sanitation fund was restructured and became a business-type fund instead of a governmental fund. As a result, the Net Capital Assets transferred to this new proprietary fund was \$897,788 and the Net OPEB Obligation transferred was (\$29,276).	(868,512)
Interest expense reported in the Statement of Activities does not require the use of current financial resources. Therefore, it is not reported as an expenditure in the governmental funds.	1,421
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds: OPEB Liability	(194,352)
Governmental funds report debt issuance cost when debt is first issued. These amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of the treatment of long-term debt items.	(16,776)
Change in Net Assets of Governmental Activities	<u>\$ (164,719)</u>

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

CITY OF ELIZABETHTON, TENNESSEE  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts Budgetary and GAAP Basis	Variance with Final Budget- Favorable (Unfavorable)
	Original	Final		
REVENUES				
Taxes				
General Property Taxes				
Current Property Taxes	\$ 4,048,750	4,058,750	4,136,110	77,360
Delinquent Property Taxes	395,775	485,775	504,974	19,199
Interest, Penalty and Attorney Fees	60,000	71,000	101,908	30,908
Total General Property Taxes	4,504,525	4,615,525	4,742,992	127,467
General Sales Tax				
Local Option Sales Tax	3,511,900	3,511,900	3,422,912	(88,988)
Selective Use and Sales Tax				
Local Beer Tax 17%	483,000	500,000	502,388	2,388
In-Lieu of Taxes				
Elizabethton Housing Authority	18,631	18,631	14,377	(4,254)
Brookhaven Homes for Elderly	3,300	3,300	3,364	64
Star Industry	-	-	10,000	10,000
Sycamore Shoals State Park	634	634	-	(634)
Total In-Lieu of Taxes	22,565	22,565	27,741	5,176
Gross Receipts Taxes	308,560	308,560	385,646	77,086
Local Option	720,650	720,650	760,647	39,997
Total Taxes	9,551,200	9,679,200	9,842,326	163,126

(Continued)

CITY OF ELIZABETHTON, TENNESSEE  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts Budgetary and GAAP Basis	Variance with Final Budget- Favorable (Unfavorable)
	Original	Final		
REVENUES (CONTINUED)				
Licenses and Permits				
Licenses				
Business License	2,000	2,000	20,583	18,583
Interest and Penalty	2,000	2,000	-	(2,000)
Beer License	5,000	5,000	3,831	(1,169)
Recording Fee	1,000	1,000	-	(1,000)
Electric, Gas and Plumbing	1,000	1,000	255	(745)
Flea Market Table Rentals	1,000	1,000	-	(1,000)
Fireworks	3,000	3,000	1,600	(1,400)
	<u>15,000</u>	<u>15,000</u>	<u>26,269</u>	<u>11,269</u>
Total Licenses				
Special Permits				
Electrical	14,000	14,000	18,494	4,494
Building	47,000	47,000	45,466	(1,534)
Plumbing	5,000	5,000	2,685	(2,315)
Gas	2,000	2,000	1,071	(929)
Demolition	2,000	2,000	400	(1,600)
Curb Cuts	100	100	150	50
Miscellaneous Permits	3,000	3,000	678	(2,322)
Pool	100	100	105	5
Moving	1,000	1,000	-	(1,000)
Erosion and Sediment	2,000	2,000	875	(1,125)
	<u>76,200</u>	<u>76,200</u>	<u>69,924</u>	<u>(6,276)</u>
Total Special Permits				
Total Licenses and Permits	<u>91,200</u>	<u>91,200</u>	<u>96,193</u>	<u>4,993</u>
Intergovernmental Revenue				
Federal through State				
HIDTA	-	-	13,230	13,230
	<u>0</u>	<u>0</u>	<u>13,230</u>	<u>13,230</u>
Total Federal through State				

(Continued)

CITY OF ELIZABETHTON, TENNESSEE  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget-
	Original	Final	Budgetary and GAAP Basis	Favorable (Unfavorable)
REVENUES (CONTINUED)				
Intergovernmental Revenue (Continued)				
State Awards				
TN Dept. of Transportation.-Highway Maint.	64,000	64,000	46,901	(17,099)
TN Dept. of Transportation	2,000	2,000	4,518	2,518
Library Grant	-	-	1,869	1,869
Total State Awards	66,000	66,000	53,288	(12,712)
State Shared Revenues				
City Streets	31,000	31,000	29,182	(1,818)
Public Safety Supplemental Pay	42,000	42,000	46,400	4,400
Mixed Drink Tax	26,000	26,000	22,180	(3,820)
Income Tax	177,000	177,000	135,804	(41,196)
Sales Tax	933,800	933,800	961,631	27,831
State Street Aid	395,850	395,850	366,144	(29,706)
Beer Tax	7,000	7,000	6,959	(41)
TVA Replacement Tax	163,000	163,000	166,582	3,582
Excise Tax	141,000	141,000	100,410	(40,590)
Telecommunications Tax	1,000	1,000	731	(269)
State Land Acquisition	2,000	2,000	-	(2,000)
Total State Shared Revenues	1,919,650	1,919,650	1,836,023	(83,627)
Local Government Revenue				
Carter County-Animal Shelter	25,000	25,000	17,723	(7,277)
Carter County-Library	40,000	40,000	31,588	(8,412)
Carter County-Park and Recreation	20,000	20,000	11,281	(8,719)
Carter County Match/Animal Shelter	-	-	91,500	91,500
First Judicial Drug Task Force	1,000	1,000	-	(1,000)
Total Local Government Revenue	86,000	86,000	152,092	66,092
Total Intergovernmental Revenue	2,071,650	2,071,650	2,054,633	(17,017)

(Continued)

CITY OF ELIZABETHTON, TENNESSEE  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts Budgetary and GAAP Basis	Variance with Final Budget- Favorable (Unfavorable)
	Original	Final		
REVENUES (CONTINUED)				
Charges for Services				
Various General Government Charges				
Garage Services	508,510	508,510	510,667	2,157
Elizabethton Water and Sewer Division	800,000	800,000	800,000	-
Special Police Services	36,000	36,000	85,589	49,589
Total Various General Government Charges	1,344,510	1,344,510	1,396,256	51,746
Health				
Dog Tags	2,000	2,000	1,570	(430)
Animal Control and Shelter Fees	12,000	12,000	9,689	(2,311)
Total Health	14,000	14,000	11,259	(2,741)
Culture and Recreation				
Swimming Pool-Season Tickets	1,000	1,000	240	(760)
Swimming Pool-Daily Tickets	23,000	23,000	22,145	(855)
Swimming Pool-Concessions	30,000	30,000	11,049	(18,951)
Baseball-Season Tickets	5,000	5,000	5,957	957
Baseball-Daily Tickets	14,000	14,000	13,984	(16)
Baseball-Souvenir Sales	11,000	11,000	12,421	1,421
Baseball-Baseball Cards	1,000	1,000	1,395	395
Baseball-Advertising	18,000	18,000	20,799	2,799
Parks-Concession Sales	8,000	8,000	26,871	18,871
Other Miscellaneous - Park and Recreation	20,000	20,000	18,841	(1,159)
Vendor Fees	1,000	1,000	-	(1,000)
League Entrance Fees	28,000	28,000	24,988	(3,012)
Pavilion Rental	3,000	3,000	2,202	(798)
Rental	9,000	12,000	14,619	2,619
Total Culture and Recreation	172,000	175,000	175,511	511
Total Charges for Services	1,530,510	1,533,510	1,583,026	49,516

(Continued)

CITY OF ELIZABETHTON, TENNESSEE  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts Budgetary and GAAP Basis	Variance with Final Budget- Favorable (Unfavorable)
	Original	Final		
REVENUES (CONTINUED)				
Fines and Forfeitures				
Moving Traffic Fines	77,000	77,000	82,499	5,499
Fines - Defense Driving School	25,000	25,000	27,770	2,770
Court Fines	59,000	59,000	42,792	(16,208)
Storm Water	-	-	1,039	1,039
Sex Offender	1,000	1,000	1,350	350
Financial Responsibility	14,000	14,000	14,200	200
Seized Driver's License	200	200	-	(200)
Library Fines	18,000	18,000	20,414	2,414
Total Fines and Forfeitures	194,200	194,200	190,064	(4,136)
Miscellaneous Revenue				
Rents and Royalties				
TV Cable Franchise	149,000	149,000	150,900	1,900
Natural Gas Franchise	157,000	157,000	137,428	(19,572)
City Property	1,000	1,000	10	(990)
Tennessee Vocational Training Center	73,000	73,000	78,960	5,960
Total Rents and Royalties	380,000	380,000	367,298	(12,702)
Other				
Miscellaneous	15,000	15,000	55,076	40,076
Donations	17,000	17,000	21,051	4,051
Total Other	32,000	32,000	76,127	44,127
Total Miscellaneous Revenue	412,000	412,000	443,425	31,425
Interest Earnings				
Investments	43,000	43,000	7,762	(35,238)
Total Interest Earnings	43,000	43,000	7,762	(35,238)
TOTAL REVENUES	13,893,760	14,024,760	14,217,429	192,669

(Continued)

CITY OF ELIZABETHTON, TENNESSEE  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts Budgetary and GAAP Basis	Variance with Final Budget- Favorable (Unfavorable)
	Original	Final		
EXPENDITURES				
General Government				
City Council	56,341	56,341	45,961	10,380
City Judge	16,948	22,868	22,847	21
City Manager	129,830	135,380	133,707	1,673
Financial	321,324	374,593	409,091	(34,498)
Fleet Maintenance	635,635	676,962	692,495	(15,533)
Management Information Systems	72,446	59,559	40,278	19,281
Payroll	40,030	45,434	-	45,434
Purchasing	128,733	128,446	124,822	3,624
City Attorney	74,084	102,084	101,875	209
Personnel	321,580	323,284	182,886	140,398
Total General Government	1,796,951	1,924,951	1,753,962	170,989
Public Safety				
Police Patrol	2,988,964	2,920,459	2,878,696	41,763
Fire Prevention	1,938,133	1,893,053	1,884,360	8,693
Capital Outlay	-	68,585	74,646	(6,061)
Total Public Safety	4,927,097	4,882,097	4,837,702	44,395
Public Works				
Street Maintenance	939,079	886,006	825,578	60,428
Parks and Special Events	3,612	3,883	3,883	-
Stormwater	28,260	28,260	18,656	9,604
Engineering	330,600	330,600	250,575	80,025
Capital Outlay	45,820	98,622	98,191	431
Total Public Works	1,347,371	1,347,371	1,196,883	150,488
State Street Aid				
Infrastructure/Other	138,000	138,000	14,600	123,400
Electricity	419,278	419,278	393,669	25,609
Total State Street Aid	557,278	557,278	408,269	149,009

(Continued)

CITY OF ELIZABETHTON, TENNESSEE  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts Budgetary and GAAP Basis	Variance with Final Budget- Favorable (Unfavorable)
	Original	Final		
EXPENDITURES (CONTINUED)				
Health and Welfare				
Animal Shelter Operations	116,605	116,605	83,832	32,773
Contributions to Non-Profit Organizations	70,026	70,026	70,026	-
Total Health and Welfare	186,631	186,631	153,858	32,773
Building Code Enforcement				
Enforcement	309,839	309,839	296,729	13,110
Total Building Code Enforcement	309,839	309,839	296,729	13,110
Community Development				
Administration	198,883	198,883	157,973	40,910
Total Community Development	198,883	198,883	157,973	40,910
Culture and Recreation				
Administration	72,883	75,384	74,374	1,010
Swimming Pools	69,312	76,793	73,274	3,519
Athletic Fields and Parks	407,014	540,704	411,371	129,333
Recreation Center	128,339	122,231	109,211	13,020
Leagues	122,399	136,945	136,339	606
Public Library	442,914	463,914	422,797	41,117
Capital Outlay	119,068	94,368	218,075	(123,707)
Total Culture and Recreation	1,361,929	1,510,339	1,445,441	64,898
Education	2,332,000	2,408,500	2,378,756	29,744
Special Appropriations to Other				
Governmental Entities	198,330	198,330	187,080	11,250
Debt Service				
Principal	708,288	708,288	803,834	(95,546)
Interest	415,814	415,910	320,354	95,556
Paying Agent Fees	4,000	3,904	3,140	764
Total Debt Service	1,128,102	1,128,102	1,127,328	774

(Continued)

CITY OF ELIZABETHTON, TENNESSEE  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts Budgetary and GAAP Basis	Variance with Final Budget- Favorable (Unfavorable)
	Original	Final		
TOTAL EXPENDITURES	14,344,411	14,652,321	13,943,981	708,340
Excess (Deficiency) of Revenues over (under) Expenditures	(450,651)	(627,561)	273,448	901,009
OTHER FINANCING SOURCES AND USES				
Sale of Capital Assets	92,000	92,000	-	(92,000)
Transfers				
Police Community Relations Fund	-	(126,500)	(126,032)	468
Elizabethton Electric - In-Lieu of Taxes	629,300	629,300	703,290	73,990
General Obligation Bond Proceeds - Capital Proj	-	(45,000)	(45,000)	-
Sanitation/Solid Waste Fund	-	(60,000)	(59,906)	94
Elizabethton Municipal Airport	(145,000)	(145,000)	(145,000)	-
Parks and Recreation	(120,924)	(120,924)	(120,924)	-
Elizabethton Electric Department	(4,725)	(4,725)	-	4,725
Total Transfers	358,651	127,151	206,428	78,809
TOTAL OTHER FINANCING SOURCES AND USES	450,651	219,151	206,428	(13,191)
Excess (Deficiency) of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	-	(408,410)	479,876	887,818
Fund Balances, July 1, 2011	6,661,819	6,661,819	6,661,819	-
Fund Balances, June 30, 2012	\$ 6,661,819	6,253,409	7,141,695	887,818

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

CITY OF ELIZABETHTON, TENNESSEE  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
June 30, 2012

	Business-Type Activities - Enterprise Funds			
	Elizabethton Water and Sewer Fund	Elizabethton Electric Department	Nonmajor Proprietary Funds	Total Enterprise Funds
<b>ASSETS</b>				
Current Assets				
Cash and Cash on Hand	\$ 667,314	7,534,443	461,241	8,662,998
Investments	848,672	9,375,152	59,906	10,283,730
Accounts Receivable-Net	478,118	4,996,074	109,815	5,584,007
Inventories	514,995	928,039	32,054	1,475,088
Due from Other Funds	-	160,729	-	160,729
Due from Other Governments	71,988	-	148,699	220,687
Total Current Assets	<u>2,581,087</u>	<u>22,994,437</u>	<u>811,715</u>	<u>26,387,239</u>
Capital Assets				
Land	546,025	602,694	2,743,420	3,892,139
Water Right	5,000,000	-	-	5,000,000
Construction In Progress	943,991	28,499,032	10,000	29,453,023
Buildings and Improvements	23,462,358	2,179,987	4,784,295	30,426,640
Motor Equipment	3,689,313	4,149,187	1,507,798	9,346,298
Office Equipment	331,840	695,378	14,566	1,041,784
Infrastructure	20,619,707	55,701,870	-	76,321,577
Less: Accumulated Depreciation	<u>(25,789,533)</u>	<u>(23,866,342)</u>	<u>(2,586,036)</u>	<u>(52,241,911)</u>
Total Capital Assets	<u>28,803,701</u>	<u>67,961,806</u>	<u>6,474,043</u>	<u>103,239,550</u>
Other Noncurrent Assets				
Restricted Cash	520,790	2,307,416	-	2,828,206
Other Assets	<u>178,176</u>	<u>2,300,601</u>	<u>255</u>	<u>2,479,032</u>
Total Other Noncurrent Assets	<u>698,966</u>	<u>4,608,017</u>	<u>255</u>	<u>5,307,238</u>
<b>TOTAL ASSETS</b>	<u>32,083,754</u>	<u>95,564,260</u>	<u>7,286,013</u>	<u>134,934,027</u>
<b>LIABILITIES AND NET ASSETS</b>				
Liabilities				
Current Liabilities				
Accounts Payable	220,076	6,742,675	86,073	7,048,824
Retainage Payable	-	140,526	-	140,526
Customer Deposits	520,790	2,307,416	125	2,828,331
Other Current Liabilities	27,742	440,897	2,293	470,932
Accrued Payroll	-	-	3,585	3,585
Accrued Interest	880,173	626,271	833	1,507,277
Deferred Revenue	15,247	155,465	54,566	225,278
Due to Other Funds	60,652	1,065	17,237	78,954
Bonds Payable	1,021,740	925,000	-	1,946,740
State Loans Payable	97,980	-	-	97,980
Notes Payable	-	-	136,440	136,440
Capital Leases	23,304	-	-	23,304
Compensated Absences	63,913	113,462	4,722	182,097
Total Current Liabilities	<u>2,931,617</u>	<u>11,452,777</u>	<u>305,874</u>	<u>14,690,268</u>

(Continued)

CITY OF ELIZABETHTON, TENNESSEE  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
June 30, 2012

	Business-Type Activities - Enterprise Funds			
	Elizabethton Water and Sewer Fund	Elizabethton Electric Department	Nonmajor Proprietary Funds	Total Enterprise Funds
LIABILITIES AND NET ASSETS (CONTINUED)				
Liabilities (Continued)				
Long-Term Liabilities				
Bonds Payable	10,850,674	35,740,000	-	46,590,674
Bond Discount	-	(59,120)	-	(59,120)
Bond Premium	22,326	403,301	-	425,627
Notes Payable	-	-	646,028	646,028
State Loans Payable	1,435,050	-	-	1,435,050
Capital Lease	50,597	-	-	50,597
Advance from TVA	-	1,472,725	-	1,472,725
Other Long-Term Liabilities	-	9,585	-	9,585
Compensated Absences	29,159	215,940	18,376	263,475
OPEB Liability	243,604	331,885	38,847	614,336
Total Long-Term Liabilities	12,631,410	38,114,316	703,251	51,448,977
TOTAL LIABILITIES	15,563,027	49,567,093	1,009,125	66,139,245
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	15,324,356	30,952,626	5,691,576	51,968,558
Unrestricted	1,196,371	15,044,541	585,312	16,826,224
TOTAL NET ASSETS	\$ 16,520,727	45,997,167	6,276,888	68,794,782

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

CITY OF ELIZABETHTON, TENNESSEE  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
For the Fiscal Year Ended June 30, 2012

	Business-Type Activities - Enterprise Funds			
	Elizabethton Water and Sewer Fund	Elizabethton Electric Department	Nonmajor Proprietary Funds	Total Enterprise Funds
OPERATING REVENUES				
Charges for Services	\$ 7,901,785	52,843,264	1,958,601	62,703,650
OPERATING EXPENSES				
Wages and Employee Benefits	2,488,943	-	571,692	3,060,635
Purchases of Power, Water and Other	-	40,140,811	479,087	40,619,898
Other Operating Expenses	1,579,590	5,064,933	113,964	6,758,487
Maintenance	61,450	550,010	202,945	814,405
Tax Equivalent	-	434,533	-	434,533
Treatment, Transmissions and Utilities	672,834	-	43,080	715,914
Landfill	-	-	425,420	425,420
Administrative	800,000	-	-	800,000
Amortization	8,083	-	-	8,083
Depreciation	1,242,649	1,751,896	220,311	3,214,856
TOTAL OPERATING EXPENSES	6,853,549	47,942,183	2,056,499	56,852,231
OPERATING INCOME (LOSS)	1,048,236	4,901,081	(97,898)	5,851,419
NONOPERATING REVENUES (EXPENSES)				
Interest Income	2,663	68,188	106	70,957
Interest Expense and Fiscal Charges	(413,413)	(811,292)	(31,321)	(1,256,026)
Other Income	156,000	-	-	156,000
Other Expense	-	(37,115)	-	(37,115)
TOTAL NONOPERATING REVENUES (EXPENSES)	(254,750)	(780,219)	(31,215)	(1,066,184)
Income (Loss) Before Contributions and Transfers	793,486	4,120,862	(129,113)	4,785,235
OTHER FINANCING SOURCES (USES)				
Transfer to General Fund	-	(703,290)	-	(703,290)
Transfer from General Fund	-	-	204,906	204,906
Transfer from Governmental Activities	-	-	868,512	868,512
Transfer from Sanitation - Special Revenue Fund	-	-	64,604	64,604
Contributions - Capital Grant Revenue	35,821	-	-	35,821
TOTAL OTHER FINANCING SOURCES (USES)	35,821	(703,290)	1,138,022	470,553
Change in Net Assets	829,307	3,417,572	1,008,909	5,255,788
NET ASSETS, JULY 1, 2011	15,691,420	42,579,595	5,267,979	63,538,994
NET ASSETS, JUNE 30, 2012	\$ 16,520,727	45,997,167	6,276,888	68,794,782

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

CITY OF ELIZABETHTON, TENNESSEE  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For the Fiscal Year Ended June 30, 2012

	Business-Type Activities - Enterprise Funds			
	Elizabethton Water and Sewer Fund	Elizabethton Electric Department	Nonmajor Proprietary Funds	Total Enterprise Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash Received From Customers	\$ 7,758,053	50,250,375	1,912,957	59,921,385
Cash Received from City of Elizabethton for Services	-	1,253,658	13,252	1,266,910
Cash Received from Rentals and Other Sales	-	1,595,020	-	1,595,020
Cash Payments for Tax Equivalent	-	(268,046)	-	(268,046)
Cash Payments for Employee Services and Benefits	(2,447,015)	(114,696)	(509,568)	(3,071,279)
Cash Payments to Suppliers for Goods and Services	(3,153,710)	(47,276,227)	(1,260,507)	(51,690,444)
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>	<b>2,157,328</b>	<b>5,440,084</b>	<b>156,134</b>	<b>7,753,546</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Acquisition and Construction of Capital Assets	(614,110)	(6,168,646)	-	(6,782,756)
Payments on Capital Lease	(25,211)	-	-	(25,211)
Principal Paid on Bonds Payable	(1,025,000)	(760,000)	-	(1,785,000)
Principal Paid on Notes Payable	-	-	(104,084)	(104,084)
Interest Paid on Bonds and Notes Payable	(306,312)	(821,268)	(30,487)	(1,158,067)
Principal Paid on State Loans Payable	(95,400)	-	-	(95,400)
Capital Outlay Note Proceeds	-	-	167,500	167,500
Grant Proceeds	283,339	-	-	283,339
<b>NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(1,782,694)</b>	<b>(7,749,914)</b>	<b>32,929</b>	<b>(9,499,679)</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>				
Transfers to Other Funds	(1,453)	(703,290)	4,394	(700,349)
Transfers from Other Funds	6,013	-	147,010	153,023
<b>NET CASH PROVIDED BY (USED FOR) NON-CAPITAL FINANCING ACTIVITIES</b>	<b>4,560</b>	<b>(703,290)</b>	<b>151,404</b>	<b>(547,326)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Sale of Investments	-	5,767,645	-	5,767,645
Purchase of Investments	(94,391)	-	(13,308)	(107,699)
Interest on Investments	2,663	61,048	106	63,817
<b>NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES</b>	<b>(91,728)</b>	<b>5,828,693</b>	<b>(13,202)</b>	<b>5,723,763</b>
Net Increase (Decrease) in Cash and Cash Equivalents	287,466	2,815,573	327,265	3,430,304
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>900,638</b>	<b>7,026,286</b>	<b>133,976</b>	<b>8,060,900</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 1,188,104</b>	<b>9,841,859</b>	<b>461,241</b>	<b>11,491,204</b>

(Continued)

CITY OF ELIZABETHTON, TENNESSEE  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For the Fiscal Year Ended June 30, 2012

	Business-Type Activities - Enterprise Funds			Total Enterprise Funds
	Elizabethton Water and Sewer Fund	Elizabethton Electric Department	Nonmajor Proprietary Funds	
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities				
NET OPERATING INCOME (LOSS)	\$ 1,048,236	4,901,081	(97,898)	5,851,419
Adjustments				
Depreciation and Amortization	1,250,732	1,873,337	220,311	3,344,380
Non-cash Revenue	-	-	(7,200)	(7,200)
Provision for Uncollectibles	-	31,539	-	31,539
Changes in Assets and Liabilities				
(Increase) Decrease in Accounts Receivables	(143,732)	24,094	(42,938)	(162,576)
(Increase) Decrease in Inventories	(50,331)	98,128	31,105	78,902
(Increase) Decrease in Prepaid Expense	-	-	-	-
Increase (Decrease) in Accounts Payable	(9,828)	(730,271)	18,855	(721,244)
Increase (Decrease) in Retainage Payable	-	140,526	-	140,526
Increase (Decrease) in Customer Deposits	18,163	76,228	-	94,391
Increase (Decrease) in Other				
Liabilities/Accruals	2,160	(1,086,303)	14,950	(1,069,193)
Increase (Decrease) in Accrued Payroll	(69)	(2,330)	264	(2,135)
Increase (Decrease) in OPEB Liability	52,133	59,932	9,571	121,636
Increase (Decrease) in Compensated Absences	(10,136)	54,123	9,114	53,101
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>\$ 2,157,328</u>	<u>5,440,084</u>	<u>156,134</u>	<u>7,753,546</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES				
During the fiscal year ended June 30, 2012, the Elizabethton Water and Sewer Fund received, in the form of non-cash contribution, \$156,000 related to a construction project. Additionally as of July 1, 2011, the Elizabethton Sanitation Fund was changed from a governmental fund to a proprietary fund, as disclosed in Note 1. As a result of this change in fund type, the Elizabethton Sanitation Fund recognized a net contribution of \$868,512 representing the net capital assets as of June 30, 2011, previously reflected on the government-wide presentation, in the amount of \$897,788 as well as the OPEB Liability of (\$29,276). Both transactions represent noncash activities. In addition, during the fiscal year, the Elizabethton Sanitation Fund received a contribution of \$59,906 from the General Fund. This represents the Elizabethton Sanitation's Fund allocated OPEB Investment account balance.				
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET ASSETS - PROPRIETARY FUNDS				
Cash and Cash on Hand	\$ 667,314	7,534,443	461,241	8,662,998
Restricted Cash	<u>520,790</u>	<u>2,307,416</u>	<u>-</u>	<u>2,828,206</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 1,188,104</u>	<u>9,841,859</u>	<u>461,241</u>	<u>11,491,204</u>

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

CITY OF ELIZABETHTON, TENNESSEE  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
June 30, 2012

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	Military Family Support Private-Purpose Trust
	<hr/>
ASSETS	
Cash	\$ 2,734
	<hr/>
NET ASSETS	
Held in Trust for Military Families	\$ 2,734
	<hr/>

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

CITY OF ELIZABETHTON, TENNESSEE  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
For the Fiscal Year Ended June 30, 2012

	Military Family Support Private-Purpose Trust
ADDITIONS	
Interest	\$ 3
TOTAL ADDITIONS	<u>3</u>
DEDUCTIONS	
Benefits to Military Families	<u>-</u>
TOTAL DEDUCTIONS	<u>0</u>
CHANGE IN NET ASSETS	3
NET ASSETS, JULY 1, 2011	<u>2,731</u>
NET ASSETS, JUNE 30, 2012	<u><u>\$ 2,734</u></u>

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

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Financial Reporting Entity

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

Individual Component Unit Disclosures

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

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

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Individual Component Unit Disclosures (Continued)

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

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

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

Blended Component Unit

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

Related Organizations

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

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

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

Carter County Tomorrow

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

Carter County Emergency 911 Communications District

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

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related Organizations (Continued)

Carter County Equalization Board

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

Health and Education Facilities Board

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

Watauga Regional Library Board

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

Solid Waste Regional Board

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

Elizabethton Housing Authority

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

Watauga River Regional Water Authority

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

Joint Venture

Carter County Solid Waste Disposal System Board

The City appoints two members to the Board and the County appoints two members. A fifth member is jointly approved by both the City Council and the Carter County Commission. Also, the City Manager is an ex-officio member. No appropriation is made by the City to this Board. The City and County have entered into an agreement to jointly and cooperatively operate and maintain a solid waste disposal system for the duration of the life of the Campbell Hollow Solid Waste Sanitary Landfill. The landfill was closed in 2000. The County has provided financial assurances for estimated postclosure liabilities as required by the State of Tennessee. The postclosure care liability is reported by Carter County. The County bills the City for one-half of the postclosure expenditures per the written agreement. There are no separately issued financial statements for the Landfill.

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Discretely Presented Component Units

Elizabethton Municipal Golf Course

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

The Elizabethton Board of Education

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

Government-Wide and Fund Financial Statements

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

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

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide and Fund Financial Statements (Continued)

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

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

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

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The City reports the following major governmental fund:

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

The City reports the following major proprietary funds:

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

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

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

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

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

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Assets, Liabilities and Equity

1. Deposits and Investments

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

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

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities and Equity (Continued)

2. Receivables and Payables

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

All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 180 days comprise the trade accounts receivable allowance for uncollectible. The property tax receivable allowance is equal to 2.5% of current taxes and 8.0% of all other years at June 30, 2012. Estimated uncollectible taxes were based on the prior year’s collection experience.

Property taxes are levied as of August 1 on property values assessed as of January 1. All real property taxes and personal property taxes are due and payable on the tenth of November. The billings are considered past due on January 1 at which time the applicable property is subject to lien and penalties and interest are assessed. Property taxes recognized as receivable before the period of revenue recognition have been reported as deferred revenues. For the fiscal year ending June 30, 2012, the 2011 calendar year property tax rate was \$1.78 per \$100.00 of assessed value.

3. Inventories and Prepaid Items

Inventories in the General, Water and Sewer, and Electric Department Funds are valued at cost using the first-in/first-out (FIFO) method. Inventories of gasoline and vehicle parts are carried during the fiscal year with a 10% to 25% mark-up for the purpose of charging out to other funds. These are re-valued to cost at year end. The costs of inventory are reported as expenditures when consumed rather than when purchased.

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

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

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities and Equity (Continued)

4. Restricted Assets

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

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

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

5. Capital Assets

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

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

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

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

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities and Equity (Continued)

5. Capital Assets (Continued)

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

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

The assets of the Elizabethton Electric Department are being depreciated on the straight-line method over the useful lives per guidelines of the Tennessee Valley Authority (T.V.A.). When property is retired or otherwise disposed of, its average cost, together with its cost of removal less salvage, is charged to accumulated depreciation; no gain or loss is recognized as per federal energy regulations. \$121,441 of depreciation was charged to operating expense per T.V.A. guidelines.

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

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

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

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

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities and Equity (Continued)

6. Compensated Absences

Policy of the City of Elizabethton

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

The proprietary fund financial statements reflect \$445,572 of vacation benefits payable. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Expected future demands of \$362,766 for vacation benefits have been reflected in the Statement of Net Assets as compensated absences for the governmental activities.

Policy of the Elizabethton Electric Department

Accumulated Vacation:

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

A liability for compensated absences and related fringe benefits is reflected on the Statement of Net Assets at June 30, 2012, in the amount of \$329,402. The portion of this liability expected to be paid within one year is classified as a current liability and the remainder as a long-term liability.

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities and Equity (Continued)

7. Long-Term Obligations

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

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

8. Fund Equity

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The following classifications describe the relative strength of the spending constraints:

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

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities and Equity (Continued)

8. Fund Equity (Continued)

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

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources (committed, assigned and unassigned) as they are needed. When committed, assigned and unassigned funds are available for expenditures, committed funds should be spent first, assigned funds second, and unassigned funds last.

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

9. Use of Estimates

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

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities and Equity (Continued)

Discretely Presented Component Units

Elizabethton Board of Education

Significant Accounting Policies

1. Deposits and Investments

The Finance Director is the treasurer for the Schools and in this capacity is responsible for receiving, disbursing, depositing and investing most of the Schools' funds. Certain disclosures regarding deposits and investments are required by GAAP for those amounts included on the balance sheet as cash and cash equivalents. The Board of Education does not have any deposits or investments other than cash on deposit with banks.

2. Inventories

All inventories are valued at cost using the first-in/first-out (FIFO) method. Governmental funds record inventories as expenditures at the time of purchase. All such inventories on hand at year end are reported as assets and are fully reserved as Non-Spendable in the fund balance section of the funds' balance sheet.

Because the cafeteria utilizes the single inventory method for all inventory, whether purchased or donated, the value of ending inventory related to commodities has been estimated based on the assumption that commodities are consumed prior to the use of purchased inventory, resulting in a \$0 balance for commodities inventory. The value of commodities received and used during the fiscal year is estimated to be \$32,624.

3. Accumulated Unpaid Vacation and Sick Leave

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

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities and Equity (Continued)

Discretely Presented Component Units (Continued)

Elizabethton Board of Education (Continued)

Significant Accounting Policies (Continued)

4. Estimates

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

5. Capital Assets

Capital assets are defined as assets with an initial, individual cost of more than \$5,000 for vehicles and equipment and \$50,000 for buildings and improvements. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Property, plant, and equipment are depreciated using the straight-line method over the following estimated useful lives:

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

Elizabethton Municipal Golf Course

Significant Accounting Policies

1. Property, Plant and Equipment

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

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

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities and Equity (Continued)

Discretely Presented Component Units (Continued)

Elizabethton Municipal Golf Course (Continued)

Significant Accounting Policies (Continued)

1. Property, Plant and Equipment (Continued)

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

2. Cash and Cash Equivalents

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

3. Inventories

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

4. Estimates

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

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

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

The governmental fund balance sheet includes a reconciliation between *fund balance-total governmental funds* and *net assets-governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “long-term liabilities are not due and payable in the current period, and therefore, are not reported as liabilities in the funds. Long-term liabilities at year end consist of bonds payable, notes payable, capital leases and compensated absences.” The details of this \$(8,598,569) difference are as follows:

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

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

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Assets (Continued)

Bonds Payable	\$ (5,875,000)
Notes Payable	(2,360,803)
Compensated Absences	<u>(362,766)</u>
Net adjustment to reduce <i>fund balance-total governmental funds</i> to arrive at <i>net assets-governmental activities</i>	\$ <u>(8,598,569)</u>

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

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

One element of that reconciliation states that “repayment of bond and note principal and leases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets”. The detail of this \$851,766 difference is as follows:

Principal Repayments:

General Obligation Debt	\$ 480,000
Notes Payable	323,834
Capital Lease	<u>47,932</u>
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$ <u>851,766</u>

Another element of that reconciliation states that “in the Statement of Activities, certain operating expenses, such as compensated absences, are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. Compensated absences decreased by this amount for the current year.”

Compensated absences for the prior year	\$ 403,995
Compensated absences for the current year	<u>(362,766)</u>
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$ <u>41,229</u>

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

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NOTE 3 - BUDGETARY INFORMATION AND COMPLIANCE

A. BUDGETARY REPORTING

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

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

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NOTE 4 - DEPOSITS AND INVESTMENTS (CONTINUED)

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

Specifically, the LGIP was established under *Tennessee Code Annotated* Title 9, Chapter 4, Part 7. This investment pool is established for the use of idle funds of local governments located within the State of Tennessee. These funds are placed by the participating entity into accounts that are held and invested by the State Treasurer. The LGIP invests in time deposits, such as certificates of deposit, commercial paper, United States of America agency securities, repurchase agreements, and United States of America treasuries. By law, the LGIP is required to maintain a 90-day or less weighted-average-maturity. The fair value of shares held in the LGIP is the same as the value of the LGIP shares. The TN LGIP has not been rated by a nationally recognized statistical rating organization. The City does not have a policy for other credit risk other than pledging securities for amounts in excess of Federal Deposit Insurance Corporation (FDIC) coverage.

Deposits

The City's carrying amount of deposits was \$12,654,368 and the bank balance was \$13,017,237.

The bank balances are collateralized or insured as follows:

Amount insured by FDIC or collateralized	
with State of Tennessee Bank Collateral Pool	\$ <u>13,017,237</u>

The City also manages cash for the Military Family Support Private-Purpose Trust fund. The City's carrying amount of deposits for the fund was \$2,734 and the bank balance was \$2,734. These deposits have not been reflected in the Statement of Net Assets. The entire amount of the deposits was covered by the State of Tennessee Collateral Pool. The Board of Education and Municipal Golf Course, discretely presented component units, had deposits with a balance per books of \$1,936,013 and a bank balance of \$2,562,686. The deposits in excess of FDIC limits were fully collateralized by the State of Tennessee Collateral Pool.

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

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NOTE 4 - DEPOSITS AND INVESTMENTS (CONTINUED)

Deposits (Continued)

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

	City of Elizabethton	Discretely Presented Component Units
Carrying Amount of Deposits	\$ 12,654,368	1,936,013
Amounts per Statement of Net Assets:		
Cash and Cash on Hand	\$ 9,826,162	1,960,289
Cash Overdraft	-	(24,276)
Restricted Cash	2,828,206	-
Total Per Statement of Net Assets	\$ 12,654,368	1,936,013

Investments

The City and Electric Department invest funds in the State of Tennessee's Local Government Investment Pool and bond proceeds with an investment advisor. The City and Electric Department's interest in the Investment Pool is recorded at fair market value and at June 30, 2012, funds were \$8,259,542. The total investment with the investment firm is recorded at fair value and is \$7,607,514 at June 30, 2012.

Disclosures Relating to Interest Rate and Credit Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

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

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

NOTE 4 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

As of June 30, 2012, the City and Electric Department had the following investments:

	<u>Carrying Amount</u>	<u>Market Value</u>
Local Government Investment Pool	\$ 8,259,542	8,259,542
Bond Fund Investments		
Certificate of Deposit	2,000,000	2,000,000
Fixed Agency Securities	500,825	500,825
Municipal Securities	5,106,689	5,106,689
Total Bond Fund Investments	<u>7,607,514</u>	<u>7,607,514</u>
Total Investments	<u>\$ 15,867,056</u>	<u>15,867,056</u>

The Electric Department's bond fund investments had the following credit risk structure as of June 30, 2012:

Investment Type	<u>Moody's Credit Rating</u>	<u>Fair Value</u>	<u>Percent of Total</u>
Certificate of Deposit	Unrated	\$ 2,000,000	26%
Fixed Agency Securities	AA+/Aaa	500,825	7%
Municipal Securities			
Taxable Municipals	AA+/Aa1	258,258	3%
Taxable Municipals	AA/Aa2	503,400	7%
Tax-free Municipals	AA+/Aa1	633,068	8%
Tax-free Municipals	AA+/Aa2	252,935	3%
Tax-free Municipals	AA	250,512	3%
Tax-free Municipals	AA/Aa2	454,483	6%
Tax-free Municipals	AA-	428,337	6%
Tax-free Municipals	AA-/Aa2	996,766	13%
Tax-free Municipals	AA-/Aa3	200,708	3%
Tax-free Municipals	NR/Aaa	141,982	2%
Tax-free Municipals	NR/Aa1	125,085	2%
Tax-free Municipals	NR/Aa2	359,755	5%
Tax-free Municipals	NR/Aa3	501,400	7%
		<u>5,106,689</u>	
Total Bond Fund Investments		<u>\$ 7,607,514</u>	

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

NOTE 4 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

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

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1 - 5	6 - 10	More Than 10
Certificate of Deposit	\$ 2,000,000	2,000,000	-	-	-
Fixed Agency Securities	500,825	-	500,825	-	-
Municipal Securities	5,106,689	5,106,689	-	-	-
Total Bond Fund Investments	<u>\$ 7,607,514</u>	<u>7,106,689</u>	<u>500,825</u>	<u>0</u>	<u>0</u>

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

Amounts Per Statement of Net Assets

	Governmental Activities	Business-Type Activities	Total
Investments	\$ 973,363	10,283,730	11,257,093
Restricted Assets - Investments	4,609,963	-	4,609,963
Total	<u>\$ 5,583,326</u>	<u>10,283,730</u>	<u>15,867,056</u>

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

NOTE 5 - RECEIVABLES

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

	General	Water and Sewer	Electric Department	Nonmajor Proprietary Funds	Nonmajor Governmental Funds	Component Units	Total
Receivables:							
Accounts	\$ 35,032	506,626	5,169,744	111,200	940	10,147	5,833,689
Taxes	5,005,745	-	-	-	-	-	5,005,745
Notes Receivable	121,589	-	-	-	-	-	121,589
Due from Other Governments	1,131,147	71,988	-	148,699	98,295	3,402,328	4,852,457
Gross Receivables	6,293,513	578,614	5,169,744	259,899	99,235	3,412,475	15,813,480
Less: Allowance for Uncollectibles	(34,054)	(28,508)	(173,670)	(1,385)	-	-	(237,617)
Total Receivables	<u>\$ 6,259,459</u>	<u>550,106</u>	<u>4,996,074</u>	<u>258,514</u>	<u>99,235</u>	<u>3,412,475</u>	<u>15,575,863</u>

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

At the end of the current fiscal year, the various components of *deferred revenue* reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Receivables not received within period of availability:		
Property tax levied for ensuing fiscal year:		
General Fund	\$ -	4,530,923
Property tax levied but not collected in period of availability and Other Taxes	<u>425,486</u>	<u>-</u>
	<u>\$ 425,486</u>	<u>4,530,923</u>

On the fund financial statement level, deferred revenue is \$4,956,409 for the current year.

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

**NOTE 6 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2012 is as follows:

**Primary Government**

	Beginning Balance	Increases	Decreases	Adjustments	Ending Balance
Governmental Activities					
Capital Assets, Not Being Depreciated:					
Land	\$ 2,212,594	-	(315,250)	-	1,897,344
Construction in Progress	356,486	5,426	(5,785)	-	356,127
Library Infrastructure	699,117	8,466	-	-	707,583
Total Capital Assets, Not Being Depreciated	3,268,197	13,892	(321,035)	0	2,961,054
Capital Assets, Being Depreciated:					
Buildings and Improvements	7,116,328	62,865	-	-	7,179,193
Motor Equipment	4,964,548	392,456	(1,216,086)	-	4,140,918
Office Equipment	2,164,367	229,546	(14,566)	-	2,379,347
Infrastructure	10,837,022	196,415	-	-	11,033,437
Total Capital Assets, Being Depreciated	25,082,265	881,282	(1,230,652)	0	24,732,895
Less Accumulated Depreciation For:					
Buildings and Improvements	(3,102,455)	(203,459)	-	(11,032)	(3,316,946)
Motor Equipment	(3,403,208)	(202,885)	633,548	(9,919)	(2,982,464)
Office Equipment	(1,724,591)	(77,680)	14,566	(3,731)	(1,791,436)
Infrastructure	(6,564,394)	(221,845)	-	(12,634)	(6,798,873)
Total Accumulated Depreciation	(14,794,648)	(705,869)	648,114	(37,316)	(14,889,719)
Total Capital Assets, Being Depreciated, Net	10,287,617	175,413	(582,538)	(37,316)	9,843,176
Governmental Activities, Capital Assets, Net	<u>\$ 13,555,814</u>	<u>189,305</u>	<u>(903,573)</u>	<u>(37,316)</u>	<u>12,804,230</u>

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

**NOTE 6 - CAPITAL ASSETS (CONTINUED)**

**Primary Government (Continued)**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Adjustments</u>	<u>Ending Balance</u>
Business-Type Activities					
Capital Assets, Not Being Depreciated:					
Land	\$ 3,568,389	8,500	-	315,250	3,892,139
Water Right	5,000,000	-	-	-	5,000,000
Construction in Progress	24,112,097	6,200,386	(868,460)	9,000	29,453,023
Total Capital Assets, Not Being Depreciated	<u>32,680,486</u>	<u>6,208,886</u>	<u>(868,460)</u>	<u>324,250</u>	<u>38,345,162</u>
Capital Assets, Being Depreciated:					
Buildings and Improvements	30,192,990	233,650	-	-	30,426,640
Motor Equipment	8,177,321	102,186	(72,478)	1,139,269	9,346,298
Office Equipment	967,224	59,994	-	14,566	1,041,784
Infrastructure	75,393,951	1,123,885	(196,259)	-	76,321,577
Total Capital Assets, Being Depreciated	<u>114,731,486</u>	<u>1,519,715</u>	<u>(268,737)</u>	<u>1,153,835</u>	<u>117,136,299</u>
Less Accumulated Depreciation For:					
Buildings and Improvements	(12,188,925)	(850,444)	-	-	(13,039,369)
Motor Equipment	(5,255,640)	(361,675)	72,477	(571,297)	(6,116,135)
Office Equipment	(642,346)	(31,295)	-	-	(673,641)
Infrastructure	(30,606,258)	(2,092,883)	286,375	-	(32,412,766)
Total Accumulated Depreciation	<u>(48,693,169)</u>	<u>(3,336,297)</u>	<u>358,852</u>	<u>(571,297)</u>	<u>(52,241,911)</u>
Total Capital Assets, Being Depreciated, Net	<u>66,038,317</u>	<u>(1,816,582)</u>	<u>90,115</u>	<u>582,538</u>	<u>64,894,388</u>
Business-Type Activities, Capital Assets, Net	<u>\$ 98,718,803</u>	<u>4,392,304</u>	<u>(778,345)</u>	<u>906,788</u>	<u>103,239,550</u>

The \$315,250 adjustment to Land, \$1,139,269 adjustment to Motor Equipment, \$14,566 adjustment to Office Equipment and (\$571,297) adjustment to Motor Equipment reflected above are a result of the Sanitation Fund being reclassified as a Proprietary Fund beginning July 1, 2011. As a result, these capital assets were in effect, transferred from Government-wide to the individual Sanitation Fund.

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

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NOTE 6 - CAPITAL ASSETS (CONTINUED)

Primary Government (Continued)

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

Governmental Activities	
General Government	\$ 98,177
Public Safety	208,009
Public Works - including general infrastructure assets	281,603
Health and Welfare	887
Culture and Recreation	114,580
Drug Fund	2,613
Total Depreciation Expense - Governmental Activities	<u>\$ 705,869</u>
Business-Type Activities	
Electric Department	\$ 1,873,337
Water and Sewer	1,242,649
Sanitation	57,668
Airport	162,643
Total Depreciation Expense - Business-Type Activities	<u>\$ 3,336,297</u>

A total of \$121,441 of depreciation expense for the Electric Department was charged to transportation expense.

Discretely Presented Component Units

Activity for the Municipal Golf Course and Board of Education for the fiscal year ended June 30, 2012 are as follows:

Municipal Golf Course	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Being Depreciated:				
Buildings and Improvements	\$ 72,334	-	-	72,334
Motor Equipment	633,848	45,819	-	679,667
Office Equipment	13,442	-	-	13,442
Infrastructure	1,424,926	-	-	1,424,926
Total Capital Assets, Being Depreciated	<u>2,144,550</u>	<u>45,819</u>	<u>0</u>	<u>2,190,369</u>

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

NOTE 6 - CAPITAL ASSETS (CONTINUED)

Discretely Presented Component Units (Continued)

Municipal Golf Course (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Less Accumulated Depreciation For:				
Buildings and Improvements	(57,197)	(2,699)	-	(59,896)
Motor Equipment	(542,353)	(33,436)	-	(575,789)
Office Equipment	(13,443)	-	-	(13,443)
Infrastructure	(900,956)	(28,139)	-	(929,095)
Total Accumulated Depreciation	(1,513,949)	(64,274)	0	(1,578,223)
Total Capital Assets, Being Depreciated, Net	<u>\$ 630,601</u>	<u>(18,455)</u>	<u>0</u>	<u>612,146</u>

Board of Education

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated:				
Land	\$ 216,170	-	-	216,170
Construction in Progress	4,550,719	63,764	(4,550,719)	63,764
Total Capital Assets, Not Being Depreciated	<u>4,766,889</u>	<u>63,764</u>	<u>(4,550,719)</u>	<u>279,934</u>
Capital Assets, Being Depreciated				
Buildings and Improvements	17,997,410	4,594,673	-	22,592,083
Motor Equipment	1,309,529	212,379	-	1,521,908
Total Capital Assets, Being Depreciated	<u>19,306,939</u>	<u>4,807,052</u>	<u>0</u>	<u>24,113,991</u>
Less Accumulated Depreciation For:				
Buildings and Improvements	(8,684,413)	(431,579)	-	(9,115,992)
Motor Equipment	(685,235)	(72,586)	-	(757,821)
Total Accumulated Depreciation	<u>(9,369,648)</u>	<u>(504,165)</u>	<u>0</u>	<u>(9,873,813)</u>
Total Capital Assets, Being Depreciated, Net	<u>9,937,291</u>	<u>4,302,887</u>	<u>0</u>	<u>14,240,178</u>
Total Capital Assets, Net	<u>\$ 14,704,180</u>	<u>4,366,651</u>	<u>(4,550,719)</u>	<u>14,520,112</u>

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

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NOTE 7 - OPERATING LEASES

Component Unit

The Elizabethton Municipal Golf Course leases property to be used as a driving range. In addition to the \$1,125 monthly lease payment, the Golf Course is required to pay all utility bills, business taxes or fees and carry public liability insurance on the property. The Golf Course is also responsible for payment to the lessor one-third (1/3) of all driving range income received above \$22,500 as a lump sum annually. The lease agreement was renewed in the fiscal year 2011 and matures March 1, 2014. Total lease expense for the fiscal year was \$13,500.

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

Future payments required under the operating leases are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Amount</u>
2013	\$ 40,260
2014	40,260
2015	<u>26,760</u>
TOTAL	<u>\$ 107,280</u>

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

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NOTE 8 - CAPITAL LEASES

Primary Government

The general fund leases police vehicles that are part of a capital lease. Amortization of the leased equipment is included in depreciation expense. During the current year, the final lease payment was made.

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

Police Vehicles	\$ 144,006
Less: Accumulated Depreciation	<u>(86,403)</u>
	<u>\$ 57,603</u>

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



CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

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NOTE 8 - CAPITAL LEASES (CONTINUED)

Component Unit (Continued)

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

Mowing Equipment and Turf Equipment	\$ 83,375
Less: Accumulated Depreciation	<u>(15,730)</u>
	<u>\$ 67,645</u>

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Capital Lease - Turf Equipment	\$ 3,985	-	1,459	2,526	2,176
Capital Lease - John Deere	<u>26,057</u>	<u>45,819</u>	<u>6,651</u>	<u>65,225</u>	<u>15,167</u>
	<u>\$ 30,042</u>	<u>45,819</u>	<u>8,110</u>	<u>67,751</u>	<u>17,343</u>

Future payments required under the capital leases are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 17,343	3,215	20,558
2014	15,970	2,663	18,633
2015	16,096	2,184	18,280
2016	11,997	864	12,861
2017	<u>6,345</u>	<u>104</u>	<u>6,449</u>
	<u>\$ 67,751</u>	<u>9,030</u>	<u>76,781</u>

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

**NOTE 9 - LONG-TERM DEBT**

During the fiscal year ended June 30, 2012, the following debt transactions occurred.

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Governmental Activities:					
General Obligation Debt	\$ 6,355,000	-	480,000	5,875,000	480,000
Capital Leases	47,932	-	47,932	-	-
Compensated Absences	403,995	157,066	198,295	362,766	203,660
Notes Payable	2,432,637	252,000	323,834	2,360,803	362,054
Governmental Activities Long-Term Liabilities	9,239,564	409,066	1,050,061	8,598,569	1,045,714
Business-Type Activities:					
Tax Refunding and					
Improvement Bonds	12,897,414	-	1,025,000	11,872,414	1,021,740
Revenue Bonds	37,425,000	-	760,000	36,665,000	925,000
Add: Deferred Amount on Issuance Premium	448,120	-	22,493	425,627	-
Less: Deferred Amount on Refunding	64,842	-	5,722	59,120	-
Total Bonds	50,705,692	-	1,801,771	48,903,921	1,946,740
Notes Payable	719,052	167,500	104,084	782,468	136,440
Capital Lease	99,111	-	25,210	73,901	23,304
State Loans Payable	1,428,935	199,495	95,400	1,533,030	97,980
Compensated Absences	392,471	230,476	177,375	445,572	182,097
Business-Type Activities Long-Term Liabilities	53,345,261	597,471	2,203,840	51,738,892	2,386,561
Total Changes in Long-Term Debt	\$ 62,584,825	1,006,537	3,253,901	60,337,461	3,432,275

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

NOTE 9 - LONG-TERM DEBT (CONTINUED)

Governmental Activity Debt

Bonds Payable

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. The bonds are payable from unlimited ad valorem taxes to be levied on all taxable property within the City. The General Obligation School Bonds Series 2010B are also secured by a pledge of the one half percent addition to the City's Local Option Sales and Use Tax. The following is a summary of general obligation bonds currently outstanding from the General Fund:

<u>General Fund</u>	<u>Date Issued</u>	<u>Amount Issued</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Outstanding June 30, 2012</u>
General Obligation - School Bonds Series 2008	12/16/2008	\$ 6,750,000	2.25-4.40%	9/1/2023	\$ 5,400,000
General Obligation - Series 2010B	3/11/2010	505,000	3.00-3.75%	6/1/2025	475,000
					<u>\$ 5,875,000</u>

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

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 450,000	198,900	648,900
2014	450,000	184,838	634,838
2015	450,000	169,875	619,875
2016	450,000	154,237	604,237
2017	450,000	137,925	587,925
2018-2022	2,250,000	515,026	2,765,026
2023-2024	900,000	87,975	987,975
	<u>\$ 5,400,000</u>	<u>1,448,776</u>	<u>6,848,776</u>

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

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NOTE 9 - LONG TERM DEBT (CONTINUED)

Governmental Activity Debt (Continued)

Bonds Payable (Continued)

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

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 30,000	15,550	45,550
2014	30,000	14,650	44,650
2015	30,000	13,750	43,750
2016	35,000	12,850	47,850
2017	35,000	11,800	46,800
2018-2022	185,000	48,325	233,325
2023-2025	130,000	15,844	145,844
	<u>\$ 475,000</u>	<u>132,769</u>	<u>607,769</u>

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

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 480,000	214,450	694,450
2014	480,000	199,488	679,488
2015	480,000	183,625	663,625
2016	485,000	167,087	652,087
2017	485,000	149,725	634,725
2018-2022	2,435,000	563,351	2,998,351
2023-2025	1,030,000	103,819	1,133,819
	<u>\$ 5,875,000</u>	<u>1,581,545</u>	<u>7,456,545</u>

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

NOTE 9 - LONG-TERM DEBT (CONTINUED)

Governmental Activity Debt (Continued)

Notes Payable

Capital outlay notes are issued for various capital additions and projects city-wide. The full faith and credit of the City is pledged for payment. The City pledges its taxing power as to all taxable property. Capital Outlay Notes currently outstanding from the General Fund are as follows:

<u>General Fund</u>	<u>Date Issued</u>	<u>Amount Issued</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Outstanding June 30, 2012</u>
Capital Outlay Notes	10/23/2006	\$ 1,250,000	4.38%	10/23/2018	\$ 732,139
Capital Outlay Notes	2/12/2004	1,250,000	3.95%	11/20/2015	416,664
Capital Outlay Notes	10/16/2009	1,250,000	3.74%	10/15/2019	960,000
Capital Outlay Notes	3/15/2012	252,000	2.10%	3/15/2019	252,000
					<u>\$ 2,360,803</u>

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

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 104,122	29,993	134,115
2014	108,775	25,340	134,115
2015	113,636	20,478	134,114
2016	118,714	15,400	134,114
2017	124,020	10,095	134,115
2018-2019	162,872	4,795	167,667
	<u>\$ 732,139</u>	<u>106,101</u>	<u>838,240</u>

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

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 104,166	14,618	118,784
2014	104,166	10,446	114,612
2015	104,166	6,275	110,441
2016	104,166	2,103	106,269
	<u>\$ 416,664</u>	<u>33,442</u>	<u>450,106</u>

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

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NOTE 9 - LONG-TERM DEBT (CONTINUED)

Governmental Activity Debt (Continued)

Notes Payable (Continued)

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

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 120,000	34,134	154,134
2014	120,000	29,583	149,583
2015	120,000	25,033	145,033
2016	120,000	20,533	140,533
2017	120,000	15,932	135,932
2018-2020	360,000	20,495	380,495
	<u>\$ 960,000</u>	<u>145,710</u>	<u>1,105,710</u>

Capital Outlay Note issued 03-15-12 debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 33,766	5,366	39,132
2014	34,485	4,647	39,132
2015	35,220	3,912	39,132
2016	35,961	3,171	39,132
2017	36,735	2,397	39,132
2018-2019	75,833	2,430	78,263
	<u>\$ 252,000</u>	<u>21,923</u>	<u>273,923</u>

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

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 362,054	84,110	446,164
2014	367,426	70,016	437,442
2015	373,022	55,699	428,721
2016	378,841	41,207	420,048
2017	280,755	28,424	309,179
2018-2020	598,705	27,720	626,425
	<u>\$ 2,360,803</u>	<u>307,176</u>	<u>2,667,979</u>

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

NOTE 9 - LONG-TERM DEBT (CONTINUED)

Business-Type Activity Debt

Bonds Payable

The government issues bonds when the government pledges income derived from the acquired or constructed assets to pay debt service. The 2010 Series are payable from unlimited ad valorem taxes to be levied on all taxable property within the City. The full faith and credit of the City is pledged for payment. Although not secured by the net revenues of the water system, proceeds of the Bonds will be used to fund water projects. Debt service on that portion of the bonds will be paid in its entirety from the net revenues of the water system. The 2002 Series have pledged the net revenues of the water system. In the event of a deficiency of net revenues for such purposes, the bonds are payable from direct annual taxes to be levied on all taxable property in the City. The full faith and credit of the City is pledged. The Electric Department bonds are secured by a pledge of the net revenues of the Department. Neither the full faith and credit nor taxing power of the City is pledged. The 2010 Electric Department Revenue Bonds are additionally payable from, but not secured by, direct payment credits received in respect of such emission of bonds. The following is a summary of revenue bonds currently outstanding and the funds from which they will be paid:

<u>Water and Sewer Fund</u>	<u>Date Issued</u>	<u>Amount Issued</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Outstanding June 30, 2012</u>
Water and Sewer Revenue and Tax Refunding and Improvement - Series 2002A	6/12/2002	\$ 5,500,000	3.50-4.50%	6/1/2014	\$ 945,000
Water and Sewer Revenue and Tax Refunding and Improvement - Series 2002B	6/12/2002	5,647,414	4.90-5.61%	6/1/2031	5,657,414
Water and Sewer Genreal Obligation Improvement Bonds - Series 2010B	4/30/2010	3,540,000	3.00-4.00%	6/1/2030	2,965,000
Water and Sewer General Obligation Improvement Bonds - Series 2010C	12/13/2010	2,460,000	2.00-4.10%	6/1/2030	2,305,000
<u>Elizabethton Electric Fund</u>					
Revenue Refunding Bonds	8/24/2005	3,495,000	3.50-4.15%	44,805	2,725,000
Revenue Bonds	12/20/2007	15,000,000	4.00-5.00%	12/27/2027	13,355,000
Revenue Bonds	4/20/2010	20,585,000	1.75-6.25%	9/1/2035	20,585,000
					<u>\$ 48,537,414</u>

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

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NOTE 9 - LONG-TERM DEBT (CONTINUED)

Business-Type Activity Debt (Continued)

Bonds Payable (Continued)

Water and Sewer Fund (Continued)

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

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 730,000	42,525	772,525
2014	215,000	9,675	224,675
	<u>\$ 945,000</u>	<u>52,200</u>	<u>997,200</u>

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

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 61,740	43,260	105,000
2014	364,802	290,198	655,000
2015	458,238	416,762	875,000
2016	430,045	444,955	875,000
2017	405,755	469,245	875,000
2018-2022	1,693,003	2,681,998	4,375,001
2023-2027	1,415,536	3,559,464	4,975,000
2028-2031	828,295	2,926,704	3,754,999
	<u>\$ 5,657,414</u>	<u>10,832,586</u>	<u>16,490,000</u>

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

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NOTE 9 - LONG-TERM DEBT (CONTINUED)

Business-Type Activity Debt (Continued)

Bonds Payable (Continued)

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

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 75,000	105,594	180,594
2014	80,000	103,344	183,344
2015	95,000	100,944	195,944
2016	105,000	98,094	203,094
2017	115,000	94,944	209,944
2018-2022	730,000	414,989	1,144,989
2023-2027	970,000	277,102	1,247,102
2028-2030	795,000	64,800	859,800
	\$ 2,965,000	1,259,811	4,224,811

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

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 155,000	75,809	230,809
2014	150,000	72,709	222,709
2015	145,000	69,709	214,709
2016	140,000	65,358	205,358
2017	135,000	61,159	196,159
2018-2022	645,000	245,625	890,625
2023-2027	595,000	138,731	733,731
2028-2030	340,000	27,880	367,880
	\$ 2,305,000	756,980	3,061,980

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

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NOTE 9 - LONG-TERM DEBT (CONTINUED)

Business-Type Activity Debt (Continued)

Bonds Payable (Continued)

Electric Department Revenue Refunding Bonds issued 08-24-05 debt service requirement to maturity are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 200,000	105,170	305,170
2014	205,000	97,070	302,070
2015	215,000	88,670	303,670
2016	225,000	79,870	304,870
2017	235,000	70,905	305,905
2018-2022	1,345,000	203,445	1,548,445
2023	300,000	6,225	306,225
	\$ 2,725,000	651,355	3,376,355

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

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 595,000	571,900	1,166,900
2014	620,000	547,600	1,167,600
2015	645,000	519,075	1,164,075
2016	675,000	486,075	1,161,075
2017	710,000	451,450	1,161,450
2018-2022	4,015,000	1,779,456	5,794,456
2023-2027	4,960,000	832,494	5,792,494
2028	1,135,000	25,538	1,160,538
	\$ 13,355,000	5,213,588	18,568,588

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

NOTE 9 - LONG-TERM DEBT (CONTINUED)

Business-Type Activity Debt (Continued)

Bonds Payable (Continued)

Revenue Bonds issued 04-20-10 debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 130,000	1,184,706	1,314,706
2014	135,000	1,181,966	1,316,966
2015	140,000	1,178,350	1,318,350
2016	145,000	1,173,981	1,318,981
2017	145,000	1,168,906	1,313,906
2018-2022	795,000	5,746,756	6,541,756
2023-2027	2,260,000	5,398,803	7,658,803
2028-2032	8,070,000	4,066,703	12,136,703
2033-2036	8,765,000	1,120,707	9,885,707
	<u>\$ 20,585,000</u>	<u>22,220,878</u>	<u>42,805,878</u>

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

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 1,946,740	2,128,964	4,075,704
2014	1,769,802	2,302,562	4,072,364
2015	1,698,238	2,373,510	4,071,748
2016	1,720,045	2,348,333	4,068,378
2017	1,745,755	2,316,609	4,062,364
2018-2022	9,223,003	11,072,269	20,295,272
2023-2027	10,500,536	10,212,819	20,713,355
2028-2032	11,168,295	7,111,625	18,279,920
2033-2036	8,765,000	1,120,707	9,885,707
	<u>\$ 48,537,414</u>	<u>40,987,398</u>	<u>89,524,812</u>

The 2010 Revenue Bonds in the Electric Department are taxable Build America Bonds. The bonds provide for a 35% federal subsidy on the total interest requirements, which are paid semiannually corresponding with the interest payment dates to the bondholders. The interest requirements for this bond in the schedule of maturities are shown at the gross amount. The remaining federal subsidy totals \$7,777,306 through the term of the bonds.

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

NOTE 9 - LONG-TERM DEBT (CONTINUED)

Business-Type Activity Debt (Continued)

Notes Payable

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

Sanitation Capital Outlay Note issued 03-22-12 debt service requirements to maturity are as follows:

<u>Date Issued</u>	<u>Amount Issued</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Outstanding June 30, 2012</u>
3/22/2012	\$ 167,500	1.99%	3/22/2017	<u>\$ 167,500</u>

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 32,193	3,333	35,526
2014	32,834	2,693	35,527
2015	33,487	2,039	35,526
2016	34,153	1,373	35,526
2017	34,833	693	35,526
	<u>\$ 167,500</u>	<u>10,131</u>	<u>177,631</u>

Elizabethton Municipal Airport

<u>Date Issued</u>	<u>Amount Issued</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Outstanding June 30, 2012</u>
8/27/2004	\$ 41,988	Variable	12/28/2013	\$ 19,468
5/31/2007	1,350,000	4.80%	8/31/2012	<u>595,500</u>
				<u>\$ 614,968</u>

The interest rates on airport debt are variable for the simulator loan and fixed for the expansion loan. The amortization schedules are not available. The estimated debt service requirements to maturity are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 104,247	21,629	125,876
2014	104,247	17,042	121,289
2015	406,474	12,559	419,033
	<u>\$ 614,968</u>	<u>51,230</u>	<u>666,198</u>

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

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NOTE 9 - LONG-TERM DEBT (CONTINUED)

Business-Type Activity Debt (Continued)

Notes Payable (Continued)

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

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 136,440	24,962	161,402
2014	137,081	19,735	156,816
2015	439,961	14,598	454,559
2016	34,153	1,373	35,526
2017	34,833	693	35,526
	<u>\$ 782,468</u>	<u>61,361</u>	<u>843,829</u>

State Loans Payable

The City currently has two projects with the State of Tennessee in which the final obligation and amortization schedule has yet to be established as the City is currently drawing down loan and grant funds. These two projects are: DWO-2011-112 with a balance of \$218,106 and SRF-2011-272 with a balance of \$100,600. The City also has a DWR-99-016 loan with an outstanding balance of \$1,214,324. The total State Loans Payable for all three loans totals \$1,533,030. Notes Payable for the Water and Sewer fund which are payable to the State of Tennessee for financing of State Public Health Loan Programs for the DWR-99-016 is as follows:

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

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 97,980	31,224	129,204
2014	100,632	28,584	129,216
2015	103,344	25,860	129,204
2016	106,140	23,064	129,204
2017	109,008	20,196	129,204
2018-2022	590,880	55,188	646,068
2023	106,340	1,572	107,912
	<u>\$ 1,214,324</u>	<u>185,688</u>	<u>1,400,012</u>

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

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NOTE 9 - LONG-TERM DEBT (CONTINUED)

Water Right – Payable to Water Authority

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

Component Unit Long-Term Debt

Elizabethton Municipal Golf Course

During the fiscal year ended June 30, 2012, the following debt transactions occurred for the Elizabethton Municipal Golf Course:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Capital Outlay Note	\$ 36,604	-	17,869	18,735	18,735
Capital Leases	30,042	45,819	8,110	67,751	17,343
Note Payable - Primary Government	151,589	-	30,000	121,589	30,000
Line of Credit	25,000	15,000	-	40,000	40,000
	<u>\$ 243,235</u>	<u>60,819</u>	<u>55,979</u>	<u>248,075</u>	<u>106,078</u>

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

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NOTE 9 - LONG-TERM DEBT (CONTINUED)

Notes Payable

The Golf Course entered into a seven-year loan agreement with the City in the amount of \$250,000 on August 1, 1998. The interest rate is 5.47%. Principal payments were constant (\$35,714), with the first annual payment due on August 1, 1999. During 2001, the loan agreement was amended to require annual payments of interest only for fiscal years ending 2002-2005. The due date of the note was extended to August 1, 2009. During 2004, the Golf Course and the City agreed to another revision. Their revision postponed the first principal payment until fiscal year end 2008 and extends maturity until 2016. The revision also made the payments principal only payments; in addition, the revision forgave the interest portion owed. Requirements for repayment are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Total</u>
2013	\$ 30,000	30,000
2014	30,000	30,000
2015	30,000	30,000
2016	31,589	31,589
	<u>\$ 121,589</u>	<u>121,589</u>

The Golf Course renewed a line of credit during the current year. The outstanding balance on the line of credit of \$25,000 was rolled over into a new line of credit. A draw of \$15,000 was made leaving the outstanding balance at \$40,000 at year end. The interest rate on the line of credit is 5.25%. The total amount the Golf Course can draw on is \$50,000. The Golf Course is only required to pay interest quarterly until the line of credit matures. As of June 30, 2012, the line of credit accrued interest on the amount of \$525. Debt service requirements to maturity are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 40,000	2,100	42,100
	<u>\$ 40,000</u>	<u>2,100</u>	<u>42,100</u>

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
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NOTE 9 - LONG-TERM DEBT (CONTINUED)

Component Unit Long-Term Debt (Continued)

Elizabethton Municipal Golf Course (Continued)

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

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 18,735	482	19,217
	<u>\$ 18,735</u>	<u>482</u>	<u>19,217</u>

Elizabethton Board of Education

During the fiscal year ended June 30, 2012, the following debt transactions occurred for the Elizabethton Board of Education:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Governmental Activities: Compensated Absences	\$ 33,273	11,335	3,318	41,290	3,138
Governmental Activities Long-Term Liabilities	<u>\$ 33,273</u>	<u>11,335</u>	<u>3,318</u>	<u>41,290</u>	<u>3,138</u>

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

NOTE 10 - FUND BALANCES – GOVERNMENTAL FUNDS

As of June 30, 2012, fund balances are composed of the following:

	General Fund	Other Governmental Funds	Total
	<hr/>	<hr/>	<hr/>
Fund Balances:			
Non-Spendable:			
Elizabethton Golf Course	\$ 121,589	-	121,589
Inventories	36,910	-	36,910
Prepaid Expense	2,813	-	2,813
Bolling Trust	-	25,000	25,000
Total - Non-Spendable	<hr/> 161,312	<hr/> 25,000	<hr/> 186,312
Restricted for:			
Library Donation	54,353	-	54,353
Carter County Animal Shelter	341,500	-	341,500
Police Community Relations	-	2,817	2,817
Drug-Department of Justice	-	17,000	17,000
Police Drug Enforcement Fund	-	74,028	74,028
Fundraiser	-	2,253	2,253
Veteran's Walk of Honor	-	22,527	22,527
Veteran's Walk of Honor Phase II	-	55,358	55,358
Veteran's War Memorial	-	6,064	6,064
Debt Issue - Lynn Avenue Project	-	40	40
Bolling Trust	-	5,340	5,340
Total - Restricted	<hr/> 395,853	<hr/> 185,427	<hr/> 581,280

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

NOTE 10 - FUND BALANCES – GOVERNMENTAL FUNDS (CONTINUED)

	General Fund	Other Governmental Funds	Total
Committed to:			
City Schools	857,470	-	857,470
OPEB LGIP	1,139,035	-	1,139,035
Animal Shelter	251,400	-	251,400
Debt Service	2,017,655	-	2,017,655
Special Capital Projects	-	50,655	50,655
Park and Recreation Capital Projects	-	62,147	62,147
Debt Issue	-	24,552	24,552
Police Technology Fee	-	199,768	199,768
Total - Committed	4,265,560	337,122	4,602,682
Assigned:			
Police	1,970	-	1,970
Christmas Tree	180	-	180
Sidewalk	11,774	-	11,774
Industrial Development	8,170	-	8,170
Bond Funds	108,728	-	108,728
Library	15,224	-	15,224
Elk Avenue Bridge Repair	65,400	-	65,400
Joe O'Brien Field	-	3,230	3,230
Total - Assigned	211,446	3,230	214,676
Unassigned:	2,107,524	-	2,107,524
Total Fund Balances	\$ 7,141,695	550,779	7,692,474

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

**NOTE 11 - OTHER REQUIRED INDIVIDUAL FUND DISCLOSURES**

**A. Interfund receivables, payables and transfers at June 30, 2012 were as follows:**

Receivable Fund	Payable Fund	Amount	Purpose
General	Elizabethton Water and Sewer	\$ 16,337	Reimbursement for Charges
General	Sanitation	17,237	Reimbursement for Charges
Elizabethton Electric Department	General	116,414	Utilities
Elizabethton Electric Department	Elizabethton Water and Sewer	44,315	Utilities
General	Police Drug Enforcement	998	Reimbursement for Charges
Police Drug Enforcement	General	140	Reimbursement
General	Elizabethton Electric Department	<u>1,065</u>	Reimbursement for Charges
Total		<u>\$ 196,506</u>	

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

Transfer In	Transfer Out	Amount
Sanitation	General	\$ 59,906
Police Equipment	General	126,032
Park and Recreation Capital Projects	General	120,924
General Obligation Bond Proceeds Fund	General	45,000
Elizabethton Municipal Airport	General	145,000
General	Elizabethton Electric Department	703,290
Sanitation	Sanitation - Special Revenue Fund	64,604
Sanitation	Governmental Activities	<u>868,512</u>
Total		<u>\$2,133,268</u>

The transfer from the Elizabethton Electric Department represents the in-lieu of tax payments. Other transfers are for operations. The \$64,604 transfer to Sanitation was from the previously reported Sanitation Fund which as of June 30, 2011, was presented as a Special Revenue Fund. The \$868,512 transfer to Sanitation was a result of the City instituting a user charge and designating this fund as a proprietary fund. As a result, the net transfer from Government-wide Activities was \$868,512 as follows:

Net Capital Assets	\$ 897,788
OPEB Liability	<u>(29,276)</u>
Transfer to Sanitation	<u>\$ 868,512</u>

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

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**NOTE 12 - RETIREMENT COMMITMENTS**

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

***City of Elizabethton***

***Plan Description***

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

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

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

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**NOTE 12 - RETIREMENT COMMITMENTS (CONTINUED)**

***City of Elizabethton (Continued)***

***Funding Policy***

The City had previously adopted a noncontributory retirement plan for its employees by assuming employee contributions up to 5.00% of annual covered payroll. As of July 1, 2011, the City has elected to discontinue the non-contributory provision for all future hires. This will require all new hires to contribute 5.00% of earnable compensation. Employees who were employed prior to July 1, 2011 will continue to be eligible for the non-contributory provision.

The City is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2012 was 14.49% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the City is established and may be amended by the TCRS Board of Trustees.

***Annual Pension Cost***

For the fiscal year ending June 30, 2012, the City's annual pension cost of \$1,096,411 to TCRS was equal to the City's required and actual contributions. The required contribution was determined as part of the July 1, 2009 actuarial valuation using the frozen entry-age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.50% a year compounded annually, (b) projected 3.00% annual rate of inflation, (c) projected salary increases of 4.75% (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), and (d) projected 3.50% annual increase in the Social Security wage base. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten-year period. The City's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2009 was 20 years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2012	\$1,096,411	100.00%	\$ 0.00
June 30, 2011	\$1,040,237	100.00%	\$ 0.00
June 30, 2010	\$1,160,983	100.00%	\$ 0.00

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
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**NOTE 12 - RETIREMENT COMMITMENTS (CONTINUED)**

***City of Elizabethton (Continued)***

***Funding Status and Funding Progress***

As of July 1, 2011, the most recent actuarial valuation date, the plan was 76.62% funded. The actuarial accrued liability for benefits was \$23.05 million, and the actuarial value of assets was \$17.66 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$5.39 million. The covered payroll (annual payroll of active employees covered by the plan) \$7.51 million, and the ratio of the UAAL to the covered payroll was 71.77%.

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

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	(AAL) Actuarial Accrued Liability - Entry Age (b)	(UAAL) Unfunded AAL (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/c)
July 1, 2011	\$ 17,664	23,052	5,389	76.62%	7,508	71.77%
July 1, 2009	14,995	21,311	6,316	70.36%	6,989	90.37%
July 1, 2007	14,353	16,053	1,700	89.41%	6,232	27.28%

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

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**NOTE 12 - RETIREMENT COMMITMENTS (CONTINUED)**

***Component Unit - Elizabethton Board Of Education***

***Description***

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

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

***Funding Policy***

The Elizabethton City Board of Education requires employees to contribute 5.00% of earnable compensation.

The Elizabethton City Board of Education is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2012 was 8.79% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the Elizabethton City Board of Education is established and may be amended by the TCRS Board of Trustees.

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

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**NOTE 12 - RETIREMENT COMMITMENTS (CONTINUED)**

***Component Unit - Elizabethton Board Of Education (Continued)***

***Annual Pension Cost***

For the fiscal year ending June 30, 2012, the Elizabethton City Board of Education's annual pension cost of \$210,392 to TCRS was equal to the Elizabethton City Board of Education's required and actual contributions. The required contribution was determined as part of the July 1, 2009 actuarial valuation using the frozen entry-age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.50% a year compounded annually, (b) projected 3.00% annual rate of inflation, (c) projected salary increases of 4.75% (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.50% annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.50% annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten-year period. The Elizabethton City Board of Education's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2009, was 6 years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2012	\$210,392	100.00%	\$ 0.00
June 30, 2011	\$228,582	100.00%	\$ 0.00
June 30, 2010	\$215,955	100.00%	\$ 0.00

As of July 1, 2011, the most recent actuarial valuation date, the plan was 92.27% funded. The actuarial accrued liability for benefits was \$7.41 million, and the actuarial value of assets was \$6.84 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.57 million. The covered payroll (annual payroll of active employees covered by the plan) was \$2.45 million, and the ratio of the UAAL to the covered payroll was 23.37%.

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

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
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**NOTE 12 - RETIREMENT COMMITMENTS (CONTINUED)**

***Component Unit - Elizabethton Board Of Education (Continued)***

(\$ amounts in thousands)		(AAL)				
Actuarial	Actuarial	Actuarial	(UAAL)	Funded	Covered	UAAL as a %
Valuation	Value of	Accrued	Unfunded	Ratio	Payroll	of Covered
Date	Assets	- Entry Age	AAL	(a/b)	(c)	Payroll
	(a)	(b)	(b) - (a)			(b-a)/c)
July 1, 2011	\$ 6,838	7,411	573	92.27%	2,452	23.37%
July 1, 2009	5,684	5,684	-	100.00%	2,268	0.00%
July 1, 2007	5,388	5,388	-	100.00%	2,033	0.00%

***Defined Benefit Plan***

***Plan Description***

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

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

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

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**NOTE 12 - RETIREMENT COMMITMENTS (CONTINUED)**

***Component Unit - Elizabethton Board Of Education (Continued)***

***Defined Benefit Plan (Continued)***

***Funding Policy***

Most teachers are required by state statute to contribute 5.00% of salary to the plan. The employer contribution rate for the Elizabethton City Schools is established at an actuarially determined rate. The rate for the fiscal year ending June 30, 2012 was 9.05% of annual covered payroll. The employer contribution requirement for the Elizabethton City Schools is established and may be amended by the TCRS Board of Trustees. The employer's contributions to TCRS for the fiscal years ending June 30, 2012, 2011 and 2010 were \$856,125, \$822,686, and \$570,804, respectively, equal to the required contributions for each fiscal year.

***Elizabethton Electric Department***

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

The plan covers all employees over 21 years of age with six months of service. The total contribution by both the Employer and Employees for the plan year ended September 30, 2011 and 2010 were \$770,459 and \$758,605. The recommended contribution was \$838,166 and \$800,282 for the plan years October 1, 2011 and 2010 respectively. Covered employees are required to contribute 1 ½% of their monthly earnings to the plan. The Department is required to contribute the remaining amount necessary to fund pension cost accrued including amortization of unfunded prior service cost over a period not to exceed 30 years. Any changes to the plan would need to be approved by the Board for the Department and CSA. The investment assumption is 7.0%, salary assumption is 3.0% for the plan years October 1, 2011 and 2010 respectively, the actuarial method is the frozen entry-age method and the amortization period is 21 years.

Monthly contributions are made based on an annual evaluation for the following plan year. The most recently completed Actuarial Report was for the plan year beginning October 1, 2011. The total plan liability for the 2011 plan year was \$15,924,926 and the actuarial value of assets was \$9,045,025, leaving an unfunded liability of \$6,879,901 and a funded ratio of 56.80%.

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

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**NOTE 12 - RETIREMENT COMMITMENTS (CONTINUED)**

***Elizabethton Electric Department (Continued)***

As of October 1, 2011, the pension benefit obligation is \$15,924,926 and was \$15,948,500 as of October 1, 2010.

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

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

***Elizabethton Municipal Airport***

During the fiscal year ended June 30, 2012, the Airport management was covered through the Tennessee Consolidated Retirement System. Total employer contributions during the fiscal year were \$15,863. The TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at age 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in the Title 8, Chapters 34-37 of the *Tennessee Code Annotated* (TCA). State statutes are amended by the Tennessee General Assembly. Pension contributions are determined as part of the July 1, 2003 actuarial valuation. Since the Elizabethton Municipal Airport is considered a department of the City by TCRS, no specific pension benefit obligation can be isolated for the Airport.

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

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**NOTE 12 - RETIREMENT COMMITMENTS (CONTINUED)**

**Other Post-Employment Benefits – OPEB**

***Elizabethton City Schools***

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

**Funding Policy**

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

The school system pays 100% of the monthly premium for individual coverage. Monthly premiums vary based upon the plan selected and for 2012 are as follows:

**Monthly Premiums – Retiree:**

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

**Monthly Premiums – Active:**

PPO     \$469 to \$504 (single coverage)

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

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

NOTE 12 - RETIREMENT COMMITMENTS (CONTINUED)

**Other Post-Employment Benefits – OPEB (Continued)**

*Elizabethton City Schools (Continued)*

Funding Policy (Continued)

	07/01/2011 - 06/30/2012
Annual OPEB Cost and Net OPEB Obligation	
1. Annual Required Contribution (ARC)	\$ 802,000
2. Interest on net OPEB Obligation	72,763
3. Adjustment to ARC	(77,237)
4. Annual OPEB Cost (Expense) (1+2+3)	797,526
5. Contribution made (assumed end of year)*	141,580
6. Increase (Decrease) in net OPEB Obligation (4 - 5)	655,946
7. Net OPEB Obligation - beginning of year	1,819,077
8. Net OPEB Obligation - end of year (6 + 7)	\$ 2,475,023

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

<u>Year End</u>	<u>Plan</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation at Year End</u>
6/30/2012	Teacher & Local Government	\$ 797,526	17.7%	\$ 2,475,023
6/30/2011	Teacher & Local Government	\$ 730,894	17.7%	\$ 1,819,077
6/30/2010	Teacher & Local Government	\$ 724,452	16.3%	\$ 1,217,702

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

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**NOTE 12 - RETIREMENT COMMITMENTS (CONTINUED)**

**Other Post-Employment Benefits – OPEB (Continued)**

***Elizabethton City Schools (Continued)***

**Funded Status and Funding Progress**

The funded status of the plan as of July 1, 2011, was as follows:

Actuarial Valuation Date	July 1, 2011
Actuarial Accrued Liability (AAL)	\$ 5,923,000
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	5,923,000
Actuarial Value of Assets as a % of the AAL	0%
Covered Payroll	12,566,578
UAAL as a Percentage of Covered Payroll	47%

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

**Actuarial Methods and Assumptions**

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

In the July 1, 2011 actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.0% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 9.25% for fiscal year 2012. The trend will decrease to 8.75% in fiscal year 2013 and then will be reduced by decrements to an ultimate rate of 5.0% by fiscal year 2021. The rate includes a 2.5% inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30 year period beginning with June 30, 2008.

Total on-behalf payments were \$124,651.

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

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**NOTE 12 - RETIREMENT COMMITMENTS (CONTINUED)**

**Other Post-Employment Benefits – OPEB (Continued)**

***City of Elizabethton and Elizabethton Electric Department***

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

***Plan Types:***

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

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

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

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

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

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**NOTE 12 - RETIREMENT COMMITMENTS (CONTINUED)**

**Other Post-Employment Benefits – OPEB (Continued)**

***City of Elizabethton and Elizabethton Electric Department (Continued)***

*Funding Policy:*

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

*Annual OPEB Cost and Net OPEB Obligation:*

The City and Electric Department's other 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 City and Electric Department's costs for the year, the amount actually contributed to the plan, and changes in the OPEB obligation.

	City	Electric Department
Annual OPEB Cost and Net OPEB Obligation		
Annual Required Contribution (ARC)	\$ 528,783	185,008
Interest on Net OPEB Obligation	21,837	8,233
Adjustment to ARC	(66,082)	(12,352)
Annual OPEB Cost (Expense)	484,538	180,889
Contribution Made (assumed end of year)	228,482	120,957
Increase in Net OPEB Obligation	256,056	59,932
Net OPEB Obligation - Beginning of Year	776,987	271,953
Net OPEB Obligation - End of Year	<u>\$ 1,033,043</u>	<u>331,885</u>

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

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**NOTE 12 - RETIREMENT COMMITMENTS (CONTINUED)**

**Other Post-Employment Benefits – OPEB (Continued)**

***City of Elizabethton and Elizabethton Electric Department (Continued)***

***Annual OPEB Cost and Net OPEB obligation (Continued):***

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2012, 2011 and 2010 are as follows:

	Fiscal Year Ending	Annual OPEB Cost	Percentage Annual OPEB Cost Contributed	Net OPEB Obligation
City	6/30/2012	\$ 484,538	48%	\$ 1,033,043
City	6/30/2011	\$ 455,035	49%	\$ 776,987
City	6/30/2010	\$ 410,190	33%	\$ 545,515
Electric Department	6/30/2012	\$ 180,899	67%	\$ 331,885
Electric Department	6/30/2011	\$ 180,899	62%	\$ 271,953
Electric Department	6/30/2010	\$ 184,288	41%	\$ 205,823

***Funded Status and Funding Progress:***

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

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

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

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**NOTE 12 - RETIREMENT COMMITMENTS (CONTINUED)**

**Other Post-Employment Benefits – OPEB (Continued)**

***City of Elizabethton and Elizabethton Electric Department (Continued)***

*Actuarial Methods and Assumptions:*

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

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

**NOTE 13 - LITIGATION**

**Workers Compensation Claims**

During the fiscal year ended June 30, 2012, the City had some workers compensation claims which are being handled through the Tennessee Municipal League Risk Management Pool.

**Lawsuits and Pending Claims**

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

**Contingencies**

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

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

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NOTE 14 - RISK MANAGEMENT

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

The Schools purchase commercial insurance for the risks of loss for general liability, employee, administration, and Board member dishonesty. Settled claims have not exceeded this commercial coverage in the past three fiscal years. Also, the Schools are a member of the Tennessee Municipal League Risk Management Pool (TML Pool). Coverage for the Schools include workers' compensation, general liability, and property and casualty. The TML Pool is a non-profit, risk-sharing organization of Tennessee municipalities and local public agencies. Tennessee statute governing the formation of the pooling and risk-sharing arrangement dictates that the Pool has the ability to assess members. Contributions (premiums) from members are used in part to purchase reinsurance to cover losses that exceed the Pool's loss fund.

NOTE 15 - CONTINGENT LIABILITIES

Deferred Compensation Plan

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

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

The City, as a member of the joint venture to operate the Carter County/Elizabethton Solid Waste Disposal System, is jointly and severally liable for the closure and post closure costs. The landfill was closed in 2000 and there are no separately issued financial statements. The County has active permits on file with the State Department of Environment and Conservation and has provided the financial assurances for estimated postclosure liabilities as required by the State of Tennessee. The City and County each pay 50% of the monitoring costs. The County has recorded the full liability in their funds and bills the City for one-half of associated expenses in accordance to the written agreement.

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012

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NOTE 16 - COMMITMENTS

The Electric Department has active construction projects as of June 30, 2012 for substations and transmission lines. At year end the Department's commitments for the projects total approximately \$5,700,000. The Water and Sewer Fund has active construction projects as of June 30, 2012 for infrastructure improvements. At year end, the Water and Sewer Fund's commitments for the projects total approximately \$601,030.

NOTE 17 - RECLASSIFICATION OF FUND

At the beginning of the fiscal year 2012, City Council instituted a new user fee for the Sanitation fund and, via an ordinance, classified this fund as a Proprietary fund. The June 30, 2011 fund balance of \$64,604 was therefore transferred from the governmental fund's net assets to the business-type net assets during the year. Additionally, a transfer in the net amount of \$868,512 was made from the Governmental Activities to the Sanitation fund, representing the net amount of capital assets and OPEB liability, previously reflected as part of the Governmental Activities on the Statement of Net Assets.

NOTE 18 - CONCENTRATION

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

NOTE 19 - SUBSEQUENT EVENTS

Subsequent to fiscal year end, the City issued a \$4,335,000 General Obligation Refunding Bond, Series 2012 in order to refund portions of outstanding long-term debt. The Bonds are being issued for the purpose of providing funding to refund the outstanding balances of the (i) Capital Outlay Note, Series 2003, maturing November 20, 2015, currently outstanding in the principal amount of \$416,664; (ii) Capital Outlay Note, Series 2007, maturing September 23, 2018, currently outstanding in the principal amount of \$732,139; (iii) Capital Outlay Note, Series 2010, maturing October 15, 2019, currently outstanding in the principal amount of \$960,000; (iv) Drinking Water State Revolving Loan Fund agreement (DWSRF 99-016) between the City of Elizabethton and both the Tennessee Department of Environment and Conservation's Division of Community Assistance (DCA) and the Tennessee Local Development Authority (TLDA), dated June 28, 1999, maturing April 30, 2023, currently outstanding in the principal amount of \$1,214,324; and (v) Water and Sewer Revenue and Tax Refunding and Improvements Bonds, Series 2002A, dated June 1, 2002, maturing June 1, 2014, currently outstanding in the principal amount of \$945,000; and (vi) payment of costs incurred in connection with the issuance and sale of the Bonds.

CITY OF ELIZABETHTON, TENNESSEE  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS  
For the Fiscal Year Ended June 30, 2012

City of Elizabethton

(\$ amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	(AAL) Actuarial Accrued Liability - Entry Age (b)	(UAAL) Unfunded AAL (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/c)
July 1, 2011	\$ 17,664	23,052	5,389	76.62%	7,508	71.77%
July 1, 2009	14,995	21,311	6,316	70.36%	6,989	90.37%
July 1, 2007	14,353	16,053	1,700	89.41%	6,232	27.28%

Elizabethton Board of Education

(\$ amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	(AAL) Actuarial Accrued Liability - Entry Age (b)	(UAAL) Unfunded AAL (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/c)
July 1, 2011	\$ 6,838	7,411	573	92.27%	2,452	23.37%
July 1, 2009	5,684	5,684	-	100.00%	2,268	0.00%
July 1, 2007	5,388	5,388	-	100.00%	2,033	0.00%

Elizabethton Electric Department

Actuarial Valuation Date	Actuarial Value of Assets (a)	(AAL) Actuarial Accrued Liability - Entry Age (b)	(UAAL) Unfunded AAL (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/c)
October 1, 2011	\$ 9,045,025	15,924,926	6,879,901	56.80%	1,827,665	376%
October 1, 2010	9,203,280	15,948,500	6,745,220	57.71%	2,114,294	319%
October 1, 2009	9,180,054	15,844,265	6,664,211	57.94%	2,076,560	321%

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS OF OTHER POST-EMPLOYMENT  
BENEFITS OTHER THAN PENSIONS  
For the Fiscal Year Ended June 30, 2012

City of Elizabethton

Actuarial Valuation Date	Actuarial Value of Assets (a)	(AAL) Actuarial Accrued Liability - Entry Age (b)	(UAAL) Unfunded AAL (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/c)
July 1, 2010	\$ -	4,236,054	4,236,054	0.00%	6,543,385	64.74%
July 1, 2008	-	4,212,634	4,212,634	0.00%	5,952,293	70.77%

Elizabethton Electric Department

Actuarial Valuation Date	Actuarial Value of Assets (a)	(AAL) Actuarial Accrued Liability - Entry Age (b)	(UAAL) Unfunded AAL (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/c)
July 1, 2010	\$ -	1,892,996	1,892,996	0.00%	2,412,356	78.00%
July 1, 2008	-	2,213,194	2,213,194	0.00%	2,624,138	84.00%

Elizabethton City Schools

Actuarial Valuation Date	Actuarial Value of Assets (a)	(AAL) Actuarial Accrued Liability - Entry Age (b)	(UAAL) Unfunded AAL (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/c)
July 1, 2011	\$ -	5,923,000	5,923,000	0.00%	12,566,578	47.13%
July 1, 2010	-	5,606,000	5,606,000	0.00%	11,963,166	46.86%
July 1, 2009	-	5,589,000	5,589,000	0.00%	11,584,000	48.25%

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
June 30, 2012

	Special Revenue Funds				Permanent Fund	
	Police Drug Enforcement Fund	Police Community Relations Fund	Police Equipment Fund	Total Capital Projects Funds	E. Bolling Memorial Trust Fund	Total Nonmajor Governmental Funds
ASSETS						
Cash	\$ 42,480	2,817	202,543	220,297	-	468,137
Investments	49,406	-	-	-	30,340	79,746
Accounts Receivable	-	-	940	-	-	940
Due from Other Funds	140	-	-	-	-	140
Due from Other Governments	-	-	-	98,295	-	98,295
Restricted Investments	-	-	-	42	-	42
<b>TOTAL ASSETS</b>	<b>\$ 92,026</b>	<b>2,817</b>	<b>203,483</b>	<b>318,634</b>	<b>30,340</b>	<b>647,300</b>
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts Payable	\$ -	-	3,715	91,808	-	95,523
Due to Other Funds	998	-	-	-	-	998
<b>TOTAL LIABILITIES</b>	<b>998</b>	<b>0</b>	<b>3,715</b>	<b>91,808</b>	<b>0</b>	<b>96,521</b>
FUND BALANCES						
Non-Spendable:						
Bolling Trust	-	-	-	-	25,000	25,000
Restricted for:						
Police Community Relations	-	2,817	-	-	-	2,817
Department of Justice	17,000	-	-	-	-	17,000
Police Drug Enforcement Fund	74,028	-	-	-	-	74,028
Fundraiser	-	-	-	2,253	-	2,253
Veteran's Walk of Honor	-	-	-	22,527	-	22,527
Veteran's Walk of Honor -Phase II	-	-	-	55,358	-	55,358
Veteran's War Memorial	-	-	-	6,064	-	6,064
Debt Issue-Lynn Avenue Project	-	-	-	40	-	40
Bolling Trust	-	-	-	-	5,340	5,340
Committed to:						
Special Capital Projects	-	-	-	50,655	-	50,655
Park and Recreation Capital Projects	-	-	-	62,147	-	62,147
Debt Issue	-	-	-	24,552	-	24,552
Police Technology Fee	-	-	199,768	-	-	199,768
Assigned:						
Joe O'Brien Field	-	-	-	3,230	-	3,230
<b>TOTAL FUND BALANCES</b>	<b>91,028</b>	<b>2,817</b>	<b>199,768</b>	<b>226,826</b>	<b>30,340</b>	<b>550,779</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 92,026</b>	<b>2,817</b>	<b>203,483</b>	<b>318,634</b>	<b>30,340</b>	<b>647,300</b>

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE  
COMBINING BALANCE SHEET  
NONMAJOR CAPITAL PROJECT FUNDS  
June 30, 2012

Capital Projects Funds							
	Park and Recreation Capital Projects Fund	Joe O'Brien Field Fund	Special Capital Projects Fund	General Obligation Bond Proceeds Fund	Veteran's Walk of Honor Fund	Veteran's Walk of Honor Phase II Fund	Total Nonmajor Capital Project Funds
ASSETS							
Cash	\$ 55,660	5,483	50,655	24,550	22,527	55,358	220,297
Due from Other Governments	98,295	-	-	-	-	-	98,295
Restricted Investments	-	-	-	42	-	-	42
<b>TOTAL ASSETS</b>	<b>\$ 153,955</b>	<b>5,483</b>	<b>50,655</b>	<b>24,592</b>	<b>22,527</b>	<b>55,358</b>	<b>318,634</b>
LIABILITIES AND FUND BALANCES							
Liabilities							
Accounts Payable	\$ 91,808	-	-	-	-	-	91,808
<b>TOTAL LIABILITIES</b>	<b>91,808</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>91,808</b>
FUND BALANCES							
Restricted For:							
Fundraiser	-	2,253	-	-	-	-	2,253
Veteran's Walk of Honor	-	-	-	-	22,527	-	22,527
Veteran's Walk of Honor -Phase II	-	-	-	-	-	55,358	55,358
Veteran's War Memorial	-	-	-	-	-	6,064	6,064
Debt Issue-Lynn Avenue	-	-	-	40	-	-	40
Committed to:							
Special Capital Projects	-	-	50,655	-	-	-	50,655
Park and Recreation Capital Projects	62,147	-	-	-	-	-	62,147
Debt Issue	-	-	-	24,552	-	-	24,552
Assigned to:							
Joe O'Brien Field	-	3,230	-	-	-	-	3,230
<b>TOTAL FUND BALANCES</b>	<b>62,147</b>	<b>5,483</b>	<b>50,655</b>	<b>24,592</b>	<b>22,527</b>	<b>55,358</b>	<b>226,826</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 153,955</b>	<b>5,483</b>	<b>50,655</b>	<b>24,592</b>	<b>22,527</b>	<b>55,358</b>	<b>318,634</b>

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 For the Fiscal Year Ended June 30, 2012

	Special Revenue Funds					Permanent Fund	Total Nonmajor Governmental Funds
	Police Drug Enforcement Fund	Police Community Relations Fund	Police Equipment Fund	Sanitation Fund	East TN Railroad Authority Fund	E. Bolling Memorial Trust Fund	
REVENUES							
Intergovernmental	\$ -	-	-	-	-	-	289,944
Donations	-	1,025	100	-	-	-	12,477
Fines and Forfeitures	68,955	-	100,551	-	-	-	169,506
Miscellaneous	10	-	-	-	-	-	2,548
Interest Income	61	3	127	-	5	37	664
TOTAL REVENUES	69,026	1,028	100,778	-	5	37	475,139
EXPENDITURES							
General Government	3,173	-	-	-	-	-	3,173
Public Safety	37,373	243	56,273	-	-	-	93,889
Other Expenditures	27,337	-	-	-	18,766	-	566,416
Capital Outlay	-	-	31,230	-	-	-	490,011
TOTAL EXPENDITURES	67,883	243	87,503	-	18,766	0	1,153,489
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,143	785	13,275	-	(18,761)	37	(678,350)
OTHER FINANCING SOURCES (USES)							
Capital Outlay Note Proceeds	-	-	-	-	-	-	252,000
Transfer from General Fund	-	-	126,032	-	-	-	291,956
Transfer to Sanitation - Proprietary Fund	-	-	-	(64,604)	-	-	(64,604)
TOTAL OTHER FINANCING SOURCES (USES)	0	0	126,032	(64,604)	0	0	479,352
Net Change in Fund Balance	1,143	785	139,307	(64,604)	(18,761)	37	(198,998)
FUND BALANCE, JULY 1, 2011	89,885	2,032	60,461	64,604	18,761	30,303	749,777
FUND BALANCE, JUNE 30, 2012	\$ 91,028	2,817	199,768	0	0	30,340	550,779

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 NONMAJOR CAPITAL PROJECT FUNDS  
 For the Fiscal Year Ended June 30, 2012

	Capital Projects Funds							Total
	Park and Recreation Capital Projects Fund	Joe O'Brien Field Fund	Special Capital Projects Funds	General Obligation Bond Proceeds Fund	Veteran's Walk of Honor Fund	Veteran's Walk of Honor Phase II Fund	Veteran's War Memorial Fund	Nonmajor Capital Projects Funds
REVENUES								
Intergovernmental	\$ 289,944	-	-	-	-	-	-	289,944
Donations	-	11,252	-	-	-	100	-	11,352
Miscellaneous	-	-	2,425	-	-	113	-	2,538
Interest Income	41	-	49	244	23	68	6	431
TOTAL REVENUES	289,985	11,252	2,474	244	23	281	6	304,265
EXPENDITURES								
Other Expenditures	385,792	7,823	-	87,479	-	39,219	-	520,313
Capital Outlay	5,426	-	-	453,355	-	-	-	458,781
TOTAL EXPENDITURES	391,218	7,823	0	540,834	0	39,219	0	979,094
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(101,233)	3,429	2,474	(540,590)	23	(38,938)	6	(674,829)
OTHER FINANCING SOURCES (USES)								
Capital Outlay Note Proceeds	-	-	-	252,000	-	-	-	252,000
Transfer from General Fund	120,924	-	-	45,000	-	-	-	165,924
TOTAL OTHER FINANCING SOURCES (USES)	120,924	0	0	297,000	0	0	0	417,924
Net Change in Fund Balance	19,691	3,429	2,474	(243,590)	23	(38,938)	6	(256,905)
FUND BALANCE, JULY 1, 2011	42,456	2,054	48,181	268,182	22,504	94,296	6,058	483,731
FUND BALANCE, JUNE 30, 2012	\$ 62,147	5,483	50,655	24,592	22,527	55,358	6,064	226,826

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE  
POLICE DRUG ENFORCEMENT FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2012

	Budgeted Amounts			Variance
	Original	Final	Actual	Favorable (Unfavorable)
REVENUES				
Task Force	\$ 8,060	11,060	13,603	2,543
Interest Income	400	400	61	(339)
Drug Fines - Courts	15,000	48,000	46,979	(1,021)
Fines and Forfeitures	1,000	10,000	8,373	(1,627)
Insurance Proceeds	-	-	10	10
TOTAL REVENUES	24,460	69,460	69,026	(434)
EXPENDITURES				
General Government	-	500	3,173	(2,673)
Salaries and Benefits	9,180	17,180	15,765	1,415
Insurance	901	1,401	1,239	162
Vehicle Maintenance and Fuel	5,802	14,302	13,389	913
Police Grants	8,500	8,500	6,980	1,520
Other Operating Expenses	77	27,577	27,337	240
TOTAL EXPENDITURES	24,460	69,460	67,883	1,577
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	-	1,143	1,143
FUND BALANCE, JULY 1, 2011	89,885	89,885	89,885	-
FUND BALANCE, JUNE 30, 2012	\$ 89,885	89,885	91,028	1,143

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE  
POLICE COMMUNITY RELATIONS FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2012

	Budgeted Amounts			Variance
	Original	Final	Actual	Favorable (Unfavorable)
REVENUES				
Donations	\$ 1,000	1,000	1,025	25
Interest Income	-	-	3	3
TOTAL REVENUES	1,000	1,000	1,028	28
EXPENDITURES				
Public Safety	1,000	1,000	243	757
TOTAL EXPENDITURES	1,000	1,000	243	757
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	-	785	785
FUND BALANCE, JULY 1, 2011	2,032	2,032	2,032	0
FUND BALANCE, JUNE 30, 2012	\$ 2,032	2,032	2,817	785

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE  
POLICE EQUIPMENT FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2012

	Budgeted Amounts			Variance
	Original	Final	Actual	Favorable (Unfavorable)
REVENUES				
Court Fines	\$ 5,865	5,865	5,950	85
Donations	-	-	100	100
Fines and Forfeitures	87,546	87,546	94,601	7,055
Interest Income	296	296	127	(169)
TOTAL REVENUES	93,707	93,707	100,778	7,071
EXPENDITURES				
Public Safety	80,600	80,600	56,273	24,327
Capital Outlay	61,357	61,357	31,230	30,127
TOTAL EXPENDITURES	141,957	141,957	87,503	54,454
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(48,250)	(48,250)	13,275	61,525
OTHER FINANCING SOURCES (USES)				
Transfer from General	-	-	126,032	126,032
TOTAL OTHER FINANCING SOURCES (USES)	0	0	126,032	126,032
Net Change in Fund Balance	(48,250)	(48,250)	139,307	187,557
FUND BALANCE, JULY 1, 2011	60,461	60,461	60,461	-
FUND BALANCE, JUNE 30, 2012	\$ 12,211	12,211	199,768	187,557

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE  
EAST TENNESSEE RAILROAD AUTHORITY FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2012

	Budgeted Amounts			Variance
	Original	Final	Actual	Favorable (Unfavorable)
REVENUES				
Interest Income	\$ -	-	5	5
Grant Income	151,000	151,000	-	(151,000)
TOTAL REVENUES	151,000	151,000	5	(150,995)
EXPENDITURES				
Other Miscellaneous Expense	151,000	151,000	18,766	132,234
TOTAL EXPENDITURES	151,000	151,000	18,766	132,234
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	-	(18,761)	(18,761)
FUND BALANCE, JULY 1, 2011	18,761	18,761	18,761	0
FUND BALANCE, JUNE 30, 2012	\$ 18,761	18,761	0	(18,761)

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE  
PARK AND RECREATION CAPITAL PROJECTS FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2012

	Budgeted Amounts			Variance
	Original	Final	Actual	Favorable (Unfavorable)
REVENUES				
Grant Income	\$ 779,217	779,217	289,944	(489,273)
Interest Earned	-	-	41	41
TOTAL REVENUES	779,217	779,217	289,985	(489,232)
EXPENDITURES				
Operating Expenses	1,032,631	1,032,631	385,792	646,839
Capital Outlay	-	-	5,426	(5,426)
TOTAL EXPENDITURES	1,032,631	1,032,631	391,218	641,413
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(253,414)	(253,414)	(101,233)	152,181
OTHER FINANCING SOURCES (USES)				
Transfer from General Fund	120,924	120,924	120,924	-
TOTAL OTHER FINANCING SOURCES (USES)	120,924	120,924	120,924	0
Net Change in Fund Balance	(132,490)	(132,490)	19,691	152,181
FUND BALANCE, JULY 1, 2011	42,456	42,456	42,456	0
FUND BALANCE, JUNE 30, 2012	\$ (90,034)	(90,034)	62,147	152,181

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE  
JOE O'BRIEN FIELD FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2012

	Budgeted Amounts			Variance
	Original	Final	Actual	Favorable (Unfavorable)
REVENUES				
Interest Earned	\$ 50	50	-	(50)
Donations	-	11,000	11,252	252
TOTAL REVENUES	50	11,050	11,252	202
EXPENDITURES				
Other Expenditures	50	11,050	7,823	3,227
TOTAL EXPENDITURES	50	11,050	7,823	3,227
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	-	3,429	3,429
FUND BALANCE, JULY 1, 2011	2,054	2,054	2,054	0
FUND BALANCE, JUNE 30, 2012	\$ 2,054	2,054	5,483	3,429

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE  
SPECIAL CAPITAL PROJECTS FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2012

	Budgeted Amounts			Variance
	Original	Final	Actual	Favorable (Unfavorable)
REVENUES				
Interest Earned	\$ -	-	49	49
Other Income	-	-	2,425	2,425
TOTAL REVENUES	0	0	2,474	2,474
EXPENDITURES				
Capital Outlay	-	-	-	-
TOTAL EXPENDITURES	0	0	0	0
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	-	2,474	2,474
FUND BALANCE, JULY 1, 2011	48,181	48,181	48,181	0
FUND BALANCE, JUNE 30, 2012	\$ 48,181	48,181	50,655	2,474

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE  
GENERAL OBLIGATION BOND PROCEEDS FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2012

	Budgeted Amounts			Variance
	Original	Final	Actual	Favorable (Unfavorable)
REVENUES				
Interest Earned	\$ -	-	244	244
TOTAL REVENUES	0	0	244	244
EXPENDITURES				
Operating Supplies and Materials	86,581	86,581	87,479	(898)
Capital Outlay	237,777	534,777	453,355	81,422
TOTAL EXPENDITURES	324,358	621,358	540,834	80,524
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(324,358)	(621,358)	(540,590)	80,768
OTHER FINANCING SOURCES (USES)				
Capital Outlay Note Proceeds	-	252,000	252,000	-
Transfer from General Fund	-	45,000	45,000	-
TOTAL OTHER FINANCING SOURCES (USES)	0	297,000	297,000	0
Net Change in Fund Balance	(324,358)	(324,358)	(243,590)	80,768
FUND BALANCE, JULY 1, 2011	268,182	268,182	268,182	-
FUND BALANCE, JUNE 30, 2012	<u>\$ (56,176)</u>	<u>(56,176)</u>	<u>24,592</u>	<u>80,768</u>

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE  
VETERAN'S WALK OF HONOR FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2012

	Budgeted Amounts			Variance
	Original	Final	Actual	Favorable (Unfavorable)
REVENUES				
Interest Earned	\$ 50	50	23	(27)
TOTAL REVENUES	50	50	23	(27)
EXPENDITURES				
Other Operating Expenses	50	50	-	50
TOTAL EXPENDITURES	50	50	0	50
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	-	23	23
FUND BALANCE, JULY 1, 2011	22,504	22,504	22,504	-
FUND BALANCE, JUNE 30, 2012	\$ 22,504	22,504	22,527	23

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE  
VETERAN'S WALK OF HONOR PHASE II FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
REVENUES				
Interest Earned	\$ -	-	68	68
Other Income	-	-	113	113
Donations	-	-	100	100
TOTAL REVENUES	0	0	281	281
EXPENDITURES				
Supplies and Materials	44,838	44,838	-	44,838
Other Operating Expenses	10,000	10,000	39,219	(29,219)
TOTAL EXPENDITURES	54,838	54,838	39,219	15,619
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(54,838)	(54,838)	(38,938)	15,900
FUND BALANCE, JULY 1, 2011	94,296	94,296	94,296	0
FUND BALANCE, JUNE 30, 2012	\$ 39,458	39,458	55,358	15,900

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE  
VETERAN'S WAR MEMORIAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
REVENUES				
Interest Earned	\$ 25	25	6	(19)
TOTAL REVENUES	25	25	6	(19)
EXPENDITURES				
General Government	25	25	-	25
TOTAL EXPENDITURES	25	25	0	25
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	-	6	6
FUND BALANCE, JULY 1, 2011	6,058	6,058	6,058	0
FUND BALANCE, JUNE 30, 2012	\$ 6,058	6,058	6,064	6

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE  
COMBINING STATEMENT OF NET ASSETS  
NONMAJOR PROPRIETARY FUNDS  
June 30, 2012

	Elizabethton Sanitation Fund	Elizabethton Municipal Airport	Total Nonmajor Proprietary Funds
<b>ASSETS</b>			
Current Assets			
Cash and Cash on Hand	\$ 412,543	48,698	461,241
Investments	59,906	-	59,906
Accounts Receivable-Net	62,902	46,913	109,815
Inventories	-	32,054	32,054
Due from Other Governments	-	148,699	148,699
Total Current Assets	<u>535,351</u>	<u>276,364</u>	<u>811,715</u>
Capital Assets			
Land	315,250	2,428,170	2,743,420
Building and Improvements	-	4,784,295	4,784,295
Construction In Progress	-	10,000	10,000
Motor Equipment	1,080,648	427,150	1,507,798
Office Equipment	14,566	-	14,566
Less: Accumulated Depreciation	<u>(570,344)</u>	<u>(2,015,692)</u>	<u>(2,586,036)</u>
Total Capital Assets	<u>840,120</u>	<u>5,633,923</u>	<u>6,474,043</u>
Other Noncurrent Assets			
Other Assets	<u>-</u>	<u>255</u>	<u>255</u>
Total Other Noncurrent Assets	<u>0</u>	<u>255</u>	<u>255</u>
<b>TOTAL ASSETS</b>	<u>1,375,471</u>	<u>5,910,542</u>	<u>7,286,013</u>
<b>LIABILITIES AND NET ASSETS</b>			
Liabilities			
Current Liabilities			
Accounts Payable	44,511	41,562	86,073
Customer Deposits	-	125	125
Other Current Liabilities	-	2,293	2,293
Accrued Payroll	-	3,585	3,585
Accrued Interest	833	-	833
Deferred Revenue	-	54,566	54,566
Due to Other Funds	17,237	-	17,237
Notes Payable	32,193	104,247	136,440
Compensated Absences	<u>4,722</u>	<u>-</u>	<u>4,722</u>
Total Current Liabilities	<u>99,496</u>	<u>206,378</u>	<u>305,874</u>

(Continued)

CITY OF ELIZABETHTON, TENNESSEE  
 COMBINING STATEMENT OF NET ASSETS  
 NONMAJOR PROPRIETARY FUNDS  
 June 30, 2012

	Elizabethton Sanitation Fund	Elizabethton Municipal Airport	Total Nonmajor Proprietary Funds
LIABILITIES AND NET ASSETS (CONTINUED)			
Liabilities (Continued)			
Long-Term Liabilities			
Notes Payable	135,307	510,721	646,028
Compensated Absences	682	17,694	18,376
OPEB Liability	38,847	-	38,847
Total Long-Term Liabilities	<u>174,836</u>	<u>528,415</u>	<u>703,251</u>
TOTAL LIABILITIES	<u>274,332</u>	<u>734,793</u>	<u>1,009,125</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	672,620	5,018,956	5,691,576
Unrestricted	<u>428,519</u>	<u>156,793</u>	<u>585,312</u>
TOTAL NET ASSETS	<u>\$ 1,101,139</u>	<u>5,175,749</u>	<u>6,276,888</u>

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE  
 COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
 NONMAJOR PROPRIETARY FUNDS  
 For the Fiscal Year Ended June 30, 2012

	Elizabethton Sanitation Fund	Elizabethton Municipal Airport	Total Nonmajor Proprietary Funds
OPERATING REVENUES			
Charges for Services	\$ 1,120,203	838,398	1,958,601
OPERATING EXPENSES			
Wages and Employee Benefits	297,173	274,519	571,692
Purchases of Power, Water and Other	-	479,087	479,087
Other Operating Expenses	51,313	62,651	113,964
Maintenance	179,679	23,266	202,945
Treatment, Transmissions and Utilities	-	43,080	43,080
Landfill	425,420	-	425,420
Depreciation	57,668	162,643	220,311
TOTAL OPERATING EXPENSES	1,011,253	1,045,246	2,056,499
OPERATING INCOME (LOSS)	108,950	(206,848)	(97,898)
NONOPERATING REVENUES (EXPENSES)			
Interest Income	-	106	106
Interest Expense and Fiscal Charges	(833)	(30,488)	(31,321)
TOTAL NONOPERATING REVENUES (EXPENSES)	(833)	(30,382)	(31,215)
Income (Loss) Before Contributions and Transfers	108,117	(237,230)	(129,113)
Transfer from General Fund	59,906	145,000	204,906
Transfer from Sanitation - Special Revenue Fund	64,604	-	64,604
Transfer from Governmental Activities	868,512	-	868,512
Change in Net Assets	1,101,139	(92,230)	1,008,909
NET ASSETS, JULY 1, 2011	-	5,267,979	5,267,979
NET ASSETS, JUNE 30, 2012	\$ 1,101,139	5,175,749	6,276,888

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE  
COMBINING STATEMENT OF CASH FLOWS  
NONMAJOR PROPRIETARY FUNDS  
For the Fiscal Year Ended June 30, 2012

	Elizabethton Sanitation Fund	Elizabethton Municipal Airport	Total Nonmajor Proprietary Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash Received From Customers	\$ 1,086,761	826,196	1,912,957
Cash Received from City of Elizabethton for Services	-	13,252	13,252
Cash Payments for Employee Services and Benefits	(282,198)	(227,370)	(509,568)
Cash Payments to Suppliers for Goods and Services	(637,860)	(622,647)	(1,260,507)
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>	<b>166,703</b>	<b>(10,569)</b>	<b>156,134</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Principal Paid on Notes Payable	-	(104,084)	(104,084)
Interest Paid on Bonds and Notes Payable	-	(30,487)	(30,487)
Capital Outlay Note Proceeds	167,500	-	167,500
<b>NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>167,500</b>	<b>(134,571)</b>	<b>32,929</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>			
Transfers to Other Funds	4,394	-	4,394
Transfers from Other Funds	2,010	145,000	147,010
<b>NET CASH PROVIDED BY (USED FOR) NON-CAPITAL FINANCING ACTIVITIES</b>	<b>6,404</b>	<b>145,000</b>	<b>151,404</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of Investments	-	(13,308)	(13,308)
Interest on Investments	-	106	106
<b>NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES</b>	<b>0</b>	<b>(13,202)</b>	<b>(13,202)</b>
Net Increase (Decrease) in Cash and Cash Equivalents	340,607	(13,342)	327,265
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>71,936</b>	<b>62,040</b>	<b>133,976</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 412,543</b>	<b>48,698</b>	<b>461,241</b>

CITY OF ELIZABETHTON, TENNESSEE  
 COMBINING STATEMENT OF CASH FLOWS  
 NONMAJOR PROPRIETARY FUNDS  
 For the Fiscal Year Ended June 30, 2012

	Elizabethton Sanitation Fund	Elizabethton Municipal Airport	Total Nonmajor Proprietary Funds
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities			
NET OPERATING INCOME (LOSS)	\$ 108,950	(206,848)	(97,898)
Adjustments			
Depreciation and Amortization	57,668	162,643	220,311
Non-cash Revenue	-	(7,200)	(7,200)
Changes in Assets and Liabilities			
(Increase) Decrease in Accounts Receivables	(34,234)	(8,704)	(42,938)
(Increase) Decrease in Inventories	-	31,105	31,105
Increase (Decrease) in Accounts Payable	19,344	(489)	18,855
Increase (Decrease) in Other			
Liabilities/Accruals	-	14,950	14,950
Increase (Decrease) in Accrued Payroll	-	264	264
Increase (Decrease) in OPEB Liability	9,571	-	9,571
Increase (Decrease) in Compensated Absences	5,404	3,710	9,114
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>\$ 166,703</u>	<u>(10,569)</u>	<u>156,134</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES			
<p>As of July 1, 2011, the Elizabethton Sanitation Fund was changed from a governmental fund to a proprietary fund, as disclosed in Note 1. As a result of this change in fund type, the Elizabethton Sanitation Fund recognized a net contribution of \$868,512 representing the net capital assets as of June 30, 2011, previously reflected on the government wide presentation, in the amount of \$897,788 as well as the OPEB Liability of (\$29,276). Both transactions represent noncash activities. In addition, during the fiscal year, the Elizabethton Sanitation Fund received a contribution of \$59,906 from the General Fund. This represents the Elizabethton Sanitation's Fund allocated OPEB Investment account balance.</p>			
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET ASSETS - PROPRIETARY FUNDS			
Cash and Cash on Hand	<u>\$ 412,543</u>	<u>48,698</u>	<u>461,241</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 412,543</u>	<u>48,698</u>	<u>461,241</u>

See Independent Auditors' Report.

SUPPLEMENTAL  
SECTION

CITY OF ELIZABETHTON, TENNESSEE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Fiscal Year Ended June 30, 2012

CFDA Number	Program Name/ Grant Number	Grantor Agency	Balance June 30, 2011	Cash Receipts	Expenditures	Balance June 30, 2012
PRIMARY GOVERNMENT						
16.000	Appalachian High Intensity Drug Trafficking Area	U.S. Department of Justice	(9,337)	9,337	13,230	(13,230) *
Pass-Through State of TN, Department of State, TN State Library and Archives						
45.310	TN State Library and Archives / LSTA Technology Grant	Institute of Museum and Library Services	-	1,869	1,869	-
10.766	Rural Libraries Computer Labs Grant	USDA - Rural Development	(6,728)	6,728	-	-
Pass-Through State of TN Department of Transportation						
20.610	Governor's Highway Safety Office	U.S. Department of Transportation	-	4,518	4,518	-
Total General Fund			(16,065)	22,452	19,617	(13,230)
CAPITAL PROJECTS FUND						
Pass-Through State of TN Department of Transportation						
20.205	Locally Managed Enhancement Agreement PIN: 111019.00 Federal Project: HCBP 9103(14)	U.S. Department of Transportation	-	191,649	289,944	(98,295) *
Total Capital Projects Fund			0	191,649	289,944	(98,295)
WATER AND SEWER FUND						
Pass-Through State of Tennessee State Revolving Loan Fund						
66.458	Capitalization Grants for Clean Water SRF Funds FS 984272	Environmental Protection Agency	-	65,358	76,238	(10,880) *
66.458	Capitalization Grants for Clean Water SRF Funds CS470001	Environmental Protection Agency	-	128,821	128,821	-
Pass-Through State of TN Department of Economic and Community Development						
14.228	Community Development Block Grant GG-1239357	U.S. Department of Housing and Urban Development	-	-	35,821	(35,821) *
Total Water and Sewer Fund			0	194,179	240,880	(46,701)
Total Primary Government			\$ (16,065)	408,280	550,441	(158,226)

NOTE A: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Elizabethton, Tennessee and is presented on the accrual basis of accounting.

\* Receivable

\*\* Unused Revenue

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE  
SCHEDULE OF EXPENDITURES OF STATE AWARDS  
For the Fiscal Year Ended June 30, 2012

State Grant Number	Program Name/ Grant Number	Grantor Agency	Balance June 30, 2011	Cash Receipts	Expenditures	Balance June 30, 2012
PRIMARY GOVERNMENT						
ELIZABETHTON MUNICIPAL AIRPORT						
AERO-M11-119	Maintenance	TN Department of Transportation	\$ (2,924)	2,924	-	-
AERO-M12-219	Maintenance	TN Department of Transportation	-	9,301	13,000	(3,699) *
Z-07-037665	Pierce Street Relocation	TN Department of Transportation	(1,027)	1,027	-	-
Total Elizabethton Municipal Airport			(3,951)	13,252	13,000	(3,699)
GENERAL FUND						
CMA 1353 Project 10951-4264-04	Highway Maintenance	TN Department of Transportation	(9,131)	50,163	46,901	(5,869) *
Total General Fund			(9,131)	50,163	46,901	(5,869)
WATER AND SEWER FUND						
DWO-11-112	State Revolving Loan Fund	TN State Revolving Loan Fund	-	15,742	18,362	(2,620) *
SRF-11-272	State Revolving Loan Fund	TN State Revolving Loan Fund	-	26,835	26,835	-
Total Water and Sewer Fund			0	42,577	45,197	(2,620)
Total Primary Government			\$ (13,082)	105,992	105,098	(12,188)
<div style="display: flex; justify-content: space-between; width: 100%;"> <span>* Receivable</span> <span>** Unused Revenue</span> </div>						

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE  
SCHEDULE OF INTERFUND TRANSFERS  
June 30, 2012

From Fund	To Fund	Purpose	Amount
<u>Operating Transfers Among Funds</u>			
General	Sanitation	To transfer OPEB liability	\$ 59,906
General	Elizabethton Municipal Airport	To provide for operations	145,000
General	Police Equipment	To provide for operations	126,032
General	Park and Recreation Capital Projects	To provide for operations	120,924
General	General Obligation Bond Proceeds Fund	To provide for operations	45,000
Governmental Activities	Sanitation	To transfer fund to enterprise fund	868,512
Sanitation - Special Revenue Fund	Sanitation	To transfer fund balance	64,604
Elizabethton Electric Department	General	In-Lieu of Taxes	<u>703,290</u>
Total Transfers			<u><u>\$2,133,268</u></u>

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE  
SCHEDULE OF CHANGES IN GENERAL BONDED DEBT AND NOTES PAYABLE -  
PRIMARY GOVERNMENT  
June 30, 2012

	Balance July 1, 2011	General Obligation Debt Additions	General Obligation Debt Retired	Balance June 30, 2012
<u>General Bonded Debt</u>				
General Fund:				
General Obligation - Series 2010B	\$ 505,000	-	30,000	475,000
General Obligation - School Bond Series 2008	5,850,000	-	450,000	5,400,000
	<u>5,850,000</u>	<u>-</u>	<u>450,000</u>	<u>5,400,000</u>
Total General Bonded Debt	<u>\$ 6,355,000</u>	<u>0</u>	<u>480,000</u>	<u>5,875,000</u>
 <u>Notes Payable</u>				
General Fund:				
Capital Outlay Note - 2009	\$ 1,080,000	-	120,000	960,000
Capital Outlay Note - 2004	520,831	-	104,167	416,664
Capital Outlay Note - 2006	831,806	-	99,667	732,139
Capital Outlay Note - 2012	-	252,000	-	252,000
	<u>-</u>	<u>252,000</u>	<u>-</u>	<u>252,000</u>
Total Notes Payable	<u>\$ 2,432,637</u>	<u>252,000</u>	<u>323,834</u>	<u>2,360,803</u>

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE  
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS  
ALL FUNDS - PRIMARY GOVERNMENT  
June 30, 2012

<u>Fiscal Year Ending</u>	<u>Bond Requirements</u>	<u>Interest Requirements</u>	<u>Total Requirements</u>
6/30/2013	\$ 2,426,740	2,343,414	4,770,154
6/30/2014	2,249,802	2,502,048	4,751,850
6/30/2015	2,178,238	2,557,135	4,735,373
6/30/2016	2,205,045	2,515,418	4,720,463
6/30/2017	2,230,755	2,466,335	4,697,090
6/30/2018	2,267,463	2,416,479	4,683,942
6/30/2019	2,288,969	2,367,102	4,656,071
6/30/2020	2,327,050	2,313,126	4,640,176
6/30/2021	2,366,680	2,254,551	4,621,231
6/30/2022	2,407,840	2,189,459	4,597,299
6/30/2023	2,426,116	2,172,593	4,598,709
6/30/2024	2,547,525	2,132,575	4,680,100
6/30/2025	2,154,526	2,058,092	4,212,618
6/30/2026	2,168,687	1,986,666	4,155,353
6/30/2027	2,233,682	1,911,889	4,145,571
6/30/2028	2,304,471	1,831,860	4,136,331
6/30/2029	2,371,004	1,738,296	4,109,300
6/30/2030	2,448,844	1,631,558	4,080,402
6/30/2031	2,058,977	1,307,698	3,366,675
6/30/2032	1,985,000	602,212	2,587,212
6/30/2033	2,060,000	480,862	2,540,862
6/30/2034	2,145,000	352,031	2,497,031
6/30/2035	2,235,000	215,157	2,450,157
6/30/2036	2,325,000	72,662	2,397,662
	<u>\$ 54,412,414</u>	<u>42,419,218</u>	<u>96,831,632</u>

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE  
SCHEDULE OF NOTE PRINCIPAL AND INTEREST REQUIREMENTS  
ALL FUNDS - PRIMARY GOVERNMENT  
June 30, 2012

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<u>Fiscal Year Ending</u>	<u>Note Requirements</u>	<u>Interest Requirements</u>	<u>Total Requirements</u>
6/30/2013	\$ 498,494	109,072	607,566
6/30/2014	504,507	89,751	594,258
6/30/2015	812,983	70,297	883,280
6/30/2016	412,994	42,580	455,574
6/30/2017	315,588	29,117	344,705
6/30/2018	287,080	17,549	304,629
6/30/2019	191,625	7,890	199,515
6/30/2020	<u>120,000</u>	<u>2,281</u>	<u>122,281</u>
	<u>\$ 3,143,271</u>	<u>368,537</u>	<u>3,511,808</u>

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE  
SCHEDULE OF NOTE PRINCIPAL AND INTEREST REQUIREMENTS -  
COMPONENT UNITS  
June 30, 2012

<u>Fiscal Year Ending</u>	<u>Note Requirements</u>	<u>Interest Requirements</u>	<u>Total Requirements</u>
6/30/2013	\$ 48,735	482	49,217
6/30/2014	30,000	-	30,000
6/30/2015	30,000	-	30,000
6/30/2016	<u>31,589</u>	<u>-</u>	<u>31,589</u>
	<u>\$ 140,324</u>	<u>482</u>	<u>140,806</u>

See Independent Auditors' Report.

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

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental Activities										
Invested in Capital Assets, Net of Related Debt	\$ 8,358,220	8,155,681	10,681,542	11,444,573	10,590,936	11,194,421	4,609,854	4,456,326	4,890,080	4,762,715
Unrestricted	8,168,083	9,215,921	7,031,709	6,789,683	7,194,201	7,018,313	13,995,100	9,572,482	6,863,855	6,826,501
Total Governmental Activities Net Assets	<u>\$16,526,303</u>	<u>17,371,602</u>	<u>17,713,251</u>	<u>18,234,256</u>	<u>17,785,137</u>	<u>18,212,734</u>	<u>18,604,954</u>	<u>14,028,808</u>	<u>11,753,935</u>	<u>11,589,216</u>
Business-Type Activities										
Invested in Capital Assets, Net of Related Debt	\$41,937,747	41,681,195	42,776,756	44,271,111	45,625,558	38,582,426	49,348,344	36,573,549	45,788,517	51,968,558
Restricted	-	27,728	12,072	927	-	-	-	-	-	-
Unrestricted	5,605,268	7,007,747	8,099,683	9,248,016	10,893,732	20,055,574	10,776,548	23,982,437	17,750,477	16,826,224
Total Business-Type Activities Net Assets	<u>\$47,543,015</u>	<u>48,716,670</u>	<u>50,888,511</u>	<u>53,520,054</u>	<u>56,519,290</u>	<u>58,638,000</u>	<u>60,124,892</u>	<u>60,555,986</u>	<u>63,538,994</u>	<u>68,794,782</u>
Primary Government										
Invested in Capital Assets, Net of Related Debt	\$50,295,967	49,836,876	53,458,298	55,715,684	56,216,494	49,776,847	53,958,198	41,029,875	50,678,597	56,731,273
Restricted	-	27,728	12,072	927	-	-	-	-	-	-
Unrestricted	13,773,351	16,223,668	15,131,392	16,037,699	18,087,933	27,073,887	24,771,648	33,554,919	24,614,332	23,652,725
Total Primary Government Net Assets	<u>\$64,069,318</u>	<u>66,088,272</u>	<u>68,601,762</u>	<u>71,754,310</u>	<u>74,304,427</u>	<u>76,850,734</u>	<u>78,729,846</u>	<u>74,584,794</u>	<u>75,292,929</u>	<u>80,383,998</u>

See Independent Auditors' Report.

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

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
EXPENSES										
Governmental Activities										
General Government	\$ 2,030,392	1,134,721	1,838,201	1,964,833	2,092,175	2,312,896	2,313,294	2,320,021	2,315,622	1,073,396
Public Safety	3,427,386	3,708,331	3,819,315	4,220,050	4,498,229	4,691,754	4,761,540	4,921,251	5,121,019	5,160,505
Public Works	1,353,398	1,682,033	1,519,457	1,655,130	1,710,488	1,709,253	1,975,372	1,892,643	2,096,641	1,804,323
Health and Welfare	139,881	149,075	128,225	128,009	133,507	143,386	147,151	147,272	164,820	154,745
Building Code Enforcement	212,241	232,388	252,559	245,923	236,687	267,685	279,931	297,039	300,851	296,729
Community Development	86,594	95,519	128,953	97,378	128,559	150,503	135,716	190,682	189,330	157,973
Culture and Recreation	1,086,283	1,087,214	1,177,105	1,255,737	1,335,822	1,279,218	1,317,757	1,237,217	1,231,555	1,359,822
Education	2,332,000	2,332,000	2,332,000	2,332,000	2,332,000	2,332,000	2,586,950	7,006,578	4,491,562	2,378,756
Other	375,257	749,080	782,368	597,845	1,110,518	511,202	575,514	396,513	319,608	753,496
Interest on Long-Term Debt	136,954	168,413	126,176	100,446	124,408	120,050	228,870	336,470	303,926	290,917
Total Governmental Activities Expenses	11,180,386	11,338,774	12,104,359	12,597,351	13,702,393	13,517,947	14,322,095	18,745,686	16,534,934	13,430,662
Business-Type Activities										
Water and Sewer	5,240,685	5,924,594	6,101,136	6,258,684	6,351,520	6,421,106	6,891,218	6,775,618	7,287,257	7,266,962
Electric Department	34,580,165	35,949,729	35,655,992	38,562,527	41,233,588	44,584,278	51,200,732	48,649,864	55,127,228	48,790,590
Nonmajor	396,805	462,861	576,956	686,323	737,428	1,101,139	1,110,919	963,492	1,050,289	2,087,820
Total Business-Type Activities Expenses	40,217,655	42,337,184	42,334,084	45,507,534	48,322,536	52,106,523	59,202,869	56,388,974	63,464,774	58,145,372
Total Primary Government Expenses	\$ 51,398,041	53,675,958	54,438,443	58,104,885	62,024,929	65,624,470	73,524,964	75,134,660	79,999,708	71,576,034
PROGRAM REVENUES										
Governmental Activities										
Charges for Services	\$ 1,341,974	1,225,622	1,261,861	1,645,615	1,572,058	1,980,490	2,079,922	1,977,331	2,051,561	1,238,789
Operating Grants and Contributions	155,364	233,578	77,139	137,993	180,494	634,089	315,366	60,871	47,830	25,707
Capital Grants and Contributions	56,287	350,497	255,533	334,270	464,532	60,697	93,220	66,147	34,858	289,944
Total Governmental Activities Program Revenues	1,553,625	1,809,697	1,594,533	2,117,878	2,217,084	2,675,276	2,488,508	2,104,349	2,134,249	1,554,440
Business-Type Activities										
Charges for Services	41,249,758	43,380,657	44,050,045	48,187,308	50,749,078	53,113,524	59,673,864	56,637,930	65,321,181	62,703,650
Operating Grants and Contributions	291,766	-	427,175	337,513	257,984	-	-	-	-	-
Capital Grants and Contributions	-	-	519,040	-	56,040	652,044	871,820	613,273	1,019,347	191,821
Total Business-Type Activities Program Revenues	41,541,524	43,380,657	44,996,260	48,524,821	51,063,102	53,765,568	60,545,684	57,251,203	66,340,528	62,895,471
Total Primary Government Program Revenues	\$ 43,095,149	45,190,354	46,590,793	50,642,699	53,280,186	56,440,844	63,034,192	59,355,552	68,474,777	64,449,911

(Continued)

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

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
NET (EXPENSE) REVENUE										
Governmental Activities	\$ (7,294,761)	(9,529,077)	(10,509,826)	(10,479,473)	(11,485,309)	(10,842,671)	(11,833,587)	(16,641,337)	(14,400,685)	(11,876,222)
Business-Type Activities	1,323,869	1,043,473	2,662,176	3,017,287	2,740,566	1,659,045	1,342,815	862,229	2,875,754	4,750,099
Total Primary Government Net (Expense) Revenue	<u>\$ (5,970,892)</u>	<u>(8,485,604)</u>	<u>(7,847,650)</u>	<u>(7,462,186)</u>	<u>(8,744,743)</u>	<u>(9,183,626)</u>	<u>(10,490,772)</u>	<u>(15,779,108)</u>	<u>(11,524,931)</u>	<u>(7,126,123)</u>
GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS										
Governmental Activities										
Taxes										
Property Taxes	3,568,814	3,525,231	3,592,858	3,705,114	3,766,242	4,061,546	3,921,523	3,982,150	4,008,863	4,588,415
Sales Taxes	2,724,745	2,811,594	3,215,945	3,631,223	3,805,354	4,127,085	4,507,121	4,110,095	4,137,126	4,183,559
In-Lieu of Taxes	714,784	16,203	47,644	29,861	26,124	36,733	29,903	27,805	29,333	27,741
Business Taxes	193,140	200,805	217,419	251,306	240,944	250,850	259,183	150,884	298,423	385,646
Other Taxes	-	-	-	-	-	-	462,971	477,250	480,090	502,388
Other Local Governments	116,946	100,885	160,733	166,627	108,421	93,987	67,687	65,246	322,381	152,092
State Aid	1,719,320	1,672,268	1,720,914	1,773,976	2,195,451	1,649,418	1,943,782	1,947,533	1,943,661	1,889,311
Federal Aid	559,217	335,135	343,080	492,029	418,930	414,820	-	-	-	-
Unrestricted Investment Earnings	133,910	104,744	111,512	241,330	258,024	232,933	149,530	74,730	25,810	8,426
Miscellaneous	-	(3,570)	42,056	56,370	24,893	35,582	519,837	683,002	408,839	408,657
Special Item - Donations of Assets	1,486,963	-	-	-	-	-	14,482	-	-	-
Loss on Sale of Asset	(44,287)	-	-	-	(95,016)	-	-	-	-	-
Grants and Contributions not Restricted	-	1,611,081	747,906	-	-	-	-	-	-	-
Transfers	(40,500)	-	651,408	652,642	286,823	367,314	349,788	546,496	471,286	(434,732)
Total Governmental Activities	<u>11,133,052</u>	<u>10,374,376</u>	<u>10,851,475</u>	<u>11,000,478</u>	<u>11,036,190</u>	<u>11,270,268</u>	<u>12,225,807</u>	<u>12,065,191</u>	<u>12,125,812</u>	<u>11,711,503</u>
Business-Type Activities										
Unrestricted Investment Earnings	89,701	77,409	161,073	285,842	540,614	601,753	493,865	115,361	50,415	70,957
Miscellaneous	272	52,773	-	1,159	4,879	-	-	-	-	-
Transfers	40,500	-	(651,408)	(652,642)	(286,823)	(367,314)	(349,788)	(546,496)	(471,286)	434,732
Total Business-Type Activities	<u>130,473</u>	<u>130,182</u>	<u>(490,335)</u>	<u>(365,641)</u>	<u>258,670</u>	<u>234,439</u>	<u>144,077</u>	<u>(431,135)</u>	<u>(420,871)</u>	<u>505,689</u>
Total Primary Government	<u>11,263,525</u>	<u>10,504,558</u>	<u>10,361,140</u>	<u>10,634,837</u>	<u>11,294,860</u>	<u>11,504,707</u>	<u>12,369,884</u>	<u>11,634,056</u>	<u>11,704,941</u>	<u>12,217,192</u>
CHANGE IN NET ASSETS										
Governmental Activities	1,506,291	845,299	341,649	521,005	(449,119)	427,597	392,220	(4,576,146)	(2,274,873)	(164,719)
Business-Type Activities	1,454,342	1,173,655	2,171,841	2,651,646	2,999,236	1,893,484	1,486,892	431,094	2,454,883	5,255,788
Total Primary Government	<u>\$ 2,960,633</u>	<u>2,018,954</u>	<u>2,513,490</u>	<u>3,172,651</u>	<u>2,550,117</u>	<u>2,321,081</u>	<u>1,879,112</u>	<u>(4,145,052)</u>	<u>180,010</u>	<u>5,091,069</u>

See Independent Auditors' Report.

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

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Fund										
Non-Spendable	\$ -	-	-	-	-	-	-	-	187,398	161,312
Restricted	-	-	-	-	-	-	-	-	330,378	395,853
Committed	-	-	-	-	-	-	-	-	1,629,890	4,265,560
Assigned	-	-	-	-	-	-	-	-	381,351	211,446
Unassigned	-	-	-	-	-	-	-	-	4,132,802	2,107,524
Designated	4,121,618	4,168,892	4,000,273	4,178,565	4,085,787	3,651,625	11,171,656	7,289,320	-	-
Unreserved	3,320,969	3,351,326	2,363,630	1,951,297	1,646,915	2,201,376	1,741,002	1,536,347	-	-
Total General Fund	<u>\$ 7,442,587</u>	<u>7,520,218</u>	<u>6,363,903</u>	<u>6,129,862</u>	<u>5,732,702</u>	<u>5,853,001</u>	<u>12,912,658</u>	<u>8,825,667</u>	<u>6,661,819</u>	<u>7,141,695</u>
All Other Governmental Funds										
Non-Spendable	\$ -	-	-	-	-	-	-	-	25,000	25,000
Restricted	-	-	-	-	-	-	-	-	327,278	185,427
Committed	-	-	-	-	-	-	-	-	397,264	337,122
Assigned	-	-	-	-	-	-	-	-	235	3,230
Unassigned	-	-	-	-	-	-	-	-	-	-
Unreserved, Reported in:										
Special Revenue Funds	64,008	101,729	15,509	201,206	128,398	199,524	374,442	400,433	-	-
Capital Projects Funds	258,729	1,197,712	309,109	494,150	974,305	916,396	915,604	767,017	-	-
Permanent Fund	25,143	25,409	25,939	27,011	28,465	29,652	30,133	30,240	-	-
Total All Other Governmental Funds	<u>\$ 347,880</u>	<u>1,324,850</u>	<u>350,557</u>	<u>722,367</u>	<u>1,131,168</u>	<u>1,145,572</u>	<u>1,320,179</u>	<u>1,197,690</u>	<u>749,777</u>	<u>550,779</u>

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

See Independent Auditors' Report.

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

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>REVENUES</b>										
Taxes	\$ 7,234,119	6,528,005	7,066,193	7,604,318	7,868,022	8,429,613	9,130,476	8,709,195	8,868,012	9,842,326
Licenses and Permits	54,434	98,223	75,465	93,181	97,991	95,095	130,030	96,781	84,244	96,193
Intergovernmental	1,899,574	1,908,501	1,859,661	1,925,234	2,045,305	2,192,700	2,052,531	2,039,177	2,281,042	2,344,577
Charges for Services	1,861,406	1,800,276	1,874,032	2,005,518	2,125,682	2,433,889	2,405,205	2,460,199	2,438,111	1,583,026
Donations	56,287	180,895	23,210	176,801	140,796	141,807	14,482	34,473	32,830	12,477
Grant Income	81,427	253,514	253,920	348,354	702,489	134,028	367,524	66,147	34,858	-
Fines and Forfeitures	286,211	233,385	229,768	314,885	273,425	260,435	444,687	320,351	329,206	359,570
Miscellaneous	459,253	402,720	503,053	642,254	552,244	487,078	519,837	694,911	441,088	445,973
Interest Earned	133,909	104,744	111,514	241,377	301,217	233,457	149,530	74,730	25,810	8,426
<b>TOTAL REVENUES</b>	<b>12,066,620</b>	<b>11,510,263</b>	<b>11,996,816</b>	<b>13,351,922</b>	<b>14,107,171</b>	<b>14,408,102</b>	<b>15,214,302</b>	<b>14,495,964</b>	<b>14,535,201</b>	<b>14,692,568</b>
<b>EXPENDITURES</b>										
General Government	2,550,823	2,362,721	2,444,515	2,559,403	2,859,524	3,086,714	3,030,589	3,060,510	2,993,468	1,757,135
Public Safety	3,417,453	3,460,461	3,667,343	4,045,478	4,294,937	4,493,299	4,456,234	4,627,091	4,835,792	4,856,945
Public Works	1,127,023	1,288,844	1,148,397	1,290,099	1,363,400	1,355,854	1,570,336	1,492,740	1,730,028	1,506,961
Health and Welfare	138,991	144,000	127,125	125,157	132,641	142,785	145,815	146,388	163,984	153,858
Building Code Enforcement	207,111	221,218	252,127	245,905	236,743	268,427	278,497	297,039	300,851	296,729
Community Development	88,577	91,331	128,737	97,354	128,608	151,174	134,677	190,682	189,330	157,973
Education	2,332,000	2,332,000	2,332,000	2,332,000	2,332,000	2,332,000	2,586,950	7,006,578	4,491,562	2,378,756
Culture and Recreation	1,005,781	975,717	1,092,553	1,175,390	1,238,513	1,174,843	1,178,826	1,173,744	1,211,861	1,227,366
Special Appropriations	220,438	224,625	280,657	225,432	197,632	285,114	202,146	202,146	198,330	187,080
Capital Outlay	261,925	362,768	2,088,323	690,096	1,128,103	281,060	110,588	1,540,221	265,081	880,923
Debt Service:										
Principal	564,856	2,090,000	589,166	599,167	679,542	717,844	736,583	785,489	769,570	803,834
Interest	142,393	137,264	123,041	105,453	127,822	117,289	141,732	329,227	346,423	320,354
Paying Agent Fees	874	33,537	3,136	1,487	-	1,383	133,485	3,539	690	3,140
Lease Payments	2,754	886	-	-	-	-	-	51,215	-	-
Other Operating Expenses	154,819	524,455	501,712	411,724	912,888	232,927	373,368	194,367	121,278	566,416
<b>TOTAL EXPENDITURES</b>	<b>12,215,818</b>	<b>14,249,827</b>	<b>14,778,832</b>	<b>13,904,145</b>	<b>15,632,353</b>	<b>14,640,713</b>	<b>15,079,826</b>	<b>21,100,976</b>	<b>17,618,248</b>	<b>15,097,470</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(149,198)	(2,739,564)	(2,782,016)	(552,223)	(1,525,182)	(232,611)	134,476	(6,605,012)	(3,083,047)	(404,902)
<b>OTHER FINANCING SOURCES (USES)</b>										
Capital Outlay Note Proceeds	-	1,250,000	-	-	1,250,000	-	-	1,200,000	-	252,000
Bond Proceeds	-	1,675,000	-	-	-	-	6,750,000	505,000	-	-
Capital Lease	-	-	-	-	-	-	-	144,036	-	-
Sale of Fixed Assets	-	265,000	-	-	-	-	-	-	-	-
Transfers In	342,041	1,013,397	1,012,413	1,334,342	1,364,173	929,314	943,288	1,417,455	971,269	995,246
Transfers Out	(382,541)	(409,232)	(361,005)	(644,350)	(1,077,350)	(562,000)	(593,500)	(870,959)	(499,983)	(561,466)
<b>TOTAL OTHER FINANCING SOURCES (Uses)</b>	<b>(40,500)</b>	<b>3,794,165</b>	<b>651,408</b>	<b>689,992</b>	<b>1,536,823</b>	<b>367,314</b>	<b>7,099,788</b>	<b>2,395,532</b>	<b>471,286</b>	<b>685,780</b>
<b>Net Change in Fund Balances</b>	<b>\$ (189,698)</b>	<b>1,054,601</b>	<b>(2,130,608)</b>	<b>137,769</b>	<b>11,641</b>	<b>134,703</b>	<b>7,234,264</b>	<b>(4,209,480)</b>	<b>(2,611,761)</b>	<b>280,878</b>
Debt Service as a Percentage of Noncapital Expenditures	5.92%	16.04%	5.61%	5.33%	5.57%	5.82%	5.87%	5.70%	6.43%	7.91%

See Independent Auditors' Report.

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

Tax Year	Taxes Receivable at July 1, 2011	Add Taxes Leined	Deduct Collections	Adjustments, Releases/ Abatements, Late Listings/Discoveries	Taxes Receivable at June 30, 2012
2012	\$ -	4,530,923	-	-	4,530,923
2011	4,459,832	-	(4,218,410)	3,094	244,516
2010	359,507	-	(277,868)	(19,491)	62,148
2009	64,205	-	(35,317)	9,830	38,718
2008	43,703	-	(13,694)	(408)	29,601
2007	32,385	-	(4,985)	(14)	27,386
2006	18,971	-	(3,812)	-	15,159
2005	12,752	-	(282)	-	12,470
2004	13,613	-	(590)	-	13,023
2003	19,231	-	(3,938)	1	15,294
2002	4,436	-	(443)	-	3,993
2001	1,760	-	-	-	1,760
2000	3,707	-	-	-	3,707
1999	2,988	-	-	-	2,988
1998	4,059	-	-	-	4,059
Total	\$ 5,041,149	4,530,923	(4,559,339)	(6,988)	5,005,745

As of October 1, 2012, all of the above delinquent taxes have been filed by the City Attorney with the Carter County Chancery Court.

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE  
 ASSESSED AND ESTIMATED ACTUAL VALUE OF PROPERTY (UNAUDITED)  
 Last Ten Fiscal Years

Tax Year	Total		Ratio of Assessed To Actual Value	Tax Rate
	Assessed	Estimated Value		
2011	\$ 254,388,581	\$ 825,701,897	31%	\$ 1.78
2010	217,582,031	731,318,801	30%	1.78
2009	216,807,173	727,791,154	30%	1.78
2008	214,686,906	721,095,965	30%	1.78
2007	214,594,913	712,259,053	30%	1.78
2006	213,075,562	706,899,099	30%	1.78
2005	156,216,923	524,143,493	30%	2.30
2004	148,756,011	497,847,706	30%	2.30
2003	145,919,809	488,957,623	30%	2.30
2002	151,796,083	501,874,461	30%	2.30

\* Reappraisal Year

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE  
COMPUTATION OF LEGAL DEBT MARGIN (UNAUDITED)  
June 30, 2012

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	Fiscal Year 2012
Total Assessed Property	<u>\$ 254,388,581</u>
Legal Debt Limit - 10% of Assessed Value	25,438,858
General Obligation Debt	<u>(5,875,000)</u>
Margin for Additional Borrowing	<u>\$ 19,563,858</u>

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE  
 RATIO OF NET GENERAL OBLIGATION BONDED DEBT TO ASSESSED VALUE  
 AND NET GENERAL OBLIGATION BONDED DEBT PER CAPITA (UNAUDITED)  
 Last Ten Fiscal Years

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Bonded Debt	<u>\$ 3,025,000</u>	<u>2,635,000</u>	<u>2,175,000</u>	<u>1,705,000</u>	<u>1,215,000</u>	<u>685,000</u>	<u>6,890,000</u>	<u>6,805,000</u>	<u>6,355,000</u>	<u>5,875,000</u>
Assessed Valuation	<u>\$ 151,796,083</u>	<u>145,919,809</u>	<u>148,756,011</u>	<u>156,216,923</u>	<u>213,075,562</u>	<u>214,594,913</u>	<u>214,686,906</u>	<u>216,807,173</u>	<u>217,582,031</u>	<u>254,388,581</u>
Ratio of General Bonded Debt to Assessed Value	<u>1.99%</u>	<u>1.81%</u>	<u>1.46%</u>	<u>1.09%</u>	<u>0.57%</u>	<u>0.32%</u>	<u>3.21%</u>	<u>3.14%</u>	<u>2.92%</u>	<u>2.31%</u>
Bonded Debt per Capita Based on Census	<u>\$ 14,017</u>	<u>14,017</u>	<u>14,017</u>	<u>14,017</u>	<u>14,017</u>	<u>14,017</u>	<u>14,017</u>	<u>14,176</u>	<u>14,176</u>	<u>14,176</u>
Bonded Debt per Capita	<u>\$ 216</u>	<u>188</u>	<u>155</u>	<u>122</u>	<u>87</u>	<u>49</u>	<u>492</u>	<u>480</u>	<u>448</u>	<u>414</u>

Note: A Special Census was made in 2002 in connection with territory annexed which resulted in a population increase of 645. The 2010 Census resulted in an increase of 159.

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE  
TAX RATES AND ASSESSMENTS (UNAUDITED)  
Last Ten Years

<u>Fund</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
General Fund	\$ 2.30	2.30	2.30	2.30	1.78	1.78	1.78	1.78	1.78	1.78
<u>Assessed Valuation</u>										
Real and Personal	\$ 151,671,448	145,919,809	148,756,011	156,216,923	213,075,562	214,594,913	214,599,241	216,807,173	217,582,031	254,388,581
Public Utility	124,635	112,161	119,592	94,182	88,765	87,665	87,665	87,035	93,880	94,246
Total Assessed Valuation	\$ 151,796,083	146,031,970	148,875,603	156,311,105	213,164,327	214,682,578	214,686,906	216,894,208	217,675,911	254,482,827

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE  
 UTILITY RATES FOR WATER AND SEWER, NUMBER OF CUSTOMERS (UNAUDITED)  
 For the Fiscal Year Ended June 30, 2012

	<u>Inside Corporate Limits of City</u>	<u>Outside Corporate Limits of City</u>
<u>Water Meter Rates for Residential Commercial, and Industrial</u>		
1,000 gallons or less	Minimum \$ 7.50	Minimum 13.99
Above 1,000 to 500,000 gallons	3.17	6.05
Above 500,000 to 1,000,000 gallons	2.43	4.17
Above 1,000,000 gallons	2.33	3.91
<u>Wholesale Rates for Water for Utility Districts</u>		
First 100,000 gallons or less		Minimum 462.00
Above 100,000 gallons		4.43/m
<u>Sewer Rates for Residential, Industrial and Commercial</u>		
Base Rate	10.94	14.48
Cost per 1,000 gallons up to 9,000 gallons	2.59	4.84
Cost per 1,000 gallons over 9,000 gallons	2.59	3.52
<u>Number of Customers</u>		
Water (Inside and Outside)	10,839	
Sewer (Inside and Outside)	5,221	

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE  
SCHEDULE OF SALARIES AND SURETY BOND COVERAGE OF PRINCIPAL OFFICIALS  
For the Fiscal Year Ended June 30, 2012

Name and Title of Official	Annual Salary	Amount of Surety Bond
Fred R. Edens, Jr., City Manager	\$ 90,000	\$ 250,000
Jerome Kitchens, Finance Director	74,318	250,000
Curt Alexander, Mayor	2,400	
Samuel Shipley, Mayor Pro-Tem	1,800	
Richard Sammons, Council Member	1,800	
William E. "Bill" Carter, Council Member	1,800	
Richard Tester, Council Member	1,800	
Nancy Alsup, Council Member	1,800	
Charles LaPorte, Council Member	1,800	

A Surety Bond is in effect for some officials as noted above. Other officials and employees are covered through insurance coverage by Tennessee Municipal League including the following:

Employee Dishonesty, per Loss	\$ 150,000
Forgery or Alteration	150,000
Theft	150,000
Computer Fraud	150,000

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE  
SCHEDULE OF UNACCOUNTED FOR WATER (UNAUDITED)  
For the Fiscal Year Ended June 30, 2012

(All amounts in gallons)

<b>A</b>	<b>Water Treated and Purchased:</b>		
B	Water Pumped (potable)	1,939,525,000	
C	Water Purchased	1,600	
D	<b>Total Water Treated and Purchased</b>		1,939,526,600
	<b>(Sum Lines B and C)</b>		
<b>E</b>	<b>Accounted for Water:</b>		
F	Water Sold	834,311,800	
G	Metered for Consumption (in house usage)	18,681,200	
H	Fire Department(s) Usage	225,305	
I	Flushing	2,027,916	
J	Tank Cleaning/Filling	72,000	
K	Street Cleaning	50,300	
L	Bulk Sales	0	
M	Water Bill Adjustments/plus(minus)	4,297,219	
N	<b>Total Accounted for Water</b>		859,665,740
	<b>(Sum Lines F thru M)</b>		
O	<b>Unaccounted for Water</b>		1,079,860,860
	<b>(Line D minus Line N)</b>		
P	<b>Percent Unaccounted for Water</b>		55.677%
	<b>(Line O divided by Line D times 100)</b>		
<b>Q</b>	<b>Other (explain)</b>	See Below	

Explain Other:

Missing a large part of Fire Departments usage, and limited meters at other facilities. Flushing also includes flushing for repairs and new lines. Street Cleaning includes cleaning of sidewalks, etc.
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All amounts included in this schedule are supported by documentation on file at the water system. If no support is on file for a line item or if line item is not applicable, a "0" is shown.

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE  
CURRENT UTILITY RATES AND NUMBER OF CUSTOMERS (UNAUDITED)  
June 30, 2012

<u>Residential Rate Schedule</u>	<u>RS</u>	
Customer Charge -		
per delivery point per month		
(\$9.58 less \$1.71 hydro allocation credit)	\$13.29	
Energy Charge - per kWh per month	\$0.00963	
<u>General Power Rate Schedule</u>	<u>GSA</u>	<u>GSB</u>
	(Demand 0-	(Demand 5,000
	5,000 kW)	to 12,000 kW)
<i>Part 1.</i>		
Customer Charge		
Per delivery point per month	\$14.46	\$1,500.00
Energy Charge - per kWh per month	\$0.10494	
Per kWh up to 620 hours per month		\$0.04983
Per kWh all additional per month		\$0.04983
Demand Charge - per kW per month		\$21.63
Excess of billing demand over		
contract demand - per kW per month		\$21.63
<i>Part 2.</i>		
Customer Charge		
Per delivery point per month	\$55.00	
Demand Charge - per kW per month		
First 50 kW	\$0.00	
Excess over 50kW per month	\$12.14	
Energy charge - per kWh per month		
First 15,000 kWh	\$0.10494	
Additional kWh per month	\$0.06464	
<i>Part 3.</i>		
Customer Charge		
Per delivery point per month	\$150.00	
Demand Charge - per kW per month		
First 1,000 kW	\$13.07	
Excess over 1,000 kW	\$14.36	
Excess of higher of 2,500 kW or		
contract demand	\$0.00	
Energy Charge - per kWh per month		
First 15,000 kWh	\$0.06463	
Additional kWh	\$0.06463	
<u>Outdoor Lighting Rate Schedule</u>	<u>LS</u>	
Customer Charges		
Per delivery point per month	\$3.70	
Energy Charge - per kWh	\$0.06782	
<u>Number of Customers</u>		
Residential	22,811	
General	3,287	
Street, Athletic and Outdoor Lighting	172	
Total Customers	<u>26,270</u>	

See Independent Auditors' Report.

INTERNAL CONTROL AND  
COMPLIANCE SECTION

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Elizabethton, Tennessee (the City) as of and for the fiscal year ended June 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 14, 2012. Our report includes a reference to other auditors. The report on the City of Elizabethton Electric Department was qualified because we were unable to obtain sufficient, appropriate audit evidence regarding capital assets, construction in progress and related depreciation expense and were unable to satisfy ourselves regarding the carrying value of net capital assets by other auditing procedures. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Elizabethton Municipal Airport, a blended component unit, as described in our report on the City of Elizabethton, Tennessee's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

Independent Auditors' Report on Internal  
Control over Financial Reporting  
Page 2

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

We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses: 2012-01 and 2010-05.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and questioned costs to be significant deficiencies: 2012-02 and 2011-04.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Elizabethton, Tennessee's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2012-01 through 2012-02, 2011-04, 2010-05.

We noted certain other matters that we reported to management of the City of Elizabethton, Tennessee in a separate letter dated December 14, 2012.

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

This report is intended solely for the information and use of management, the City Council, others within the City, and is not intended to be and should not be used by anyone other than these specified parties.

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

December 14, 2012

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD  
HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the City of Elizabethton, Tennessee's (the City) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have direct and material effect on each of the City's major federal programs for the year ended June 30, 2012. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

The City of Elizabethton, Tennessee's basic financial statements include the operations of the City of Elizabethton Board of Education, which received \$2,583,358 in federal awards which is not included in the schedule during the year ended June 30, 2012. Our audit, described below did not include the operations of the City of Elizabethton Board of Education because a separately issued report was issued on the City of Elizabethton Board of Education in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the fiscal year ended June 30, 2012.

Independent Auditors' Report on  
Compliance with Requirements

Page 2

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

We noted certain other matters that we reported to management of the City of Elizabethton, Tennessee in a separate letter dated December 14, 2012.

This report is intended solely for the information and use of management, the City Council, others within the City, and is not intended to be and should not be used by anyone other than these specified parties.

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

December 14, 2012

CITY OF ELIZABETHTON, TENNESSEE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2012

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Section I - Summary of Auditors' Results

1. The auditors' report expresses an unqualified opinion on the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Elizabethton, Tennessee, except for the capital assets, construction in progress, and related depreciation expense of the Elizabethton Electric Department, a major proprietary fund, where sufficient, appropriate audit evidence was not obtained.
2. Two significant deficiencies and two material weaknesses relating to the audit of the financial statements of the City of Elizabethton were disclosed during the audit.
3. Two instances of noncompliance material to the financial statements of the City of Elizabethton were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs were disclosed during the audit.
5. The auditors' report on compliance for the major federal award programs for the City of Elizabethton, Tennessee expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award programs that are required to be reported in accordance with section 510 (a) of Circular A-133.
7. The program tested as a major program was Locally Managed Enhancement Agreement (Covered Bridge Rehabilitation), CFDA #20.205.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. The City of Elizabethton, Tennessee was not determined to be a low-risk auditee.

CITY OF ELIZABETHTON, TENNESSEE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2012

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SECTION II – FINANCIAL STATEMENT AUDIT FINDINGS

CURRENT YEAR FINDINGS

***2012-01: Material Weakness: Elizabethton Electric - Work Orders (Repeated from 6/30/07 Report with additional current year items noted)***

***Condition:*** The following issues were noted with work orders:

*Lack of Work Order System*

As of October 10, 2012, the Department had yet to fully integrate to a functioning work order system. At the start of the field work portion of the audit, in September, we were provided a list of work orders with comments/notes. Included was a note for the auditors to contact the software vendor to discuss requested reports. The Department had not received any such reports and only received a detail work order report, after auditor request, on October 2, 2012. Upon initial review by the auditors, of this report, the total was \$57,580,835 compared to the General Ledger (unadjusted balance) of \$28,447,698 for a difference of \$29,133,137. At the request of the Department, the software vendor was contacted again by the auditors, to inform them of this difference. As of October 3, 2012, the vendor is working on this. As of October 3, 2012, there are no other reports that are generated for review from the software system. There is no indication of review by anyone.

*Work Order Documentation*

The list of work orders provided to the auditors included just a listing with no dollar amounts. This three page report included a total of 219 work orders that were 98% complete and ready to close but none had been closed. This listing also included a full page of work orders that needed follow-up with accounting department personnel as there was a note that some Work Orders may have payments made and not posted. The third page of this listing included work orders that needed correction as returned items were being added erroneously by the Plant Worx system.

*Lack of Review and Approval of Work Order Processes*

There were no processes in place to ensure that all of the open work orders were entered into the new system and reconciled to the General Ledger. Management has been diligently working on the work order project including generating files, organizing documentation and communicating with the software vendor and has provided us with any items requested as well as provided detailed explanations of the conversion process. However, it is critical someone other than the initial preparer of the documentation and responsible for entry review the work order reports, reconcile to the general ledger and thoroughly investigate any discrepancies. It appears this was not done during the fiscal year or up to October 3, 2012.

*Completed Work Orders Remaining in CIP*

During audit procedures, several work orders appear to have remained opened and not closed to the proper capital asset account and depreciated. In previous discussions with the Electric Accounting Supervisor, after the cessation of the CSA system, the Department has been without a depreciation module. Therefore, projects have not been closed and the current year depreciation expense has been based upon the prior year amount. It appears projects that have been completed are remaining within Construction in Progress (CIP).

CITY OF ELIZABETHTON, TENNESSEE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2012

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SECTION II – FINANCIAL STATEMENT AUDIT FINDINGS (CONTINUED)

CURRENT YEAR FINDINGS (CONTINUED)

***2012-01: Material Weakness: Elizabethton Electric - Work Orders (Repeated from 6/30/07 Report with additional current year items noted) - continued***

Upon review of audit working papers from the June 2011 audit, several work orders were noted as being complete as of June 2011 (and per discussion with Department personnel at that time) but were not closed either at June 2011 or June 2012.

*Work Order Report Discrepancies*

During detailed work order testing, numerous discrepancies were noted. For instance, several work order reports from the Plant Worx system appear to have no current year activity, but have a different balance than the balance at June 30, 2011. Several individual work order reports listed duplicate invoices.

***Criteria:*** Proper work order procedures should be followed to document all aspects of the work order to enhance internal controls over the financial reporting process. These should be routinely reviewed for the status of the job and necessary adjustments should be documented and posted to close or transfer completed projects. The Department should account for work orders using a work order management system, on a continuous basis, that has the ability to post all transactions into the general ledger and generate reports that detail all aspects of each work order. Once a project has been completed, the corresponding work order should be closed and depreciated.

***Effect:*** The effect of this deficiency results in a material weakness in proper controls over financial reporting. The lack of a work order management system for the allocation of costs for open jobs (materials, stores expense, transportation, direct labor (hours and cost), direct cost and aid to construction, indirect labor, and contract labor), and the process of properly closing jobs opens the Electric Department to substantial risk of misstatements, errors, and or fraudulent reporting. As a result, the opinion with regard to capital assets, construction in progress and depreciation is qualified.

***Recommendation:*** Since an accurate work order system is critical to a utility district's operations, we recommend that the Department continue to work with the Plant Worx system until a fully functioning work order management system is in place. During this time, various work order reports should be generated and reviewed by the appropriate level of management in order to verify the accuracy of the information imported into the new system. A comprehensive listing of open work orders should be reviewed and all completed contracts should be properly closed and depreciated. We further recommend Electric Department officials work with the TVA regarding any specialized reporting requirements to satisfy TVA reporting requirements. We realize this is a long-term project, which City and Electric Department officials have been and continue to address.

CITY OF ELIZABETHTON, TENNESSEE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2012

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SECTION II – FINANCIAL STATEMENT AUDIT FINDINGS (CONTINUED)

CURRENT YEAR FINDINGS (CONTINUED)

***2012-01: Material Weakness: Elizabethton Electric - Work Orders (Repeated from 6/30/07 Report with additional current year items noted) - continued***

***Management's Response:*** Prior to July 2010, we had two accounting programs in the City of Elizabethton (the City). Management had spent a long time investigating the issue and resolved to move the Electric Department to the Incode accounting software to unify the input and output of the system and have one standard reporting platform. Incode had been in use by the City over a period of years and it was expected that the conversion process would go easier than what actually happened.

The fundamental differences in City government accounting and Electric enterprise accounting rests on two issues: Federal Energy Regulatory Commission (FERC) reports and work orders. After months of work on the conversion process we had completed most of the FERC report issues but Incode was totally unable to integrate work orders as our previous software had done. Incode admitted defeat and issued a credit on the work order module in November 2011.

This was the same time period that we approached another company, Plant Worx, to integrate the work order process. We have worked diligently to have the system up and running by the end of the year and be ready to audit. Unfortunately we do not expect to be completed until December 2012. During this long conversion process we have manually maintained work order information. It has been reentered into the new software package. The audit team was able to view some reports but all conversions issues had not been resolved in time. We have tentatively scheduled a review by the audit team in December or early January to insure that the June 2013 Fiscal Report will be ready for audit.

Upon completion of the Work Order conversion we fully expect to have all necessary reports and supporting documentation available for audit.

We are also currently working on the review process with the new implementation and expect to adequately document the ongoing review of work orders.

Closing of completed work orders had not been done on the manual system (Excel) but will be done as part of conversion balancing and as an ongoing process.

As we finalize the conversion process duplicated invoices will be deleted to arrive at a true balance. The complete implementation of the Plant Worx work order management system should address most discrepancies.

CITY OF ELIZABETHTON, TENNESSEE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2012

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SECTION II – FINANCIAL STATEMENT AUDIT FINDINGS (CONTINUED)

CURRENT YEAR FINDINGS (CONTINUED)

***2012-02: Significant Deficiency: Elizabethton Electric - Payroll Allocation***

**Condition:** Testing of payroll and time sheets for one month noted problems throughout the entire year. Pay codes were never properly set up by Electric Department officials and linked from payroll to Incode posting. Despite the employees coding their time to a particular pay code, and payroll manually keying that in, since the pay codes were not linked, all hours would default and be posted to the employee's home department. The TVA report lists expense line items with a comparison to prior year, therefore these allocation differences are shown within the TVA report. For example, the Overhead line expense lists \$1,267,121 for the current year and only \$361,872 as the prior year. The TVA report includes as the next column, the current year and prior year "payroll distribution" for this line item and for the current year, payroll distribution to this line was \$858,716 compared to only \$68,047 in the prior year.

**Criteria:** Electric Department officials should have a procedure in place so that pay codes are linked within the Incode system so that payroll expense is allocated to the appropriate department.

**Effect:** Payroll expense was not properly allocated by department for the year.

**Recommendation:** We recommend that the pay codes be properly set up and linked from payroll to the Incode system so that payroll is properly allocated to each department. Payroll reports should be compared to time sheets in order to verify that the system is functioning as intended.

**Management's Response:** Management agrees that proper allocation of payroll is crucial to accurate reporting. The information had been reported in the past, entered into the payroll system and transferred into the General Ledger. However, the default payroll assignments overrode the manual entry. We have created the proper pay codes links to corresponding General Ledger Accounts. This is being implemented on the pay period ending October 20, 2012.

PRIOR YEAR FINDINGS NOT IMPLEMENTED

***2011-04: Significant Deficiency: City – Excess Water Loss (Repeated from 6/30/2011 Report, with additional current year items noted)***

**Condition:** The City reported a water loss percentage of 55.67% as of June 30, 2012 which exceeds the excessive water loss percentage of 35% set by the State of Tennessee Utility Management Review Board.

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

CITY OF ELIZABETHTON, TENNESSEE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2012

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SECTION II – FINANCIAL STATEMENT AUDIT FINDINGS (CONTINUED)

PRIOR YEAR FINDINGS NOT IMPLEMENTED (CONTINUED)

***2011-04: Significant Deficiency: City – Excess Water Loss (Repeated from 6/30/2011 Report, with additional current year items noted) - continued***

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

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

***Management's Response:*** The City has created a Water Loss Reduction Program to reduce the approximately 56% unaccounted for water in the City's distribution system. The Elizabethton water system currently uses approximately 5.2 million gallons per day and is located in upper East Tennessee in Carter County, Tennessee, and serves a population of approximately 24,000 people. The Water Loss Reduction Program consists of the detailed evaluation of the City's water losses and provides a specific plan for reducing the City's water losses as quickly and economically as possible.

The Water Loss Reduction Program has the following components. All of the progress reports given below are as of the end of October 2012: improving organizational efficiency, establishment of a standing Water Loss Committee, water line replacement program, water meter program, leakage detection program, leak repair program, and a mapping program.

Improving organizational efficiency

City management recognized that a Water Loss Reduction program has to be a permanent endeavor inextricably woven into the management culture of the City's water operations. This is only possible if the organizational structure can support the required efficiencies. With this in mind, the City Manager created a unified Utilities Department under the direct supervision of a Utilities Director in October 2011. This introduced a dedicated senior management position tasked to oversee daily utility operations. Previously the utility operations (water, wastewater and electrical) reported directly to the City Manager in competition with all the other City departments and programs.

***Progress*** – The separately managed water and wastewater operations were combined in the newly created Water Resources Division on July 3, 2012. This is especially important to the Water Loss Reduction Program because of the benefit of combined construction assets. The City is seeing significantly improved productivity in the areas of leak repair etc. Before October 2011, the standing number of unrepaired known water leaks at any time was around 300. This number has been reduced to around 50 for most months. It occasionally goes up to around 80 when the division temporarily channels crew resources to larger line replacement and water construction projects.

CITY OF ELIZABETHTON, TENNESSEE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2012

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SECTION II – FINANCIAL STATEMENT AUDIT FINDINGS (CONTINUED)

PRIOR YEAR FINDINGS NOT IMPLEMENTED (CONTINUED)

***2011-04: Significant Deficiency: City – Excess Water Loss (Repeated from 6/30/2011 Report, with additional current year items noted) - continued***

Establishment of a standing Water Loss Committee

Management identified a need to create a Water Loss Committee made up of key staff members. The purpose of the committee is to foster division-wide ownership of the permanent water loss reduction program and to serve as an advisory body to the Director of Utilities. The water loss reduction program elements detailed in this document were identified and analyzed by the committee. The committee has access to the City's consulting engineer, McGill Associates, P.A. The following staff was selected to serve on the committee:

Johann Coetzee (Chairman)	Director of Utilities
Jim Roberts	Water Resources Construction Manager
Ed Mullins	Water Resources Facilities Manager
Doug Cornett	Water Treatment Manager
George Harrison	Water Maintenance Supervisor
Sharon Banner-Droke	Administrative Assistant

*Progress* – The Committee is now established and functioning. To date, the meetings are scheduled on an as needed basis with a follow-up meeting identified at the end of each session.

Water line replacement program

The City's water line replacement program has two components; In-house Construction and Capital Projects. The City increased a Water Capital Improvement fee to \$10 per household in the previous financial year. The increased revenue allowed the City to hire, equip and train a permanent, dedicated four person Water Line Replacement Crew. The initial phase of the water line replacement program will replace approximately 30,000 linear feet of aged galvanized steel water lines. An experimental productivity target of replacing 1,000 feet of galvanized line per month was set. This number will be adjusted up or down as we learn and gain experience. The actual replacement of the galvanized line takes less labor and time than the subsequent reconnection of service lines and repairs to streets, sidewalks and customer yards. The line replacement crew also evaluates and replaces water meters as part of the line replacement exercise.

*Progress* – The crew was hired, equipped and trained and started replacing water lines four months ago. The primary focus is the replacement of galvanized lines, but the crew occasionally focuses on other water loss related projects like zone meter installations. A project presently underway is to replace leaky joints in a 12" line suspended under the Gilbert Peters Bridge on HWY 19E. The crew's approximate average productivity for galvanized line replacement is around 870 feet per month over the last three months. A project to replace approximately one mile of the hundred year old lead jointed 14 inch Hampton Main Line is underway. The project value is \$1 million and is funded by a SRLF loan.

CITY OF ELIZABETHTON, TENNESSEE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2012

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SECTION II – FINANCIAL STATEMENT AUDIT FINDINGS (CONTINUED)

PRIOR YEAR FINDINGS NOT IMPLEMENTED (CONTINUED)

***2011-04: Significant Deficiency: City – Excess Water Loss (Repeated from 6/30/2011 Report, with additional current year items noted) - continued***

The City applied for and has been awarded \$650,000 in grant and loan funding to perform improvements in the Eastside community to reduce unaccounted for water. The Eastside community is an older section of the City that has been identified as having an unaccounted for water rate higher than the City's average.

However, the increased activity and water loss reduction expenditures have the effect of putting pressure on the water/wastewater operational fund during what is still a difficult economy. The City may be forced to postpone or reduce the scope of the Eastside project if the Hampton project runs over budget.

*Progress* – The Hampton main line replacement project is 40% complete and approximately \$18,000 over budget as of the end of October 2012.

Water meter program

The Water Loss Committee identified several components of the water meter program and the program is underway.

The committee, with the assistance of our engineers, re-evaluated the intended locations of 15 large zone meters, purchased by the City during the previous fiscal year. The zone meters will gather data to provide more information on water usage and losses in specific areas of the City. The meters are equipped with 4-20 mA outputs and has radio read capability. (4-20 mA signal output componentry is necessary for automated data collection.) The committee is presently investigating the feasibility of integrating zone meters into our SCADA system to obtain real time flow measurements.

*Progress* - Crews started building the meter and valve assemblies during bad weather days when normal construction activities were not practicable. The vaults will be ordered a few at a time and delivered to the site to avoid double handling, but no vaults are presently on site. Installation of the zone meters has been added to the line replacement crew project list.

The Water Loss Committee and engineers completed a first analysis of bulk water meters at the three treatment plants. The following deficiencies were identified: calibrations on some meters were limited to the 4-20 mA signaling components, and did not include factory calibration of the actual meter, the City needs to improve meter redundancy at the plants to make it possible to remove a meter for repairs or factory testing without violating operational requirements, and some of the older meters' installation geometry did not meet manufacturer's specifications.

*Progress* – Staff is presently collecting cost data as a first step in the plan to address the deficiencies.

CITY OF ELIZABETHTON, TENNESSEE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2012

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SECTION II – FINANCIAL STATEMENT AUDIT FINDINGS (CONTINUED)

PRIOR YEAR FINDINGS NOT IMPLEMENTED (CONTINUED)

***2011-04: Significant Deficiency: City – Excess Water Loss (Repeated from 6/30/2011 Report, with additional current year items noted) - continued***

The City completed an initial round of residential water meter testing to gather information on the accuracy of some aging water meters. Meters were randomly removed and sent to a testing specialist for evaluation. The results were not as conclusive as was hoped. Staff was set an additional target for this fiscal year of removing and testing an additional 50 known old meters, instead of a randomly selected sample.

*Progress* – The removal of old meters is underway. We will store removed meters until we have accumulated fifty meters of the target population and then send them for off-site independent testing.

The committee identified that it is highly likely that we under measure off-peak water usage by larger customers, like apartment complexes and trailer parks, who still have standard larger meters. These meters need to be evaluated and replaced with compound meters designed to measure smaller off-peak flows. Also, staff is looking into the feasibility of adding signaling capability to make it possible to integrate these meters with an automated system in the future.

*Progress* – Staff is evaluating costs. We have already identified several candidate sites.

The City is working closely with engineers to implement and structure metered consumption/flow data gathering and analysis. Data analysis is important, especially in identifying priorities for leak elimination and line replacement. The Water Loss Committee identified the need for a software reporting module to interact with our customer information system (CIS). The purpose is to specifically quantify revenue recovery and water loss reduction related to our meter replacement program. The City is also aware that the eventual implementation of automated meter reading (AMR) is a necessary future component of the water loss reduction program. The City does not presently have the funds to implement an AMR system. However, AMR will feature as a component of our long term CIP.

*Progress* – To date, all the data submitted to our engineers were collected from our CIS. Alternate/additional methods for data collection are in the early planning/feasibility stage. We are presently only purchasing and installing large meters (compound and zone) of a design that can be integrated in a future AMR system.

The City expanded the program of residential meter replacement. As previously mentioned, the Water Line Replacement Crew replaces meters as necessary when they tie customers on to newly replaced lines. Also, we have increased the number of meter replacements expected from our meter maintenance staff.

CITY OF ELIZABETHTON, TENNESSEE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2012

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SECTION II – FINANCIAL STATEMENT AUDIT FINDINGS (CONTINUED)

PRIOR YEAR FINDINGS NOT IMPLEMENTED (CONTINUED)

***2011-04: Significant Deficiency: City – Excess Water Loss (Repeated from 6/30/2011 Report, with additional current year items noted) - continued***

*Progress* – Work is underway to develop productivity targets and assess resource requirements for enhanced meter replacement by our meter staff. Productivity targets will be implemented by January 2013.

Leakage detection program

The City enhanced the leakage detection program by hiring a retired supervisor (40 years experience) on a part-time basis to assist our staff member who is currently dedicated to leak detection. The Water Loss Committee identified that the City's leak detection equipment must be upgraded.

*Progress* – Efficiency was improved by adding part-time help. Staff is analyzing our equipment needs in anticipation of the next fiscal year budget cycle.

Leak repair program

Additional to the newly established line replacement crew, the City has three (three person) water construction crews in the field. Initial assessment after the restructuring of the organization revealed that the three crews' leak repair productivity was much lower than expected. The construction equipment and tools allocated to the crews were found to be old, inadequate and in disrepair. The division immediately started replacing and augmenting hand tools, pneumatic and gasoline powered construction equipment, as well as safety equipment. It was also found that our service trucks were too small with the result that not enough equipment could be carried to each job site. Return trips for more equipment and parts unreasonably stretched out jobs. A zone system was established by the Water Resources Construction Manager. Each crew was allocated a zone in the service area and became responsible for repairing leak work orders only in that zone. Crew productivity is recorded and regularly examined by supervisors.

*Progress* – The zone system had a surprisingly positive effect on crew productivity; most probably because of reduced travel time between jobs and the concept of ownership of a particular zone. The City specified and purchased a larger specially built service truck. This truck is currently under evaluation. If the performance is satisfactory the City will embark on a program to gradually replace all the smaller service trucks. Job time and safety have been greatly reduced because of the more efficient construction equipment.

Mapping program

The City identified that the maps of the water system were inadequate and paper based. A start was made several years ago to buy GPS survey equipment and start building a rudimentary GIS data base. This program is in the process of being improved and expanded, because proper asset management records are essential to the long term efficiency of a water loss reduction program. The division had a lot of unprocessed GPS field data that needed to be added to the mapping program.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
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SECTION II – FINANCIAL STATEMENT AUDIT FINDINGS (CONTINUED)

PRIOR YEAR FINDINGS NOT IMPLEMENTED (CONTINUED)

***2011-04: Significant Deficiency: City – Excess Water Loss (Repeated from 6/30/2011 Report, with additional current year items noted) - continued***

*Progress* – The GIS computer was recently replaced and all the software updated. The Water Resources Division is paying for the services of a GIS/CAD operator from our Electric Division for the next four to six weeks to get caught up with data entry. The project is in its second week. The GIS/CAD operator is also tasked with training at least two Water Resources staff members to update GIS maps from GPS field data.

It is the City's desire that the Water Loss Reduction program as described above will be foundational to a permanent effective solution. The program is designed to be live, responsive and flexible. The City's goal remains to achieve a water loss of 35% or better in the shortest possible time at the least possible cost to our rate payers.

***2010-05: Material Weakness: Elizabethton Electric – Audit Adjustments (Repeated from 6/30/2011 and 6/30/2010 Report, with additional current year items noted)***

***Condition:*** Under current professional standards, the Electric Department is responsible for the internal control process which includes the preparation of year-end financial statements in accordance with generally accepted accounting principles and the accrual basis of accounting. Audit adjustments were necessary to properly state account balances including: Accrued Interest on Bonds, Interest Subsidy Receivable Accrual, OPEB, Retainage Payable, Capitalized Interest, Retained Earnings, Rents Receivable, Unamortized Bond Premium, Deferred Refunding Costs, and Accrued Wages. An audit adjustment was necessary to record retainage payable on several construction contracts. It appears these retainages had not been properly established in a separate bank account.

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

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

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

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SECTION II – FINANCIAL STATEMENT AUDIT FINDINGS (CONTINUED)

PRIOR YEAR FINDINGS NOT IMPLEMENTED (CONTINUED)

***2010-05: Material Weakness: Elizabethton Electric – Audit Adjustments (Repeated from 6/30/2011 and 6/30/2010 Report, with additional current year items noted) - continued***

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

***Management's Response:*** Management agrees with the finding and we will put in place a monthly and year end checklist to be used by the Electric Department accountant for the preparation of reoccurring journal entries. Checklists currently being used by the General Fund and Water/Sewer Funds will be used by the Electric Department as a guideline in order to help prevent omission of entries for month end close and yearend close. The accountant will review and monitor monthly balance sheet account balances and will reconcile any discrepancies going forward month to month. The Electric Department Accountant will record retainage payables for construction contracts and will maintain separate bank accounts for each contractor.

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SECTION II – FINANCIAL STATEMENT AUDIT FINDINGS (CONTINUED)

PRIOR YEAR FINDINGS IMPLEMENTED

<u>Number</u>	<u>Finding</u>	<u>Page</u>
2011-01	Net Loss and Cash Flow	137
2011-02	Bank Reconciliations	137
2011-03	Software Conversion Billing Adjustments	138
2010-04	Journal Entries	140
2010-07	Cash Flow Concerns	142

SECTION III – FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL PROGRAMS AUDIT

None Noted