



ELIZABETHTON ELECTRIC DEPARTMENT

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

AUDITED FINANCIAL STATEMENTS

For the Fiscal Year Ending June 30, 2016

CITY OF ELIZABETHTON ELECTRIC DEPARTMENT

AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE

FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

For the Year Ended June 30, 2016

CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
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For the Year Ended June 30, 2016

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AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
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SECTION I - INTRODUCTORY SECTION

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
LIST OF ELECTED AND APPOINTED OFFICIALS
June 30, 2016**

Elected Officials

Mayor	Curt Alexander
Mayor Pro-Tem	William E. "Bill" Carter
Councilman	Robert W. Cable, Jr.
Councilman	Wes Frazier
Councilman	Samuel B. Shipley
Councilman	D. Richard Tester
Councilman	Jeffrey C. Treadway

Appointed Officials

City Manager	Jerome Kitchens, CMFO
Director of Finance / City Clerk	Deborah B. Kessler, CMFO

SECTION II

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the City of Elizabethton Electric Department (the Department), an enterprise fund of the City of Elizabethton, Tennessee, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

City of Elizabethton Electric Department
Independent Auditors' Report

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the City of Elizabethton Electric Department, an enterprise fund of the City of Elizabethton, Tennessee, as of June 30, 2016, and the respective changes in financial position and cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the City of Elizabethton Electric Department and do not purport to, and do not present fairly the financial position of the City of Elizabethton, Tennessee as of June 30, 2016, the changes in its financial position, or where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information on pages 5 through 9 and 43 through 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

City of Elizabethton Electric Department
Independent Auditors' Report

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

The introductory and other supplemental sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2016, on our consideration of the City of Elizabethton Electric Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Elizabethton Electric Department's internal control over financial reporting and compliance.

Blackburn, Childers + Steagall, P.C.
BLACKBURN, CHILDERS & STEAGALL, PLC
Johnson City, Tennessee

December 13, 2016

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016**

The following is the Management's Discussion and Analysis (MD&A) of the financial statements and supporting documents for the City of Elizabethton Electric Department, an enterprise fund of the City of Elizabethton, Tennessee for the year ended June 30, 2016.

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

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

Overview of the Financial Statements

The annual report consists of several sections. Section I includes the list of elected and appointed officials. Section II includes the independent auditors' report, the basic financial statements, including the Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, the Statement of Cash Flows, and the notes to the basic financial statements. Section III and IV includes all supplemental information. Section V includes the report on Internal Control and Compliance.

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

Elizabethton Electric Department Activity Highlights

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

	<u>2016</u>	<u>2015</u>
Residential	22,990	22,856
Small Commercial	2,909	2,885
Large Commercial/Industrial	259	252
Street and Athletic Lighting	50	50
Outdoor Lighting Only	183	183
Total	<u><u>26,391</u></u>	<u><u>26,226</u></u>

As indicated by the above chart, Residential increased .6% and Small Commercial increased .8% over the past year. Large Commercial and Industrial increased 2.8%. Street and Athletic remained the same and Outdoor Lighting remained the same. Overall customers increased .6%.

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016**

Capital Assets

The Elizabethton Electric Department has implemented an infrastructure improvement program, which was developed from our 10 Year System study.

	<u>2016</u>	<u>2015</u>
Transmission Plant	\$ 36,083,936	36,062,634
Distribution Plant	55,007,717	54,005,304
General Plant	9,771,248	8,528,525
Construction Work in Progress	85,674	856,007
	<u>\$ 100,948,575</u>	<u>99,452,470</u>

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

In 2010, the Elizabethton Electric Department received a bond, \$20,585,000, to rebuild and upgrade significant power lines and substation construction. The work has continued through 2016.

Debt

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

Pensions

Elizabethton Electric Department employees prior to January 12, 2007 participate in a non-governmental CSA pension plan. Monthly contributions are made based on annual evaluations. Last year the net pension liability was \$6,133,878 with a net position ratio of 63.24%. This year the net pension liability is \$7,019,170 with a net position ratio of 59.80%.

Employees hired after January 12, 2007 participate in a defined benefit public employee retirement plan administered by Tennessee Consolidated Retirement System. The Elizabethton Electric Department's share of the net pension liability is \$591,930 in the current year and \$556,574 in the prior year.

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016**

Summary of Changes in Net Position

	<u>2016</u>	<u>2015</u>
Operating Revenues	\$ 52,956,419	56,261,166
Operating Expenses	<u>46,715,415</u>	<u>49,212,158</u>
Operating Income Before Depreciation and Amortization	6,241,004	7,049,008
Less: Depreciation	<u>(3,073,480)</u>	<u>(2,949,579)</u>
Operating Income	3,167,524	4,099,429
Non-operating Revenues (Expenses)	(1,114,031)	(1,429,132)
Transfers	<u>(1,474,906)</u>	<u>(1,487,838)</u>
Change in Net Position	<u>\$ 578,587</u>	<u>1,182,459</u>

Operating and Non-operating Revenue Highlights

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

Operating Revenues

	<u>2016</u>	<u>2015</u>
Electric Sales Revenue	\$ 51,577,126	54,893,073
Revenue from Late Payments	321,556	309,462
Miscellaneous Service Revenues	279,266	311,616
Rent from Electric Property	<u>778,471</u>	<u>747,015</u>
Total Operating Revenues	<u>52,956,419</u>	<u>56,261,166</u>
Other Income	<u>31,675</u>	<u>44,231</u>
Total Revenues	<u>\$ 52,988,094</u>	<u>56,305,397</u>

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

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016**

- Electric sales revenue decreased by 6% from the prior year.
- Revenue from late payments increased by 3.9% from the prior year.
- Rent from electric property due to billing of pole attachment fees increased by 4.2% from the prior year.

Operating and Maintenance Expense

	<u>2016</u>	<u>2015</u>
Operations		
Purchased Power	\$ 39,430,246	42,676,758
Transmission Expense	2,429	2,496
Distribution Expense	1,020,142	1,030,015
Customer Accounts Expense	1,324,707	1,039,850
Sales Expense	13,706	46,669
Administrative & General Expense	964,607	1,823,913
	<u>42,755,837</u>	<u>46,619,701</u>
Maintenance		
Transmission Expense	171,861	159,096
Distribution Expense	2,010,745	1,717,931
Administrative & General Expense	49,675	86,801
	<u>2,232,281</u>	<u>1,963,828</u>
Other		
Depreciation and Taxes	3,673,405	3,578,208
Contribution to OPEB Trust	1,127,372	-
Interest and Amortization Expense	1,145,706	1,473,363
	<u>5,946,483</u>	<u>5,051,571</u>
Total Expenses	<u>50,934,601</u>	<u>53,635,100</u>
Transfers	<u>(1,474,906)</u>	<u>(1,487,838)</u>
Change in Net Position	<u>\$ 578,587</u>	<u>1,182,459</u>

- Operation Expense decreased by 8.3% over the prior year.
- Maintenance Expense increased 13.7%.
- Other Expense increased by 17.7% over the prior year.

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016**

Financial Position Summary

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

Financial Position Summary	<u>2016</u>	<u>2015</u>
Current Assets	\$ 23,931,646	25,394,955
Restricted Assets	2,535,011	2,515,516
Capital Assets (net)	74,056,021	74,932,334
Other Assets	<u>1,986,235</u>	<u>1,341,146</u>
 Total Assets	 <u>\$ 102,508,913</u>	 <u>104,183,951</u>
 Deferred Gain on Bond Refunding Costs	 \$ 574,060	 636,660
Deferred Outflows Related to Pensions	<u>1,968,983</u>	<u>882,907</u>
 Total Deferred Outflow of Resources	 <u>\$ 2,543,043</u>	 <u>1,519,567</u>
 Current Liabilities	 \$ 11,080,742	 11,362,183
Non-Current Liabilities	<u>41,673,274</u>	<u>42,420,764</u>
 Total Liabilities	 <u>52,754,016</u>	 <u>53,782,947</u>
 Deferred Inflows Related to Pensions	 <u>36,456</u>	 <u>237,674</u>
 Net Investment in Capital Assets	 41,032,307	 40,620,805
Restricted for Other Purposes	640,866	-
Unrestricted Net Position	<u>10,588,311</u>	<u>11,062,092</u>
 Total Net Position	 <u>\$ 52,261,484</u>	 <u>51,682,897</u>

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

CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
STATEMENT OF NET POSITION
June 30, 2016

ASSETS	
Current Assets	
Cash on Hand	\$ 13,746
Cash in Bank	11,211,820
Investments	6,134,213
Accounts Receivable	
Customer Service	2,101,786
Interest, Rents and Other	3,789,058
Allowance for Uncollectible Amounts	(157,553)
Inventories	838,576
Total Current Assets	<u>23,931,646</u>
Non-Current Assets	
Capital Assets	
Capital Assets, Not Depreciated	688,368
Capital Assets, Depreciated	100,260,207
Accumulated Depreciation	<u>(26,892,554)</u>
Net Capital Assets	<u>74,056,021</u>
Other Assets	
Restricted Cash in Bank - Customer Deposits	2,535,011
Accounts Receivable - Customers - Energy Right	1,316,325
CSA Stockholder Loan	29,044
Net OPEB Asset	<u>640,866</u>
Total Other Assets	<u>4,521,246</u>
Total Non-Current Assets	<u>78,577,267</u>
TOTAL ASSETS	<u>102,508,913</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows Related to Pensions	1,968,983
Deferred Gain on Bond Refunding Costs	<u>574,060</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>2,543,043</u>

(Continued)

CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
STATEMENT OF NET POSITION
June 30, 2016

LIABILITIES	
Current Liabilities	
Accounts Payable	6,342,016
Accrued Interest	506,658
Bonds Payable	1,205,000
Compensated Absences	121,461
Due to Other Funds	83,659
Customer Deposits Payable from Restricted Cash	2,535,011
Other Current and Accrued Liabilities	<u>286,937</u>
Total Current Liabilities	<u>11,080,742</u>
Non-Current Liabilities	
Compensated Absences	209,583
Bonds Payable (Net of Bond Premium)	32,526,594
Net Pension Liability	7,611,100
Advance from TVA - Energy Right	<u>1,325,997</u>
Total Non-Current Liabilities	<u>41,673,274</u>
TOTAL LIABILITIES	<u>52,754,016</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Related to Pensions	<u>36,456</u>
NET POSITION	
Net Investment in Capital Assets	41,032,307
Restricted for Other Purposes	640,866
Unrestricted	<u>10,588,311</u>
TOTAL NET POSITION	<u><u>\$ 52,261,484</u></u>

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

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended June 30, 2016**

OPERATING REVENUES	
Sales of Electric Energy	
Residential	\$ 32,483,458
Small Lighting and Power	4,514,507
Large Commercial and Industrial	13,640,661
Street and Outdoor Lighting	954,553
Other Operating Revenues	<u>1,363,240</u>
Total Operating Revenues	<u>52,956,419</u>
OPERATING EXPENSES	
Operation	
Power Purchased from Tennessee Valley Authority	39,430,246
Other Operating Expenses	3,325,591
Maintenance	2,232,281
Contribution to OPEB Trust	1,127,372
Provision for Depreciation	3,073,480
Tax and Tax Equivalents	<u>599,925</u>
Total Operating Expenses	<u>49,788,895</u>
Operating Income (Loss)	<u>3,167,524</u>
NONOPERATING REVENUES (EXPENSES)	
Interest on Invested Funds	31,675
Amortization Expense	(21,005)
Interest Expense	<u>(1,124,701)</u>
Total Nonoperating Revenues (Expenses)	<u>(1,114,031)</u>
Income (Loss) Before Transfers	2,053,493
Transfers Out	<u>(1,474,906)</u>
Change in Net Position	578,587
BEGINNING NET POSITION, JULY 1, 2015	<u>51,682,897</u>
ENDING NET POSITION, JUNE 30, 2016	<u><u>\$ 52,261,484</u></u>

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

CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Electric Sales	\$ 50,966,020
Cash Received from City of Elizabethton, Tennessee	1,025,204
Cash Received from Rentals and Other Sales	1,604,216
Cash Payments to Suppliers for Goods and Services	(45,156,328)
Cash Payments for Employee Services and Benefits	(2,714,456)
Cash Payments for Tax Equivalents	<u>(431,711)</u>
Net Cash Provided by (Used for) Operating Activities	<u>5,292,945</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers to Other Fund	<u>(1,474,906)</u>
Net Cash Provided by (Used for) Noncapital Financing Activities	<u>(1,474,906)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and Construction of Capital Assets	(2,308,959)
Principal Paid on Revenue Bonds	(1,175,000)
Interest Paid on Revenue Bonds	<u>(1,137,562)</u>
Net Cash Provided by (Used for) Capital and Related Financing Activities	<u>(4,621,521)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on Certificates of Deposit	31,675
Purchase of Certificates of Deposit and Investments	<u>(764,415)</u>
Net Cash Provided by (Used for) Investing Activities	<u>(732,740)</u>
NET INCREASE (DECREASE) IN CASH	(1,536,222)
CASH, BEGINNING OF YEAR	<u>15,296,799</u>
CASH, END OF YEAR	<u><u>\$ 13,760,577</u></u>

(Continued)

CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2016

Reconciliation of Operating Income (Loss) to

Net Cash Provided by (Used for) Operating Activities:

Operating Income (Loss)	\$ 3,167,524
Adjustments	
Depreciation	3,185,272
Change in Net Pension Liability	920,648
Change in Deferred Outflows Related to Pensions	(1,086,076)
Change in Deferred Inflows Related to Pensions	(201,218)
(Increase) Decrease in Assets	
Net Accounts Receivable - Customer Service	374,277
Accounts Receivable - Interest, Rents and Other	235,853
Due from Other Funds	10,139
Inventories	51,738
Accounts Receivable - Customers - Energy Right	(5,016)
CSA Stockholder Loan	793
Net OPEB Asset	(1,048,413)
Increase (Decrease) in Liabilities	
Accounts Payable	(384,243)
Other Current and Accrued Liabilities	55,983
Compensated Absences	(3,811)
Customer Deposits Payable from Restricted Cash	19,495
Net Cash Provided by (Used for) Operating Activities	\$ 5,292,945

Reconciliation of Cash to Statement of Net Position

Cash on Hand	\$ 13,746
Cash in Bank	11,211,820
Restricted Cash in Bank - Customer Deposits	2,535,011
Total Cash	\$ 13,760,577

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

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

The Net OPEB Asset is also reflected as Restricted for Other Purposes within net position. The Department's other categories of net position is categorized as net investment in capital assets and unrestricted.

Measurement Focus and Basis of Accounting

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

Use of Estimates

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

Operating Revenues and Expenses

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Department are charges to customers for sales and services. Operating expenses for the Department include the cost of sales and services, administrative expenses, amortization and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Assets

The Department's restricted assets consist of cash on deposit in the amount of \$2,535,011, which is restricted for the payment of customer deposits.

Deposits and Investments

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

Various restrictions on deposits and investments, including repurchase agreements, are imposed by state statutes. These restrictions are summarized as follows.

DEPOSITS - All deposits with financial institutions must be collateralized in an amount equal to 105% of the market value of uninsured deposits.

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

Securities purchased under a repurchase agreement must be obligations of the U.S. Government or obligations guaranteed by the U.S. Government or any of its agencies. When repurchase agreements are executed, the purchase of the securities must be priced at least 2% below the market value of the securities on the day of purchase. No repurchase agreements existed as of June 30, 2016.

The carrying amount of the Department's deposits with financial institutions was \$13,746,831 and the financial institution balance was \$13,941,004. Carrying amounts differ from the financial institution balances primarily due to outstanding checks and deposits in transit.

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

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

The Department invests funds in the State of Tennessee's Local Government Investment Pool (LGIP) and with an investment advisor. The LGIP was established under *Tennessee Code Annotated* (TCA) Title 9, Chapter 4, Part 7. This investment pool is established for the use of idle funds of local governments located within the State of Tennessee. These funds are placed by the participating entity into accounts that are held and invested by the State Treasurer. The LGIP invests in time deposits, such as Certificates of Deposit (CDs), commercial paper, United States of America agency securities, repurchase agreements, and United States of America treasuries. The Department's interest in the Investment Pool, is recorded at amortized cost which approximates fair value and at June 30, 2016, was \$2,122,337. The total investment with the investment firm is recorded at fair value and is \$4,011,876 at June 30, 2016.

The Department categorized the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Department does not have any investments that are measured using Level 3 inputs.

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

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is the measure with the assignment of a rating by a nationally recognized statistical rating organization. The Department will minimize credit risk by limiting the portfolio to the types of investments pursuant to TCA §6-56-106, pre-qualifying the financial institutions with which the Department will do business in accordance with Section 4, and diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Department will minimize interest rate risk by structuring the portfolio to meet the cash requirements of ongoing operations, thereby mitigating the need to liquidate investments at a loss prior to maturity and by investing operating funds primarily in shorter-term investments, CDs or similar investment pools and limiting the average maturity of the portfolio.

Concentration of credit risk is the risk of loss due to having a significant portion of resources invested in a single issuer. The Department will minimize concentration of credit risk by diversifying the investment portfolio. Diversification so that the impact of potential losses from any one type of security or issuer will be minimized.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Investments issued or explicitly guaranteed by the U.S. government or Tennessee Bank Collateral Pool, Tennessee LGIP and any other external investment pools that are authorized by the State are excluded from this requirement.

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

As of June 30, 2016, the Department had the following investments.

	<u>Carrying Amount</u>	<u>Fair Value or Amortized Cost</u>
Local Government Investment Pool	\$ 2,122,337	2,122,337
Fixed Certificates of Deposit	2,000,120	2,000,120
Treasury Securities	<u>2,011,756</u>	<u>2,011,756</u>
Total Investments	<u>\$ 6,134,213</u>	<u>6,134,213</u>

The Department's investments other than LGIP and fixed certificates of deposit had the following credit risk structure as of June 30, 2016:

<u>Investment Type</u>	<u>Moody's Credit Rating</u>	<u>Fair Value</u>	<u>Percent of Total</u>
Total Treasury Securities	AAA	<u>\$ 2,011,756</u>	100%

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

<u>Investment Type</u>	<u>Fair Value or Cost</u>	<u>Investment Maturities (in Years)</u>			
		<u>Less than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More Than 10</u>
Local Government Investment Pool	\$ 2,122,337	2,122,337	-	-	-
Fixed Certificates of Deposit	2,000,120	750,000	1,250,120	-	-
Treasury Securities	<u>2,011,756</u>	<u>811,756</u>	<u>800,000</u>	400,000	-
Total Bond Fund Investments	<u>\$ 6,134,213</u>	<u>3,684,093</u>	<u>2,050,120</u>	<u>400,000</u>	<u>0</u>

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June 30, 2016**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Investments at fair value are as follows:

<u>Investment Type</u>	<u>6/30/2016</u>	<u>Fair Value Measurements Using:</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Fixed Certificates of Deposit	\$ 2,000,120	-	2,000,120	-
Treasury Securities	2,011,756	2,011,756	-	-
Total Investments by Fair Value	<u>\$ 4,011,876</u>	<u>2,011,756</u>	<u>2,000,120</u>	<u>0</u>

Inventories

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

Capital Assets

Land, buildings, machinery and equipment, and electrical distribution systems are stated at historical cost. Expenses for maintenance and repairs, which do not improve or extend the life of the asset, are charged to expense as incurred. Interest incurred during the construction of large projects is reflected in the capitalized value of the project. Capital assets are defined by the Department as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. The assets are being depreciated on the straight-line method over the useful lives per guidelines of the TVA. When property is retired or otherwise disposed of, its average cost, together with its cost of removal less salvage, is charged to accumulated depreciation; no gain or loss is recognized as per federal energy regulations. The depreciation expense for the year ended June 30, 2016 was \$3,073,480 with an additional \$111,792 charged to transportation expense.

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

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

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences

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

A liability for compensated absences and related fringe benefits is reflected on the Statement of Net Position at June 30, 2016, in the amount of \$331,044. 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.

Net Position

Equity is classified as net position and displayed in three components:

- Net Investment in Capital Assets – Consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted Net Position – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or (2) law through constitutional provisions or enabling legislation.
- Unrestricted Net Position – All other net position that does not meet the definition of restricted or net investment in capital assets.

When both restricted and unrestricted resources are available for use, it is the Department's policy to use restricted resources first, then unrestricted resources as they are needed.

Power Contract

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

Budgets

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

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
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June 30, 2016**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Transfer

The City of Elizabethton Electric Department transferred \$1,474,906 to the City of Elizabethton's general fund for a payment in lieu of taxes.

Pensions

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

Deferred Outflows / Inflows of Resources

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

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

Accounting Change

Provisions of Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Measurement and Application* is effective for the year ended June 30, 2016. Additionally, the Department early adopted the provisions of GASB Statement No. 82, *Pension Issues*, - an amendment of GASB Statements No. 67, No. 68, and No.73.

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NOTE 2 - LITIGATION

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

NOTE 3 - RISK COVERAGE

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

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts Receivable at year end was as follows:

Customer Service	\$ 2,101,786
Rent	300,584
Unbilled Revenue	3,194,736
Miscellaneous Billing	<u>293,738</u>
	5,890,844
Less: Allowance for Uncollectible Amounts	<u>(157,553)</u>
	<u>\$ 5,733,291</u>

The allowance for uncollectible amounts is an estimate established by a review of account history and knowledge of the industry. Accounts are directly written off once all methods of collection have been exhausted. The Department has a program whereby qualifying homeowners may obtain interest-bearing loans to pay for energy conservation measures in their homes. The customer repays the loan over a period of up to ten years at a stated interest rate of 9.25%. Payments are made with the customers' regular monthly bills. Loans are secured by the related real property. The balance of the energy conservation loans as of June 30, 2016 was \$1,316,325.

NOTE 5 - POST-RETIREMENT BENEFITS OTHER THAN PENSIONS

A Brief Description of the Retiree Medical and Life Insurance Plan

Plan Types

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

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

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

The City of Elizabethton, Tennessee offers post-employment health care benefits to certain eligible employees. Full service eligible retirees are those age 60 or older with a minimum of 5 years of creditable city service at retirement, or retiring at any age with at least 30 years of service. Early retirees are those age 55 or older with a minimum 10 years of creditable city service at retirement, or retiring at any age with at least 25 years of service. For the Electric Department, there are 19 employees covered by this arrangement. The co-insurance rate of reimbursement depends on the plan the employee is covered by. The base plan has a \$1,500 deductible and out-of-pocket maximum of \$3,000 with an 80% co-insurance rate. The buy-up plan has a \$750 deductible and out-of-pocket maximum of \$1,500 with an 80% co-insurance rate.

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

The amount of the retirement bonus is equal to \$2,500 for early retirement. This benefit is paid in the form of a single sum payment upon retirement. An additional retirement gift of \$25 per year of service is paid at the time of retirement to any employee retiring with a full-service, early or disability retirement. Benefits are currently funded on a pay-as-you-go basis. For the purposes of reporting, the asset for such benefits are included in the Net OPEB Asset as reflected on the Statement of Net Position. An actuary study was performed and dated July 1, 2014 for these benefits and the same assumptions as disclosed for the retiree medical and life insurance plan were used.

Funding Policy

The City of Elizabethton, of which the Department is an enterprise fund, maintains an irrevocable Trust (Trust) in order to prefund the OPEB Obligations. A separately issued audit report of the Trust is not available as the financial statements of the Trust are reflected within the audit report of the City of Elizabethton, Tennessee.

Annual OPEB Cost and Net OPEB Obligation (Asset)

The Department's other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year, and amortize any unfunded actuarial liabilities (of funding excess) over a period not to exceed thirty years.

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

The following table shows the components of the Department's costs for the fiscal year, the amount actually contributed to the plan, and changes in the Department's OPEB obligation (asset). The actuary report calculated components for the City of Elizabethton separately from the Department. Amounts were established by the actuary based upon total Department employees eligible to the plan and the ARC. For the current year, the total allocation percentage to the City of Elizabethton, excluding the Department was 79% and the percentage for the Department was 21%.

Annual OPEB Cost and Net OPEB Obligation

Annual Required Contribution (ARC)	\$ 158,009
Interest on Net OPEB Obligation	16,302
Adjustment to ARC	<u>(25,500)</u>
Annual OPEB Cost (Expense)	148,811
Contribution Made (Assumed End of Year)	<u>1,197,224</u>
Increase in Net OPEB Obligation	(1,048,413)
Net OPEB Obligation - Beginning of Year	<u>407,547</u>
Net OPEB Obligation - End of Year	<u><u>\$ (640,866)</u></u>

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for years 2016, 2015 and 2014 are as follows:

Year Ending	Annual OPEB Cost	Percentage Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
6/30/2016	\$ 148,811	805%	\$ (640,866)
6/30/2015	\$ 146,610	81%	\$ 407,547
6/30/2014	\$ 154,067	81%	\$ 390,023

Funded Status and Funding Progress

At the start of fiscal year 2016, the plan was not pre-funded. The actuarial accrued liability for benefits was \$1,540,291. The covered payroll was \$2,666,790 and the ratio of the unfunded actuarial accrued liability (UAAL) to the covered payroll was 15%.

During fiscal year 2016 an irrevocable Trust was established by the City of Elizabethton for the purpose of prefunding the actuarial accrued liability. The initial contribution to the plan was \$1,127,257 which represented 73.2% of the Electric Department's actuarial accrued liability. 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.

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

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.

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 last complete actuarial valuation was performed as of July 1, 2014 and the results were “rolled forward” to July 1, 2015 using established actuarial techniques and methods. The July 1, 2014 valuation was based on the projected unit credit actuarial cost method. The actuarial assumptions included a 7.5% investment rate of return (net of administrative expenses) on the system’s assets and average health care trend cost rates are assumed to increase by 8.5% (year 1), 8.0% (year 2 and 3), 7.5% (years 4 and 5), 7.0% (years 6 and 7), 6.5% (years 8 and 9), 6.0% (years 10 and 11), and 5.5% thereafter. The actuarial value of assets was determined using a standard balanced portfolio expectation for retirement plan asset returns. The ARC was calculated using the level dollar amortization method, amortizing costs over 30 years.

NOTE 6 - RETIREMENT COMMITMENTS

A. TENNESSEE CONSOLIDATED RETIREMENT SYSTEM (TCRS)

General Information about the Pension Plan

Plan Description

Employees of the City of Elizabethton including employees of the Department and the employees of the discretely presented component unit, Elizabethton Municipal Airport, are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the TCRS. The primary government employees comprised approximately 98.40 percent and the employees of the Elizabethton Municipal Airport comprised approximately 1.60 percent, of the plan based on contribution data. Of the 98.40 percent for the primary government, the allocation to the Department is 15.44 percent based upon contribution data. The TCRS was created by state statute under *Tennessee Code Annotated* Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

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NOTE 6 - RETIREMENT COMMITMENTS (CONTINUED)

A. TENNESSEE CONSOLIDATED RETIREMENT SYSTEM (TCRS) (CONTINUED)

General Information about the Pension Plan (Continued)

Benefits Provided

Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Members are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Reduced benefits for early retirement are available at age 55 and vested. Members vest with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

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

Employees Covered by Benefit Terms

At the measurement date of June 30, 2015, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	145
Inactive employees entitled to but not yet receiving benefits	157
Active employees	208
	<u>510</u>

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

Contributions

Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Beginning in year 2011, the employee non-contributory status was reversed; therefore as of year 2011, employees contribute 5 percent of salary. The Department makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2015, the actuarially determined contribution (ADC) for the City of Elizabethton's plan as a whole was \$1,213,361 based on a rate of 14.49 percent of covered payroll and the allocation portion to the Department was \$187,359 based upon the previously disclosed allocation percentage and based upon contribution data. By law, employer contributions are required to be paid. The TCRS may intercept the City of Elizabethton's state shared taxes if required employer contributions are not remitted.

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NOTE 6 - RETIREMENT COMMITMENTS (CONTINUED)

A. TENNESSEE CONSOLIDATED RETIREMENT SYSTEM (TCRS) (CONTINUED)

General Information about the Pension Plan (Continued)

Contributions (Continued)

The employer's ADC and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Liability

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The total pension liability as of June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used in the June 30, 2015 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

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

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NOTE 6 - RETIREMENT COMMITMENTS (CONTINUED)

A. TENNESSEE CONSOLIDATED RETIREMENT SYSTEM (TCRS) (CONTINUED)

Net Pension Liability (Continued)

Actuarial Assumptions (Continued)

The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3 percent.

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

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

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

Discount Rate

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

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

A. TENNESSEE CONSOLIDATED RETIREMENT SYSTEM (TCRS) (CONTINUED)

Changes in the Net Pension Liability (Department's share based upon contribution data)
Increase (Decrease)

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 6/30/2014	\$ 3,707,203	3,150,629	556,574
Changes for the year:			
Service Cost	83,311	-	83,311
Interest	286,064	-	286,064
Differences Between Expected and Actual Experience	(34,431)	-	(34,431)
Contributions - Employer	-	187,359	(187,359)
Contributions - Employees	-	13,786	(13,786)
Net Investment Income	-	100,195	(100,195)
Benefit Payments, Including Refunds of Employee Contributions	(228,163)	(228,163)	-
Administrative Expense	-	(1,752)	1,752
Net Changes	<u>106,781</u>	<u>71,425</u>	<u>35,356</u>
Balance at 6/30/2015	<u>\$ 3,813,984</u>	<u>3,222,054</u>	<u>591,930</u>

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

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

	1.00% Decrease (6.50%)	Current Discount Rate (7.50%)	1.00% Increase (8.50%)
Net Pension Liability	\$ 1,056,297	591,930	200,471

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

A. TENNESSEE CONSOLIDATED RETIREMENT SYSTEM (TCRS) (CONTINUED)

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

Pension Expense: For the year ended June 30, 2016, the Department recognized pension expense of \$112,003.

Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2016, the Department's proportional share, based upon contribution data, for reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ -	33,975
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	105,031	153,368
Contributions Subsequent to the Measurement Date of June 30, 2015	195,009	-
	\$ 300,040	187,343

The amounts shown above for "Net Difference Between Projected and Actual Earnings on Pension Plan Investments" are netted for presentation on the statement of net position. The amount shown above for "Contributions Subsequent to the Measurement Date of June 30, 2015," will be recognized as a reduction to net pension liability in the following measurement period. Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ended June 30:	
2017	\$ (30,337)
2018	(30,337)
2019	(30,337)
2020	20,786
2021	(7,975)
Thereafter	(4,112)

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

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

B. CENTRAL SERVICE ASSOCIATION (CSA)

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

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

The plan provides for a retirement date, which is the first day of the calendar month, which coincides with, or next follows the employee's 57th birthday, with a minimum of 30 years of service, or age 65 with 5 years of service. Early retirement may be taken within ten years of the retirement date. Benefits are determined on credited service, earnings, marital status and choice of options.

The plan covers all employees over 21 years of age with six months of service. At the measurement date of October 1, 2015, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	58
Inactive employees entitled to but not yet receiving benefits	13
Active employees	<u>25</u>
	<u>96</u>

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

Covered employees are required to contribute 1.5% of their monthly earnings to the plan. The Department is required to contribute the remaining amount necessary to fund pension cost accrued including amortization of unfunded prior service cost over a period not to exceed 30 years. Any changes to the plan would need to be approved by the Board of the Department and CSA.

Monthly contributions are made based on an annual evaluation for the following plan year. The most recently completed Actuarial Report was for the plan year beginning October 1, 2015.

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
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NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016**

NOTE 6 - RETIREMENT COMMITMENTS (CONTINUED)

B. CENTRAL SERVICE ASSOCIATION (CSA) (CONTINUED)

Actuarial Assumptions

The total pension liability as of October 1, 2015 valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Measurement Date	October 1, 2015
Discount Rate	7.00%
Mortality	RP-2000 Fully Generational with Scale AA
Incidence of Disability	None
Termination	Males: Termination Table T-5 from the Actuary's Handbook Females: Termination Table T-5 from the Actuary's Handbook with a five year setback
Salary Scale	3.00%
Overtime	It is assumed that overtime will continue to be earned at 20% of the prior year's level.
Assumed Retirement Age	Earlier of age 57 with 30 years, or age 65 with 5 years service
Marriage	It is assumed that 80% of participants are married and that a male is 3 years older than his female spouse.
Cost of Living Increase	Not Applicable
Date of Participation Freeze	January 12, 2007
Actuarial Cost Method	Entry age normal, frozen initial liability level percentage of pay
Remaining Amortization Period	12 years
Asset Valuation	5-year smoothed within a 10% corridor to market value
Inflation	1.50%

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

B. CENTRAL SERVICE ASSOCIATION (CSA) (CONTINUED)

Actuarial Assumptions (Continued)

The discount rate used to measure the total pension liability was 7.00 percent. The projection of cash flows used to determine the discount rate assumes that employee contributions will be made at the current contribution rate and the employer will continue to contribute the actuarially determined contribution in accordance with the Plan's current funding policy on an annual basis. Based on that assumption, the pension plan's fiduciary net position is projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	50.20%	3.00% - 3.13%
Large Cap	21.40%	6.80% - 10.16%
Mid Cap	10.30%	7.77% - 12.45%
Small Cap	7.20%	8.82% - 15.34%
Real Estate	2.20%	7.53% - 12.71%
International Equity	7.40%	6.80% - 11.20%
Emerging Market Equity	1.30%	9.30% - 22.94%
	100.00%	5.19% - 7.54%

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

B. CENTRAL SERVICE ASSOCIATION (CSA) (CONTINUED)

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 10/1/2014	\$ 16,687,898	10,554,020	6,133,878
Changes for the year:			
Service Cost	109,369	-	109,369
Interest	1,135,069	-	1,135,069
Differences Between Expected and Actual Experience	691,565	-	691,565
Contributions - Employer	-	936,965	(936,965)
Contributions - Employees	-	25,393	(25,393)
Net Investment Income	-	88,399	(88,399)
Benefit Payments, Including Refunds of Employee Contributions	(1,163,998)	(1,163,998)	-
Administrative Expense	-	(46)	46
Net Changes	<u>772,005</u>	<u>(113,287)</u>	<u>885,292</u>
Balance at 10/1/2015	<u>\$ 17,459,903</u>	<u>10,440,733</u>	<u>7,019,170</u>

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

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

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Net Pension Liability	\$ 8,896,110	7,019,170	5,324,873

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
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NOTES TO THE FINANCIAL STATEMENTS
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NOTE 6 - RETIREMENT COMMITMENTS (CONTINUED)

B. CENTRAL SERVICE ASSOCIATION (CSA) (CONTINUED)

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

Pension Expense: For the year ended June 30, 2016, the Department recognized pension expense of \$687,522.

Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2016, the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Differences Between Expected and Actual Experience	\$ 614,724	2,481
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	514,658	14,994
Contributions Subsequent to the Measurement Date of October 1, 2015	<u>707,923</u>	<u>-</u>
	<u>\$ 1,837,305</u>	<u>17,475</u>

The amounts shown above for "Net Difference Between Projected and Actual Earnings on Pension Plan Investments" are netted for presentation on the statement of net position. The amount shown above for "Contributions Subsequent to the Measurement Date of October 1, 2015," will be recognized as a reduction to net pension liability in the following measurement period.

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

Fiscal Year Ended June 30:	
2017	\$ 200,153
2018	200,153
2019	200,153
2020	205,151
2021	76,486
Thereafter	229,811

CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
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NOTE 7 - CAPITAL ASSETS AND DEPRECIATION

	Beginning Balance	Increases	Decreases	Ending Balance
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Capital assets, not being depreciated:				
Land	\$ 602,694	-	-	602,694
Construction in Progress	<u>856,007</u>	<u>1,691,039</u>	<u>(2,461,372)</u>	<u>85,674</u>
Total capital assets, not being depreciated	<u>1,458,701</u>	<u>1,691,039</u>	<u>(2,461,372)</u>	<u>688,368</u>
Capital assets, being depreciated:				
Buildings	2,325,861	43,880	-	2,369,741
Office Equipment	1,214,843	726,800	-	1,941,643
Transportation Equipment	2,759,090	101,744	(13,639)	2,847,195
Other Machinery and Equipment	1,864,160	383,939	-	2,248,099
Transmission and Power Distribution System	<u>89,829,815</u>	<u>1,449,600</u>	<u>(425,886)</u>	<u>90,853,529</u>
Total capital assets, being depreciated	<u>97,993,769</u>	<u>2,705,963</u>	<u>(439,525)</u>	<u>100,260,207</u>
Less accumulated depreciation for:				
Buildings	(1,174,566)	(46,590)	-	(1,221,156)
Office Equipment	(473,041)	(71,055)	-	(544,096)
Transportation Equipment	(872,115)	(89,114)	13,639	(947,590)
Other Machinery and Equipment	(989,533)	(141,564)	-	(1,131,097)
Transmission and Power Distribution System	<u>(21,010,881)</u>	<u>(2,836,949)</u>	<u>799,215</u>	<u>(23,048,615)</u>
Total accumulated depreciation	<u>(24,520,136)</u>	<u>(3,185,272)</u>	<u>812,854</u>	<u>(26,892,554)</u>
Net Capital Assets, being depreciated	<u>73,473,633</u>	<u>(479,309)</u>	<u>373,329</u>	<u>73,367,653</u>
Net Capital Assets	<u>\$ 74,932,334</u>	<u>1,211,730</u>	<u>(2,088,043)</u>	<u>74,056,021</u>

CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
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NOTE 8 - LONG-TERM DEBT

The Electric Department issued \$3,495,000 of Series 2005 Revenue Refunding Bonds to provide resources that were placed in an irrevocable trust for the purpose of generating resources for the future debt service payments of \$3,521,124 on the City's outstanding Series 1997 Department Revenue Bonds. As a result, the refunded bonds of \$3,350,000 are considered to be defeased at June 30, 2006. The reacquisition price was more than the net carrying amount of the old debt by \$145,000. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is the same as the life of the new debt issued. This advance refunding was undertaken to reduce the total debt service payments over the next seventeen years by \$188,399 and resulted in an economic gain of \$131,152. This debt was paid off during fiscal year 2016.

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

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

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

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NOTE 8 - LONG-TERM DEBT (CONTINUED)

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

The total interest incurred for the fiscal year ended June 30, 2016 was \$1,137,469. Of this amount, \$12,768 was capitalized as a component of the cost of capital assets constructed during the fiscal year and \$1,124,701 was charged to expense.

The following is a summary of revenue bonds currently outstanding:

<u>Electric Department Fund</u>	<u>Date Issued</u>	<u>Amount Issued</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Outstanding June 30, 2016</u>
Revenue Bonds	12/27/2007	\$ 15,000,000	4.00-5.00%	12/27/2018	\$ 2,220,000
Revenue Bonds	4/20/2010	20,585,000	1.75-6.25%	9/1/2035	20,035,000
Revenue Refunding Bonds	3/19/2015	9,280,000	2.00-2.50%	9/1/2027	9,170,000
Revenue Refunding Bonds	3/19/2015	1,905,000	2.00-3.00%	9/1/2022	1,885,000
					<u>\$ 33,310,000</u>

Long-term liability activity for the year ended June 30, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Revenue Bonds Payable - 2005	\$ 225,000	-	(225,000)	-	-
Revenue Bonds Payable - 2007	2,895,000	-	(675,000)	2,220,000	710,000
Revenue Bonds Payable - 2010	20,180,000	-	(145,000)	20,035,000	145,000
Revenue Bonds Payable - 2015A	9,280,000	-	(110,000)	9,170,000	100,000
Revenue Bonds Payable - 2015B	1,905,000	-	(20,000)	1,885,000	250,000
Add Deferred Amounts for Issuance Premium	<u>463,189</u>	<u>-</u>	<u>(41,595)</u>	<u>421,594</u>	<u>-</u>
Total Bonds Payable	34,948,189	0	(1,216,595)	33,731,594	1,205,000
Net OPEB Obligation	407,547	-	(1,048,413)	(640,866)	-
Net Pension Liability	6,690,452	2,307,176	(1,386,528)	7,611,100	-
Compensated Absences	<u>334,855</u>	<u>103,985</u>	<u>(107,796)</u>	<u>331,044</u>	<u>121,461</u>
Total Long-Term Liabilities	<u>\$ 42,381,043</u>	<u>2,411,161</u>	<u>(3,759,332)</u>	<u>41,032,872</u>	<u>1,326,461</u>

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016**

NOTE 8 - LONG-TERM DEBT (CONTINUED)

Changes in the Deferred Gain on Bond Refunding for the year ended June 30, 2016 are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Deferred Gain on Bond Refunding	\$ 636,660	-	(62,600)	574,060	(51,893)
	<u>\$ 636,660</u>	<u>0</u>	<u>(62,600)</u>	<u>574,060</u>	<u>(51,893)</u>

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

Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 710,000	95,900	805,900
2018	740,000	60,400	800,400
2019	770,000	30,800	800,800
	<u>\$ 2,220,000</u>	<u>187,100</u>	<u>2,407,100</u>

The bonds are secured by a pledge of the net revenues of the Department subject to the prior lien of the outstanding revenue refunding bonds (2007 issue). Neither the full faith and credit nor taxing power of the City of Elizabethton, Tennessee is pledged.

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

Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 145,000	1,168,906	1,313,906
2018	155,000	1,163,088	1,318,088
2019	155,000	1,156,694	1,311,694
2020	160,000	1,149,800	1,309,800
2021	160,000	1,142,500	1,302,500
2022-2026	1,880,000	5,507,547	7,387,547
2027-2031	6,630,000	4,490,422	11,120,422
2032-2036	10,750,000	1,722,919	12,472,919
	<u>\$ 20,035,000</u>	<u>17,501,876</u>	<u>37,536,876</u>

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

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
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June 30, 2016**

NOTE 8 - LONG-TERM DEBT (CONTINUED)

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

Year	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>Ending June 30</u>			
2017	\$ 100,000	205,250	305,250
2018	105,000	203,200	308,200
2019	105,000	201,100	306,100
2020	900,000	191,050	1,091,050
2021	920,000	171,700	1,091,700
2022-2026	4,905,000	544,162	5,449,162
2027-2028	2,135,000	53,687	2,188,687
	<u>\$ 9,170,000</u>	<u>1,570,149</u>	<u>10,740,149</u>

The bonds are secured by a pledge of the net revenues of the Department. Neither the full faith and credit nor taxing power of the City of Elizabethton, Tennessee is pledged.

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

Year	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>Ending June 30</u>			
2017	\$ 250,000	43,700	293,700
2018	255,000	38,650	293,650
2019	260,000	33,500	293,500
2020	270,000	28,200	298,200
2021	275,000	21,375	296,375
2022-2023	575,000	17,325	592,325
	<u>\$ 1,885,000</u>	<u>182,750</u>	<u>2,067,750</u>

The bonds are secured by a pledge of the net revenues of the Department. Neither the full faith and credit nor taxing power of the City of Elizabethton, Tennessee is pledged.

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016**

NOTE 8 - LONG-TERM DEBT (CONTINUED)

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

Year	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>Ending June 30</u>			
2017	\$ 1,205,000	1,513,756	2,718,756
2018	1,255,000	1,465,338	2,720,338
2019	1,290,000	1,422,094	2,712,094
2020	1,330,000	1,369,050	2,699,050
2021	1,355,000	1,335,575	2,690,575
2022-2026	7,360,000	6,069,034	13,429,034
2027-2031	8,765,000	4,544,109	13,309,109
2032-2036	10,750,000	1,722,919	12,472,919
	<u>\$ 33,310,000</u>	<u>19,441,875</u>	<u>52,751,875</u>

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016**

NOTE 9 - INTERFUND ACTIVITY

As described in Note 1, the Department is a self-supporting fund of the City of Elizabethton, Tennessee (the City). In the normal course of operations, the Department provides electrical service to the City at standard electric rates which generated revenues of approximately \$1,025,204 in year 2016. As of June 30, 2016, \$0 was receivable from the City for electrical services. Payment is due within approximately 30 days of the billing. These transactions were consummated on terms equivalent to those that prevail in arm's length transactions.

The Department made tax equivalent payments to the City of \$1,474,906 in year 2016. These payments are based on the Department's property, plant and equipment, along with average operating revenues less power costs.

The Department made a contribution to the OPEB trust in the amount of \$1,127,372 in year 2016. This contribution to the OPEB trust was to cover the cost of this benefit for future periods.

NOTE 10 - OTHER MATTERS

The Department is a member of a cooperative, Central Service Association (CSA), consisting of several utilities in seven states. Instead of paying each member their allocation (patronage), CSA issued a loan payable to each member. The loan amounts were derived from CSA's allocation of its annual excess collections over the past 20+ years. The Department's share is \$29,044.

NOTE 11 - COMMITMENTS

The Department has active construction projects as of June 30, 2016 for outage management project. At year end, the Department's commitments for the projects total approximately \$129,000.

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

	<u>2014</u>	<u>2015</u>
TOTAL PENSION LIABILITY		
Service Cost	\$ 80,156	83,311
Interest	267,498	286,064
Changes in Benefit Terms	-	-
Differences Between Actual and Expected Experience	(20,629)	(34,431)
Change of Assumptions	-	-
Benefit Payments, Including Refunds of Employee Contributions	<u>(212,607)</u>	<u>(228,163)</u>
NET CHANGE IN TOTAL PENSION LIABILITY	114,418	106,781
TOTAL PENSION LIABILITY - BEGINNING	<u>3,592,785</u>	<u>3,707,203</u>
TOTAL PENSION LIABILITY - ENDING (a)	<u>\$ 3,707,203</u>	<u>3,813,984</u>
PLAN FIDUCIARY NET POSITION		
Contributions - Employer	\$ 175,747	187,359
Contributions - Employee	9,960	13,786
Net Investment Income	450,055	100,195
Benefit Payments, Including Refunds of Employee Contributions	(212,607)	(228,163)
Administrative Expense	<u>(1,284)</u>	<u>(1,752)</u>
NET CHANGE IN PLAN FIDUCIARY NET POSITION	421,871	71,425
PLAN FIDUCIARY NET POSITION - BEGINNING	<u>2,728,758</u>	<u>3,150,629</u>
PLAN FIDUCIARY NET POSITION - ENDING (b)	<u>\$ 3,150,629</u>	<u>3,222,054</u>
NET PENSION LIABILITY - ENDING (a) - (b)	<u>\$ 556,574</u>	<u>591,930</u>
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF TOTAL PENSION LIABILITY	84.99%	84.48%
COVERED PAYROLL	\$ 1,202,926	1,293,023
NET PENSION LIABILITY AS A PERCENTAGE OF COVERED PAYROLL	46.27%	45.78%

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

See Independent Auditors' Report.

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

	2014	2015	2016
Actuarially Determined Contribution	\$ 175,747	187,359	195,009
Contributions in Relation to the Actuarially Determined Contribution	175,747	187,359	195,009
Contribution Deficiency (Excess)	\$ 0	0	0
 Covered Payroll	 \$ 1,202,926	 1,293,023	 1,345,818
Contributions as a Percentage of Covered Payroll	14.61%	14.49%	14.49%

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

See Independent Auditors' Report.

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION - TCRS
June 30, 2016**

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

Valuation date : Actuarially determined contribution rates for 2016 were calculated based on the July 1, 2013 actuarial valuation.

Methods and assumptions used to determine contribution rates:

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

See Independent Auditors' Report.

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

	<u>2014</u>	<u>2015</u>
TOTAL PENSION LIABILITY		
Service Cost	\$ 107,733	109,369
Interest	1,131,940	1,135,069
Changes in Benefit Terms	-	-
Differences Between Actual and Expected Experience	(3,191)	691,565
Change of Assumptions	-	-
Benefit Payments, Including Refunds of Employee Contributions	<u>(1,222,850)</u>	<u>(1,163,998)</u>
NET CHANGE IN TOTAL PENSION LIABILITY	13,632	772,005
TOTAL PENSION LIABILITY - BEGINNING	<u>16,674,266</u>	<u>16,687,898</u>
TOTAL PENSION LIABILITY - ENDING (a)	<u>\$ 16,687,898</u>	<u>17,459,903</u>
PLAN FIDUCIARY NET POSITION		
Contributions - Employer	\$ 905,956	936,965
Contributions - Employee	25,691	25,393
Net Investment Income	723,358	88,399
Benefit Payments, Including Refunds of Employee Contributions	(1,222,850)	(1,163,998)
Administrative Expense	<u>(846)</u>	<u>(46)</u>
NET CHANGE IN PLAN FIDUCIARY NET POSITION	431,309	(113,287)
PLAN FIDUCIARY NET POSITION - BEGINNING	<u>10,122,711</u>	<u>10,554,020</u>
PLAN FIDUCIARY NET POSITION - ENDING (b)	<u>\$ 10,554,020</u>	<u>10,440,733</u>
NET PENSION LIABILITY - ENDING (a) - (b)	<u>\$ 6,133,878</u>	<u>7,019,170</u>
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF TOTAL PENSION LIABILITY	63.24%	59.80%
COVERED PAYROLL	\$ 1,705,262	1,673,538
NET PENSION LIABILITY AS A PERCENTAGE OF COVERED PAYROLL	359.70%	419.42%

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

See Independent Auditors' Report.

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

	2014	2015
Actuarially Determined Contribution	\$ 850,409	844,232
Contributions in Relation to the Actuarially Determined Contribution	905,956	936,965
Contribution Deficiency (Excess)	\$ (55,547)	(92,733)
Covered Payroll	\$ 1,705,262	1,673,538
Contributions as a Percentage of Covered Payroll	53.13%	55.99%

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

See Independent Auditors' Report.

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION – GOVERNMENTAL
EMPLOYEES PENSION PLAN OF CSA
June 30, 2016**

CENTRAL SERVICE ASSOCIATION (CSA)

Valuation date : Actuarially determined contribution rates for 2016 were calculated based on the October 1, 2015 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry age normal, frozen initial liability level percentage of pay
Amortization Method	Level dollar, closed
Remaining Amortization Period	12 years
Salary Increases	3.00%
Discount Rate	7.00%
Retirement Age	Earlier of age 57 with 30 years or age 65 with 5 years of service
Mortality	RP-2000 Fully Generational with Scale AA
Incidence of Disability	None
Termination	Males: Termination Table T-5 from the Actuary's Handbook Females: Termination Table T-5 from the Actuary's Handbook with a five year setback
Overtime	It is assumed that overtime will continue to be earned at 20% of the prior year's level.
Cost of Living Adjustments	N/A
Date of Participation Freeze	January 12, 2007
Inflation	1.50%
Asset Valuation	5-year smoothed within a 10% corridor to market value

See Independent Auditors' Report.

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS OF POST-RETIREMENT BENEFITS
OTHER THAN PENSIONS
For the Year Ended June 30, 2016**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	(UAAL) Unfunded AAL	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/1/2015	\$ 1,127,257	\$ 1,540,291	\$ 413,034	73.2%	\$ 2,666,790	15%
7/1/2014	\$ -	\$ 1,541,345	\$ 1,541,345	0.00%	\$ 2,263,143	68%
7/1/2012	\$ -	\$ 1,593,123	\$ 1,593,123	0.00%	\$ 2,060,573	77%

See Independent Auditors' Report

SECTION III

SUPPLEMENTAL SECTION

CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS
SERIES 2010A
June 30, 2016

<u>Year Ending</u>	<u>Bond Requirements</u>	<u>Interest Requirements</u>	<u>Total Requirements</u>
6/30/2017	\$ 145,000	1,168,906	1,313,906
6/30/2018	155,000	1,163,088	1,318,088
6/30/2019	155,000	1,156,694	1,311,694
6/30/2020	160,000	1,149,800	1,309,800
6/30/2021	160,000	1,142,500	1,302,500
6/30/2022	165,000	1,134,675	1,299,675
6/30/2023	180,000	1,126,050	1,306,050
6/30/2024	495,000	1,108,866	1,603,866
6/30/2025	510,000	1,082,793	1,592,793
6/30/2026	530,000	1,055,163	1,585,163
6/30/2027	545,000	1,025,931	1,570,931
6/30/2028	565,000	995,053	1,560,053
6/30/2029	1,770,000	928,275	2,698,275
6/30/2030	1,840,000	824,487	2,664,487
6/30/2031	1,910,000	716,676	2,626,676
6/30/2032	1,985,000	602,213	2,587,213
6/30/2033	2,060,000	480,863	2,540,863
6/30/2034	2,145,000	352,031	2,497,031
6/30/2035	2,235,000	215,156	2,450,156
6/30/2036	2,325,000	72,656	2,397,656
	<u>\$ 20,035,000</u>	<u>17,501,876</u>	<u>37,536,876</u>

See Independent Auditors' Report.

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS
SERIES 2015A
June 30, 2016**

<u>Year Ending</u>	<u>Bond Requirements</u>	<u>Interest Requirements</u>	<u>Total Requirements</u>
6/30/2017	\$ 100,000	205,250	305,250
6/30/2018	105,000	203,200	308,200
6/30/2019	105,000	201,100	306,100
6/30/2020	900,000	191,050	1,091,050
6/30/2021	920,000	171,700	1,091,700
6/30/2022	940,000	150,775	1,090,775
6/30/2023	960,000	129,400	1,089,400
6/30/2024	980,000	108,800	1,088,800
6/30/2025	1,000,000	89,000	1,089,000
6/30/2026	1,025,000	66,187	1,091,187
6/30/2027	1,055,000	40,187	1,095,187
6/30/2028	1,080,000	13,500	1,093,500
	<u>\$ 9,170,000</u>	<u>1,570,149</u>	<u>10,740,149</u>

See Independent Auditors' Report.

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS
SERIES 2015B
June 30, 2016**

<u>Year Ending</u>	<u>Bond Requirements</u>	<u>Interest Requirements</u>	<u>Total Requirements</u>
6/30/2017	\$ 250,000	43,700	293,700
6/30/2018	255,000	38,650	293,650
6/30/2019	260,000	33,500	293,500
6/30/2020	270,000	28,200	298,200
6/30/2021	275,000	21,375	296,375
6/30/2022	285,000	12,975	297,975
6/30/2023	290,000	4,350	294,350
	<u>\$ 1,885,000</u>	<u>182,750</u>	<u>2,067,750</u>

See Independent Auditors' Report.

CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS
June 30, 2016

<u>Year</u> <u>Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Requirements</u>
6/30/2017	\$ 1,205,000	1,513,756	2,718,756
6/30/2018	1,255,000	1,465,338	2,720,338
6/30/2019	1,290,000	1,422,094	2,712,094
6/30/2020	1,330,000	1,369,050	2,699,050
6/30/2021	1,355,000	1,335,575	2,690,575
6/30/2022	1,390,000	1,298,425	2,688,425
6/30/2023	1,430,000	1,259,800	2,689,800
6/30/2024	1,475,000	1,217,666	2,692,666
6/30/2025	1,510,000	1,171,793	2,681,793
6/30/2026	1,555,000	1,121,350	2,676,350
6/30/2027	1,600,000	1,066,118	2,666,118
6/30/2028	1,645,000	1,008,553	2,653,553
6/30/2029	1,770,000	928,275	2,698,275
6/30/2030	1,840,000	824,487	2,664,487
6/30/2031	1,910,000	716,676	2,626,676
6/30/2032	1,985,000	602,213	2,587,213
6/30/2033	2,060,000	480,863	2,540,863
6/30/2034	2,145,000	352,031	2,497,031
6/30/2035	2,235,000	215,156	2,450,156
6/30/2036	2,325,000	72,656	2,397,656
	<u>\$ 33,310,000</u>	<u>19,441,875</u>	<u>52,751,875</u>

See Independent Auditors' Report.

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
ADDITIONS AND RETIREMENTS TO UTILITY PLANT
June 30, 2016**

	Balance June 30, 2015	Additions	Retirements	Balance June 30, 2016
Land	\$ 602,694	-	-	602,694
Buildings	2,325,861	43,880	-	2,369,741
Office Equipment	1,214,843	726,800	-	1,941,643
Transportation Equipment	2,759,090	124,961	(36,856)	2,847,195
Other Machinery and Equipment	1,864,160	383,939	-	2,248,099
Transmission and Power Distribution System	89,829,815	1,449,600	(425,886)	90,853,529
Construction in Progress	856,007	1,691,039	(2,461,372)	85,674
Totals	<u>\$ 99,452,470</u>	<u>4,420,219</u>	<u>(2,924,114)</u>	<u>100,948,575</u>

See Independent Auditors' Report.

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

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Net Investment in Capital Assets	\$ 31,119,505	22,226,537	30,596,682	18,154,567	25,881,750	30,952,626	37,032,893	40,266,730	40,620,805	41,032,307
Restricted for Other Purposes	-	-	-	-	-	-	-	-	-	640,866
Unrestricted	<u>6,707,953</u>	<u>17,010,388</u>	<u>9,643,451</u>	<u>22,146,475</u>	<u>16,697,845</u>	<u>15,044,541</u>	<u>16,304,721</u>	<u>16,794,076</u>	<u>11,062,092</u>	<u>10,588,311</u>
Total Net Position	<u>\$ 37,827,458</u>	<u>39,236,925</u>	<u>40,240,133</u>	<u>40,301,042</u>	<u>42,579,595</u>	<u>45,997,167</u>	<u>53,337,614</u>	<u>57,060,806</u>	<u>51,682,897</u>	<u>52,261,484</u>

See Independent Auditors' Report.

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

Fiscal Year	Operating Revenues	Operating Expenses	Operating Income	Total Nonoperating Revenues (Expenses)	Income before Transfers	Transfer Out	Change in Net Position
2007	\$ 43,901,756	\$ 40,976,797	\$ 2,924,959	\$ 190,965	\$ 3,115,924	\$ (689,173)	\$ 2,426,751
2008	46,038,644	44,209,051	1,829,593	97,188	1,926,781	(517,314)	1,409,467
2009	52,304,639	50,351,085	1,953,554	(384,558)	1,568,996	(565,788)	1,003,208
2010	49,208,207	47,728,135	1,480,072	(813,667)	666,405	(605,496)	60,909
2011	57,456,596	54,094,513	3,362,083	(995,369)	2,366,714	(616,286)	1,750,428
2012	52,843,264	47,942,183	4,901,081	(780,219)	4,120,862	(703,290)	3,417,572
2013	56,216,675	50,123,954	6,092,721	(689,659)	5,403,062	(752,416)	4,650,646
2014	56,875,926	51,348,480	5,527,446	(954,128)	4,573,318	(850,126)	3,723,192
2015	56,261,166	52,161,737	4,099,429	(1,429,132)	2,670,297	(1,487,838)	1,182,459
2016	52,956,419	49,788,895	3,167,524	(1,114,031)	2,053,493	(1,474,906)	578,587

See Independent Auditors' Report.

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

Fiscal Year	Residential	Large Commercial and Industrial	Small Lighting and Power	Street and Outdoor Lighting	Other Operating Revenues	Total
2007	\$ 26,252,139	\$ 11,837,851	\$ 3,816,089	\$ 825,495	\$ 1,170,182	\$ 43,901,756
2008	27,653,761	12,366,936	4,123,824	854,016	1,040,107	46,038,644
2009	32,419,144	13,605,402	4,672,946	961,708	645,439	52,304,639
2010	29,833,411	12,261,591	4,412,045	857,402	1,843,758	49,208,207
2011	36,389,623	13,570,064	4,933,634	1,168,494	1,394,781	57,456,596
2012	32,126,180	13,890,364	4,582,639	925,580	1,318,501	52,843,264
2013	35,036,868	13,996,894	4,749,789	979,627	1,453,497	56,216,675
2014	35,905,223	13,668,097	4,829,017	1,039,480	1,434,109	56,875,926
2015	35,503,735	13,800,643	4,685,257	963,044	1,308,487	56,261,166
2016	32,483,458	13,640,661	4,514,507	954,553	1,363,240	52,956,419

See Independent Auditors' Report.

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

Fiscal Year	Power Purchased from TVA	Maintenance	Other Operating Expenses	Subtotal, Expenses before Tax and Depreciation	Tax and Tax Equivalents	Provision for Depreciation	Contribution to OPEB Trust	Total Operating Expenses
2007	\$ 34,022,346	\$ 1,657,904	\$ 3,461,806	\$ 39,142,056	\$ 355,702	\$ 1,479,039	\$ -	\$ 40,976,797
2008	36,245,964	2,025,280	3,846,817	42,118,061	552,623	1,538,367	-	44,209,051
2009	42,343,783	2,121,113	3,915,170	48,380,066	389,379	1,581,640	-	50,351,085
2010	37,956,861	3,374,706	4,288,329	45,619,896	454,772	1,653,467	-	47,728,135
2011	45,453,172	2,324,997	4,232,685	52,010,854	365,797	1,717,862	-	54,094,513
2012	40,140,811	550,010	5,064,933	45,755,754	434,533	1,751,896	-	47,942,183
2013	41,510,181	1,245,065	4,937,384	47,692,630	625,778	1,805,546	-	50,123,954
2014	42,174,807	2,120,899	4,430,168	48,725,874	608,721	2,013,885	-	51,348,480
2015	42,676,758	1,963,828	3,942,943	48,583,529	628,629	2,949,579	-	52,161,737
2016	39,430,246	2,232,281	3,325,591	44,988,118	599,925	3,073,480	1,127,372	49,788,895

See Independent Auditors' Report.

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

Fiscal Year	Interest on Invested Funds	Interest Expense	Amortization Expense	Total Nonoperating Revenues and Expenses
2007	\$ 344,645	\$ (148,838)	\$ (4,842)	\$ 190,965
2008	472,415	(360,613)	(14,614)	97,188
2009	465,089	(831,566)	(18,081)	(384,558)
2010	108,062	(877,369)	(44,360)	(813,667)
2011	37,346	(995,600)	(37,115)	(995,369)
2012	68,188	(811,292)	(37,115)	(780,219)
2013	38,012	(727,671)	-	(689,659)
2014	37,067	(991,195)	-	(954,128)
2015	44,231	(1,254,884)	(218,479)	(1,429,132)
2016	31,675	(1,124,701)	(21,005)	(1,114,031)

See Independent Auditors' Report.

SECTION IV

OTHER SUPPLEMENTAL SECTION

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

Fiscal Year	Revenue Bonds *	Advance from TVA	Total		
			Amount	Population	Per Capita
2007	\$ 3,620,000	\$ 1,253,795	\$ 4,873,795	14,017	\$ 348
2008	18,455,000	1,221,192	19,676,192	14,017	1,404
2009	18,280,000	1,429,484	19,709,484	14,017	1,406
2010	38,160,000	1,592,086	39,752,086	14,017	2,836
2011	37,425,000	1,569,857	38,994,857	14,176	2,751
2012	36,665,000	1,472,725	38,137,725	14,176	2,690
2013	35,740,000	1,356,291	37,096,291	14,176	2,617
2014	34,780,000	1,398,023	36,178,023	14,176	2,552
2015	34,485,000	1,322,517	35,807,517	14,176	2,526
2016	33,310,000	1,325,997	34,635,997	14,176	2,443

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

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

See Independent Auditors' Report.

CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
CURRENT UTILITY RATES AND NUMBER OF CUSTOMERS
June 30, 2016

<u>Residential Rate Schedule</u>	<u>RS</u>
Customer Charge -	
per delivery point per month	\$13.29
Energy Charge - per kWh per month	\$0.09598

<u>General Power Rate Schedule</u>	<u>GSA</u>
	(Demand 0-
	5,000 kW)

<i>Part 1.</i>	
Customer Charge	
Per delivery point per month	\$14.46
Energy Charge - per kWh per month	\$0.10517
Per kWh up to 620 hours per month	\$0.00
Per kWh all additional per month	\$0.00
Demand Charge - per kW per month	
Excess of billing demand over	
contract demand - per kW per month	\$0.00

<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	\$13.29
Energy charge - per kWh per month	
First 15,000 kWh	\$0.10498
Additional kWh per month	\$0.06205

<i>Part 3.</i>	
Customer Charge	
Per delivery point per month	\$150.00
Demand Charge - per kW per month	
First 1,000 kW	\$14.04
Excess over 1,000 kW	\$15.49
Energy Charge - per kWh per month	\$0.06202

<u>Outdoor Lighting Rate Schedule</u>	<u>LS</u>
Customer Charges	
Per delivery point per month	\$3.70
Energy Charge - per kWh	\$0.06467

<u>Number of Customers</u>	
Residential	22,990
General	3,168
Street, Athletic and Outdoor Lighting	233
Total Customers	<u>26,391</u>

See Independent Auditors' Report.

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

Fiscal Year	Residential	General *	Street and Outdoor Lighting	Total Customers
2007	22,484	3,271	160	25,915
2008	22,504	3,300	159	25,963
2009	22,552	3,290	154	25,996
2010	22,605	3,263	154	26,022
2011	22,717	3,098	172	25,987
2012	22,811	3,287	172	26,270
2013	22,734	3,255	42	26,031
2014	22,896	3,121	44	26,061
2015	22,856	3,137	233	26,226
2016	22,990	3,168	233	26,391

* The General type of Electric Customer includes the Large Commercial and Industrial type and the Small Lighting and Power type.

See Independent Auditors' Report.

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

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Residential Rate										
Customer Charge -										
per delivery point per month	\$ 7.79	7.87	7.87	7.87	11.18	13.29	13.29	13.29	13.29	13.29
Energy Charge - per kWh per month	0.07096	0.08092	0.07726	0.08329	0.92620	0.09625	0.09614	0.10044	0.09691	0.09598
General Power Rate										
Part 1.										
Customer Charge										
Per delivery point per month										
(Demand 0-5,000 kW)	\$ 13.32	13.46	13.46	13.46	14.46	14.46	14.46	14.46	14.46	14.46
(Demand 5,000 to 12,000 kW)	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
Energy Charge - per kWh per month	0.08054	0.09110	0.08782	0.09464	0.10324	0.10494	0.10504	0.10936	0.10596	0.10517
Per kWh up to 620 hours per month	0.03514	0.04234	0.04592	0.04132	0.94830	0.04983	0.04972	-	-	-
Per kWh all additional per month	0.02883	0.03559	0.00000	0.03372	0.02771	0.04983	0.04972	-	-	-
Demand Charge - per kW per month	12.95	13.78	13.46	15.40	21.03	21.63	21.63	-	-	-
Excess of billing demand over contract demand - per kW per month	12.95	13.78	14.21	14.89	18.90	21.63	21.63	-	-	-
Part 2.										
Customer Charge										
Per delivery point per month	\$ 33.30	33.64	33.64	33.64	55.00	55.00	55.00	55.00	55.00	55.00
Demand Charge - per kW per month										
First 50 kW	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Excess over 50kW per month	11.65	12.43	12.77	13.70	12.14	12.14	12.44	12.70	12.97	13.29
Energy charge - per kWh per month										
First 15,000 kWh	0.08054	0.09110	0.08782	0.09464	0.10302	0.10494	0.10483	0.10916	0.10577	0.10498
Additional kWh per month	0.04224	0.05021	0.04592	0.04975	0.06367	0.06464	0.06452	0.06798	0.06382	0.06205
Part 3.										
Customer Charge										
Per delivery point per month	\$ 88.73	89.63	89.63	89.63	150.00	150.00	150.00	150.00	150.00	150.00
Demand Charge - per kW per month										
First 1,000 kW	11.41	12.23	12.59	13.57	12.73	13.07	13.07	13.37	13.67	14.04
Excess over 1,000 kW	12.74	13.70	14.12	15.27	13.97	14.36	14.36	14.71	15.06	15.49
Excess of higher of 2,500 kW or contract demand	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.06202
Energy Charge - per kWh per month										
First 15,000 kWh	0.07354	0.08183	0.08592	0.08137	0.06367	0.06463	0.06451	0.06796	0.06379	-
Additional kWh	0.04224	0.05021	0.05430	0.04975	0.06367	0.06463	0.06451	0.06796	0.06379	-
Outdoor Lighting Rate Schedule										
Customer Charges										
Per delivery point per month	\$ 2.50	3.75	3.75	3.75	3.70	3.70	3.70	3.70	3.70	3.70
Energy Charge - per kWh	0.05159	0.05935	0.05493	0.05889	0.06700	0.06782	0.06771	0.07112	0.06668	0.06467

See Independent Auditors' Report.

SECTION V

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**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the City of Elizabethton Electric Department (the Department), an enterprise fund of the City of Elizabethton, Tennessee, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated December 13, 2016.

Internal Control over Financial Reporting

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

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

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

City of Elizabethton Electric Department
Independent Auditors' Report on Internal Control
Over Financial Reporting and on Compliance and
Other Matters

Compliance and Other Matters

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

Purpose of this Report

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

Blackburn, Childers + Steagall, P.C.

BLACKBURN, CHILDERS & STEAGALL, PLC
Johnson City, Tennessee

December 13, 2016

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF DISPOSITION OF PRIOR YEAR FINDINGS
For the Year Ended June 30, 2016**

Financial Statement Findings

<u>Finding Number</u>	<u>Finding Title</u>	<u>Status</u>
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None reported.

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2016**

CURRENT YEAR FINDINGS

None Reported.