



ELIZABETHTON ELECTRIC DEPARTMENT

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

AUDITED FINANCIAL STATEMENTS

For the Fiscal Year Ending June 30, 2013

CITY OF ELIZABETHTON ELECTRIC DEPARTMENT

AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE

FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

For the Fiscal Year Ended June 30, 2013

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

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the City of Elizabethton Electric Department, an enterprise fund of the City of Elizabethton, Tennessee, as of and for the fiscal year ended June 30, 2013, and the related notes to the 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 of 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. 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.

Honorable Mayor, City Council Members and
City Manager
City of Elizabethton Electric Department
Independent Auditors' Report

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 City of Elizabethton Electric Department, an enterprise fund of the City of Elizabethton, Tennessee, as of June 30, 2013, and the respective changes in financial position and cash flows for the fiscal year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the basic 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, 2013, and the changes in its financial position and cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As described in Note 1 to the financial statements, the City of Elizabethton Electric Department adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information on pages 4 through 8 and 30 through 31 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.

Honorable Mayor, City Council Members and
City Manager
City of Elizabethton Electric Department
Independent Auditors' Report

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, an enterprise fund of the City of Elizabethton, Tennessee, financial statements.

The supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplemental schedules (audited), as listed in the table of contents, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole. The supplemental schedules (unaudited), as listed in the table of contents, have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2013 on our consideration of the City of Elizabethton Electric Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Elizabethton Electric Department's internal control over financial reporting and compliance.

Blackburn, Childers & Steagall, PLC
BLACKBURN, CHILDERS & STEAGALL, PLC
Johnson City, Tennessee

November 14, 2013

CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013

The following is the Management's Discussion and Analysis (MD&A) of the financial statements and supporting documents for the City of Elizabethton Electric Department, an enterprise fund of the City of Elizabethton, Tennessee for the fiscal year ended June 30, 2013.

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

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

Overview of the Financial Statements

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

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

Section III includes the report on Internal Control and Compliance.

Elizabethton Electric Department Activity Highlights

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

	2013	2012
Residential	22,734	22,811
Small Commercial	2,999	3,031
Large Commercial/Industrial	256	256
Street and Athletic Lighting	24	35
Outdoor Lighting Only	18	137
Total	<u>26,031</u>	<u>26,270</u>

As indicated by the above chart, Residential and Small Commercial have decreased .34% and 1.06%, respectively over the past year. Large Commercial/Industrial remained the same and all customers decreased .9%.

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013**

Capital Assets

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

	2013	2012
Transmission Plant	\$ 14,121,181	8,889,882
Distribution Plant	47,441,155	46,811,988
General Plant	7,853,706	7,627,246
Construction Work in Progress	27,709,070	28,499,032
	<u>\$ 97,125,112</u>	<u>91,828,148</u>

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

In 2010, the Elizabethton Electric Department received a bond, \$20,585,000, to rebuild and upgrade significant power lines and substation construction. The work has continued through 2013.

Debt

The Elizabethton Electric Department currently has three bond issues outstanding. One in 2005, \$3,495,000, refunding issue that will be paid in full in 2023. One in 2007, \$15,000,000, that was issued to update and improve three of our substations that will be paid in full in 2028. The third bond, as mentioned above, was issued in 2010, \$20,585,000, to upgrade and rebuild substations and significant power lines and will be paid in full in 2036.

TVA Credit – Prior Period Adjustment

The Elizabethton Electric Department received a credit from the Tennessee Valley Authority (TVA) for purchased power overbillings in prior years totaling \$3,485,516. This credit was a result of an incorrect multiplier being used for the TVA bill calculations. The credit was received on the March 2013 power invoice and an entry was made for a prior period adjustment.

Unfunded Pension

Elizabethton Electric Department employees prior to October 1, 2005 participate in a non-governmental CSA pension plan. Monthly contributions are made based on annual evaluations. Last year the unfunded amount was \$6,879,901 with a funded ratio of 56.8%. This year the unfunded amount is \$7,428,904 with a funded ratio of 54.6%.

CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013

Summary of Changes in Net Position

	2013	2012
Operating Revenues	\$ 56,216,675	52,843,264
Operating Expenses	48,318,408	46,190,287
Operating Income Before Depreciation and Amortization	7,898,267	6,652,977
Less: Depreciation	(1,805,546)	(1,751,896)
Operating Income	6,092,721	4,901,081
Non-operating Revenues (Expenses)	(689,659)	(780,219)
Transfers	(752,416)	(703,290)
Change in Net Position	<u>\$ 4,650,646</u>	<u>3,417,572</u>

Operating and Non-operating High Revenue Highlights

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

Operating Revenues

	2013	2012
Electric Sales Revenue	\$ 54,763,178	51,524,763
Revenue from Late Payments	356,915	336,904
Miscellaneous Service Revenues	257,452	480,258
Rent from Electric Property	839,130	501,339
Total Operating Revenues	56,216,675	52,843,264
Other Income	38,012	68,188
Total Revenues	<u>\$ 56,254,687</u>	<u>52,911,452</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, 2013

- Electric sales revenue increased by 6% from the prior year.
- Revenue from late payments increased by 5.9% from the prior year.
- Rent from electric property due to billing of pole attachment fees increased by 67.4% from the prior year.

Operating and Maintenance Expense

	2013	2012
Operations		
Purchased Power	\$ 41,510,181	40,140,811
Transmission Expense	12,282	2,103
Distribution Expense	1,696,458	1,671,564
Customer Accounts Expense	858,807	955,136
Sales Expense	68,970	56,112
Administrative & General Expense	2,300,867	2,380,019
	<u>46,447,565</u>	<u>45,205,745</u>
Maintenance		
Transmission Expense	123,297	24,508
Distribution Expense	1,059,507	468,818
Administrative & General Expense	62,261	56,684
	<u>1,245,065</u>	<u>550,010</u>
Other		
Depreciation and Taxes	2,431,324	2,186,429
Interest and Amortization Expense	727,671	848,406
	<u>3,158,995</u>	<u>3,034,835</u>
Total Expenses	<u>50,851,625</u>	<u>48,790,590</u>
Transfers	<u>(752,416)</u>	<u>(703,290)</u>
Change in Net Position	<u>\$ 4,650,646</u>	<u>3,417,572</u>

- Operation Expense increased by 2.7% over the prior year.
- Maintenance Expense increased 126.4%.
- Other Expense increased by 4% 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, 2013

Financial Position Summary

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

Financial Position Summary	2013	2012
Current Assets	\$ 24,055,800	22,946,670
Restricted Assets	2,669,455	2,307,416
Capital Assets (net)	73,101,509	67,961,806
Other Assets	<u>1,423,991</u>	<u>2,348,368</u>
Total Assets	<u>\$ 101,250,755</u>	<u>95,564,260</u>
Deferred Bond Refunding Costs	<u>\$ 53,399</u>	<u>-</u>
Total Deferred Outflow of Resources	<u>\$ 53,399</u>	<u>-</u>
Current Liabilities	\$ 10,866,753	11,452,777
Non-Current Liabilities	<u>37,099,787</u>	<u>38,114,316</u>
Total Liabilities	<u>47,966,540</u>	<u>49,567,093</u>
Net Investment in Capital Assets	37,032,893	30,952,626
Unrestricted Net Position	<u>16,304,721</u>	<u>15,044,541</u>
Total Net Position	<u>\$ 53,337,614</u>	<u>45,997,167</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, 2013

ASSETS

Current Assets

Cash on Hand	\$ 16,010
Cash in Bank	13,183,118
Investments	4,398,027
Accounts Receivable	
Customer Service	2,335,787
Interest, Rents and Other	3,220,754
Allowance for Uncollectible Amounts	(128,649)
Due from Other Funds	80,177
Inventories	950,576

Total Current Assets	24,055,800
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Non-Current Assets

Capital Assets

Capital Assets, Not Depreciated	28,311,764
Capital Assets, Depreciated	68,813,348
Accumulated Depreciation	(24,023,603)

Net Capital Assets	73,101,509
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Other Assets

Restricted Cash in Bank - Customer Deposits	2,373,594
Restricted Cash in Bank - Retainage	295,861
Accounts Receivable - Customers - Energy Right	1,356,291
Due from Other Funds	36,304
CSA Stockholder Loan	31,396

Total Other Assets	4,093,446
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Total Non-Current Assets	77,194,955
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TOTAL ASSETS	101,250,755
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DEFERRED OUTFLOW OF RESOURCES

Deferred Gain on Bond Refunding Costs	53,399
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(Continued)

CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
STATEMENT OF NET POSITION
June 30, 2013

LIABILITIES

Current Liabilities

Accounts Payable	6,463,790
Retainage Payable	302,165
Accrued Interest	615,178
Bonds Payable	960,000
Compensated Absences	98,506
Due to Other Funds	6,970
Customer Deposits Payable from Restricted Cash	2,373,594
Other Current and Accrued Liabilities	46,550

Total Current Liabilities	<u>10,866,753</u>
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Non-Current Liabilities

Compensated Absences	218,863
Bonds Payable (Net of Bond Premium)	35,162,015
OPEB Liability	360,954
Other Long-Term Liabilities	1,664
Advance from TVA - Energy Right	1,356,291

Total Non-Current Liabilities	<u>37,099,787</u>
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TOTAL LIABILITIES	<u><u>47,966,540</u></u>
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NET POSITION

Net Investment in Capital Assets	37,032,893
Unrestricted	<u>16,304,721</u>

TOTAL NET POSITION	<u><u>\$ 53,337,614</u></u>
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The notes to the financial statements are an integral part of this statement.

CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Fiscal Year Ended June 30, 2013

OPERATING REVENUES	
Sales of Electric Energy	
Residential	\$ 35,036,868
Small Lighting and Power	4,749,789
Large Commercial and Industrial	13,996,894
Street and Outdoor Lighting	979,627
Other Operating Revenues	<u>1,453,497</u>
 Total Operating Revenues	 <u>56,216,675</u>
 OPERATING EXPENSES	
Operation	
Power Purchased from Tennessee Valley Authority	41,510,181
Other Operation Expenses	4,937,384
Maintenance	1,245,065
Provision for Depreciation	1,805,546
Tax and Tax Equivalents	<u>625,778</u>
 Total Operating Expenses	 <u>50,123,954</u>
 Operating Income (Loss)	 <u>6,092,721</u>
 NONOPERATING REVENUES (EXPENSES)	
Interest on Invested Funds	38,012
Interest Expense	<u>(727,671)</u>
Total Nonoperating Revenues (Expenses)	<u>(689,659)</u>
 Income (Loss) Before Transfer	 5,403,062
 Transfer In (Out)	 <u>(752,416)</u>
 Change in Net Position	 <u>4,650,646</u>
 Net Position July 1, 2012	 45,997,167
 Prior Period Adjustments	 <u>2,689,801</u>
 BEGINNING NET POSITION, JULY 1, 2012 - RESTATED	 <u>48,686,968</u>
 ENDING NET POSITION, JUNE 30, 2013	 <u><u>\$ 53,337,614</u></u>

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

CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Electric Sales	\$ 52,880,117
Cash Received from City of Elizabethton, Tennessee	1,131,127
Cash Received from Rentals and Other Sales	1,727,142
Cash Payments to Suppliers for Goods and Services	(44,798,644)
Cash Payments for Employee Services and Benefits	(189,163)
Cash Payments for Tax Equivalents	(448,648)
Cash Paid to Lender On Behalf of Energy Right Customers	(479,724)
Cash Received on Loans by Energy Right Customers	<u>479,724</u>
Net Cash Provided by (Used for) Operating Activities	<u>10,301,931</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfer to Other Fund	<u>(752,416)</u>
Net Cash Provided by (Used For) Noncapital Financing Activities	<u>(752,416)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and Construction of Capital Assets	(6,905,816)
Principal Paid on Revenue Bonds	(925,000)
Interest Paid on Revenue Bonds	<u>(754,329)</u>
Net Cash Provided by (Used For) Capital and Related Financing Activities	<u>(8,585,145)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on Certificates of Deposit	84,466
Sale of Certificates of Deposit and Investments	<u>4,977,888</u>
Net Cash Provided by (Used for) Investing Activities	<u>5,062,354</u>
NET INCREASE (DECREASE) IN CASH	6,026,724
CASH, BEGINNING OF FISCAL YEAR	<u>9,841,859</u>
CASH, END OF FISCAL YEAR	<u><u>\$ 15,868,583</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, 2013

Reconciliation of Operating Income (Loss) to

Net Cash Provided by (Used for) Operating Activities:

Operating Income (Loss)	\$ 6,092,721
Adjustments	
Depreciation	1,927,751
Prior Period Adjustment	3,485,516
Provision for Uncollectible Accounts	(45,021)
(Increase) Decrease in Assets	
(Increase) Decrease in Accounts Receivable-Customer Service	(158,497)
(Increase) Decrease in Accounts Receivable-Other	(230,504)
(Increase) Decrease in Inventories	(22,536)
Increase (Decrease) in Liabilities	
Increase (Decrease) in Accounts Payable	(272,980)
Increase (Decrease) in Other Liabilities	(402,268)
Increase (Decrease) in Compensated Absences	(12,033)
Increase (Decrease) in OPEB Liability	29,069
Increase (Decrease) in Customer Deposits	66,178
Increase (Decrease) in Deferred Revenue	<u>(155,465)</u>
Net Cash Provided by (Used for) Operating Activities	<u><u>\$ 10,301,931</u></u>

Reconciliation of Cash to Statement of Net Position

Cash on Hand	\$ 16,010
Cash in Bank	13,183,118
Restricted Cash in Bank - Customer Deposits	2,373,594
Restricted Cash in Bank - Retainage	<u>295,861</u>
Total Cash	<u><u>\$ 15,868,583</u></u>

NONCASH ITEM

As discussed in Note 12, TVA provided a credit of \$3,485,516 on the March 2013 Power Bill due to an error in billing. The result of this transaction was that TVA did not actually send cash as a result of this error and the Department did not receive cash as part of the prior period adjustment. Therefore an adjustment to operating income is reflected above.

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, 2013

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.

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

Measurement Focus and Basis of Accounting

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

Use of Estimates

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

Operating Revenues and Expenses

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

CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Assets

The Department's restricted assets consist of cash on deposit in the amount of \$2,669,455, which are restricted for the payment of customer deposits and retainages.

Deposits and Investments

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

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

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

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

Securities purchased under a repurchase agreement must be obligations of the U. S. Government or obligations guaranteed by the U. S. Government or any of its agencies. When repurchase agreements are executed, the purchase of the securities must be priced at least 2% below the market value of the securities on the day of purchase. No repurchase agreements existed as of June 30, 2013.

The carrying amount of the Department's deposits with financial institutions was \$15,852,573 and the financial institution balance was \$15,962,393. Carrying amounts differ from the financial institution balances primarily due to outstanding checks and deposits in transit.

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

CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

The Department invests funds in the State of Tennessee's Local Government Investment Pool (LGIP) and bond proceeds with an investment advisor. Investments for the Department are reported at fair value except for the position in the LGIP. Specifically, the LGIP was established under *Tennessee Code Annotated* Title 9, Chapter 4, Part 7. This investment pool is established for the use of idle funds of local governments located within the State of Tennessee. These funds are placed by the participating entity into accounts that are held and invested by the State Treasurer. The LGIP invests in time deposits, such as Certificates of Deposit, commercial paper, United States of America agency securities, repurchase agreements, and United States of America treasuries. By law, the LGIP is required to maintain a 90-day or less weighted-average-maturity. The fair value of shares held in the LGIP is the same as the value of the LGIP shares. The LGIP has been classified as Cash on Deposit with State of Tennessee since they are comprised of short-term investments. The Tennessee LGIP has not been rated by a nationally recognized statistical rating organization. The Department's interest in the Investment Pool, at June 30, 2013, was \$1,697,640. This is included as Investments on the Statement of Net Position. The total investment with the investment firm is \$2,700,387 at June 30, 2013 and is included as Investments on the Statement of Net Position.

Disclosures Relating to Interest Rate and Credit Risks

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

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

As of June 30, 2013, the Department had the following investments.

	Carrying Amount	Market Value
Local Government Investment Pool	\$ 1,697,640	1,697,640
Bond Fund Investments		
Certificate of Deposit	749,944	749,944
Fixed Agency Securities	250,443	250,443
Municipal Securities	1,700,000	1,700,000
Total Bond Fund Investments	2,700,387	2,700,387
Total Investments	\$ 4,398,027	4,398,027

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Disclosures Relating to Interest Rate and Credit Risks (Continued)

The Department's bond fund investments had the following credit risk structure as of June 30, 2013:

<u>Investment Type</u>	<u>Moody's Credit Rating</u>	<u>Fair Value</u>	<u>Percent of Total</u>
Certificate of Deposit	Unrated	<u>\$ 749,944</u>	28%
Municipal Securities			
Tax-free Municipals	AA	<u>250,443</u>	9%
Treasury Securities	AAA	<u>1,700,000</u>	63%
Total Bond Fund Investments		<u><u>\$ 2,700,387</u></u>	

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>Less than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More Than 10</u>
Certificate of Deposit	\$ 749,944	749,944	-	-	-
Municipal Securities	250,443	250,443	-	-	-
Treasury Securities	1,700,000	1,700,000	-	-	-
Total Bond Fund Investments	<u><u>\$ 2,700,387</u></u>	<u><u>2,700,387</u></u>	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>0</u></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. The assets are being depreciated on the straight-line method over the useful lives per guidelines of the TVA. When property is retired or otherwise disposed of, its average cost, together with its cost of removal less salvage, is charged to accumulated depreciation; no gain or loss is recognized as per federal energy regulations. The depreciation expense for the fiscal year ended June 30, 2013 was \$1,927,751 of which \$122,205 was charged to transportation expense.

CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

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
Power Distribution Department	12.5 to 44.44 years

Compensated Absences

Accumulated Vacation:

Employees earn various days of vacation based on the number of years of service. Employees with more than 20 years of service are entitled to a maximum of 25 days of vacation per year. A maximum of 30 days of accumulated vacation may be carried to the next calendar year. Vacation time accumulated prior to January 1, 1978 is exempt from the carry-forward limitation 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, 2013, in the amount of \$317,369. The portion of this liability expected to be paid within one year is classified as a current liability and the remainder as a long-term liability.

Power Contract

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

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 year end.

Transfer

The City of Elizabethton Electric Department transferred \$752,416 to the City of Elizabethton's general fund for a payment in lieu of taxes.

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 only has one item that qualifies for reporting in this category. It is the deferred gain on bond refunding costs 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.

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 did not have any deferred inflows of resources for the fiscal year ended June 30, 2013.

Accounting Changes

In the fiscal year ended June 30, 2013, the Department implemented the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, collectively recognized certain elements of the financial statements as a consumption of net position by the entity that are applicable to a future reporting period. These financial elements are distinct from assets and liabilities.

NOTE 2 - LITIGATION

The Department has contingencies which include worker compensation claims that are being handled by an attorney chosen by the Tennessee Municipal League.

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 three years and there have been no settlements in excess of coverage during the past three years.

CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
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NOTE 4 - ACCOUNTS RECEIVABLE

Accounts Receivable at fiscal year end was as follows:

Customer Service	\$ 2,335,787
Rent	324,437
Interest	3,658
Unbilled Revenue	2,654,252
Miscellaneous Billing	<u>238,407</u>
	5,556,541
Less: Allowance for Uncollectible Amounts	<u>(128,649)</u>
	<u>\$ 5,427,892</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.

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.

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. Fiscal year 2009 was the year of implementation of GASB Statement 45 and the City and Electric Department elected to implement prospectively, therefore, prior year comparable data is not available.

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

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

The amount of the retirement bonus is equal to \$2,500 for early retirement. This benefit is paid in the form of single sum payment upon retirement. An additional retirement gift of \$25 per year of service is paid at the time of retirement to any employee retiring with a full-service, early or disability retirement. Benefits are currently funded on a pay-as-you-go basis. For the purposes of reporting, the liability for such benefits are included in the Net OPEB Obligation as reflected on the Statement of Net Position. An actuary study was performed and dated July 1, 2012 for these benefits and the same assumptions as disclosed for the retiree medical and life insurance plan were used.

Funding Policy:

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

Annual OPEB Cost and Net OPEB Obligation:

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

Annual OPEB Cost and Net OPEB Obligation

Annual Required Contribution (ARC)	\$ 158,509
Interest on Net OPEB Obligation	8,878
Adjustment to ARC	<u>(13,320)</u>
Annual OPEB Cost (Expense)	154,067
Contribution Made (assumed end of year)	<u>124,998</u>
Increase in Net OPEB Obligation	29,069
Net OPEB Obligation - Beginning of Year	<u>331,885</u>
Net OPEB Obligation - End of Year	<u><u>\$ 360,954</u></u>

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

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2013, 2012 and 2011 are as follows:

Fiscal Year Ending	Annual OPEB Cost	Percentage Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2013	\$ 154,067	81%	\$ 360,954
6/30/2012	\$ 180,889	67%	\$ 331,885
6/30/2011	\$ 180,899	62%	\$ 271,953

As of July 1, 2012, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was \$4,153,403 for the City and \$1,593,123 for the Electric Department. The covered payroll was \$6,433,014 for the City and \$2,060,573 for the Electric Department and the ratio of the unfunded actuarial accrued liability (UAAL) to the covered payroll was 65% for the City and 77% for the Electric Department. The funding ratio was 0% for both.

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

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

The valuation date is July 1, 2012 and year one represents the period of July 1, 2012 to June 30, 2013. A discount rate of 4.0% was used to discount expected liabilities to the valuation dates. Future salaries are expected to increase at an annual rate of 3.0%. Average health care trend costs rates are assumed to increase by 9.0% (year 1), 8.5% (year 2), 8.0% (years 3 and 4), 7.5% (years 5 and 6), 7.0% (years 7 and 8), 6.5% (years 9 and 10), 6.0% (years 11 and 12) and 5.0% thereafter. The ARC was calculated using the level dollar amortization method, amortizing costs over 26 years.

CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
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NOTE 6 - RETIREMENT COMMITMENTS

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

The plan covers all employees over 21 years of age with six months of service. The total contribution by both the Employer and Employees for the plan year ended September 30, 2012 and 2011 were \$778,398 and \$770,459. The recommended contribution was \$ 880,074 and \$838,166 for the plan years October 1, 2012 and 2011, respectively. 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 for the Department and CSA. The investment assumption is 7.0%, salary assumption is 3.0% for the plan years October 1, 2012 and 2011, respectively, the actuarial method is the frozen entry age method and the amortization period is 21.

Monthly contributions are made based on an annual evaluation for the following plan year. The most recently completed Actuarial Report was for the plan year beginning October 1, 2012. The total plan liability for the 2012 plan year was \$16,361,523 and the actuarial value of assets \$8,932,619 leaving an unfunded liability of \$7,428,904 and a funded ratio of 54.60%.

As of October 1, 2012, the pension benefit obligation is \$16,361,523 and was \$15,924,926 as of October 1, 2011.

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

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

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

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

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

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

The Department is a fund of the City of Elizabethton, Tennessee and no specific pension benefit obligation can be isolated for the Department. Please refer to the City of Elizabethton, Tennessee as to aggregate funding status, progress, and net position available for benefits.

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NOTE 7 - CAPITAL ASSETS AND DEPRECIATION

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 602,694	-	-	602,694
Construction in Progress	28,499,032	7,587,311	(8,377,273)	27,709,070
Total capital assets, not being depreciated	29,101,726	7,587,311	(8,377,273)	28,311,764
Capital assets, being depreciated:				
Buildings	2,179,987	121,044	-	2,301,031
Office Equipment	695,378	9,129	-	704,507
Transportation Equipment	3,033,524	22,908	-	3,056,432
Other Machinery and Equipment	1,115,663	73,379	-	1,189,042
Transmission and Power Distribution System	55,701,870	7,377,771	(1,517,305)	61,562,336
Total capital assets, being depreciated	62,726,422	7,604,231	(1,517,305)	68,813,348
Less accumulated depreciation for:				
Buildings	(1,038,069)	(44,026)	-	(1,082,095)
Office Equipment	(341,896)	(36,032)	-	(377,928)
Transportation Equipment	(1,343,190)	(122,205)	-	(1,465,395)
Other Machinery and Equipment	(703,786)	(74,614)	-	(778,400)
Transmission and Power Distribution System	(20,439,401)	(1,650,874)	1,770,490	(20,319,785)
Total accumulated depreciation	(23,866,342)	(1,927,751)	1,770,490	(24,023,603)
Net Capital Assets being depreciated	38,860,080	5,676,480	253,185	44,789,745
Net Capital Assets	\$ 67,961,806	13,263,791	(8,124,088)	73,101,509

CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
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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 in the financials. This advance refunding was undertaken to reduce the total debt service payments over the next seventeen years by \$188,399 and resulted in an economic gain of \$131,152.

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

During the June 30, 2010 year, there was another bond issue 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 \$6,722,107 through the term of the bonds. The bonds were issued at a premium, which along with the bond costs, are being amortized over the life of the bond on the straight-line method.

Long-term liability activity for the fiscal year ended June 30, 2013 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds Payable - 2005	\$ 2,725,000	-	(200,000)	2,525,000	205,000
Revenue Bonds Payable - 2007	13,355,000	-	(595,000)	12,760,000	620,000
Revenue Bonds Payable - 2010	20,585,000	-	(130,000)	20,455,000	135,000
Add Deferred Amounts for Issuance Premium	<u>403,301</u>	<u>-</u>	<u>(21,286)</u>	<u>382,015</u>	<u>-</u>
Total Bonds Payable	37,068,301	0	(946,286)	36,122,015	960,000
OPEB Liability	331,885	29,069	-	360,954	-
Compensated Absences	<u>329,402</u>	<u>101,429</u>	<u>(113,462)</u>	<u>317,369</u>	<u>98,506</u>
Total Long-Term Liabilities	<u>\$ 37,729,588</u>	<u>130,498</u>	<u>(1,059,748)</u>	<u>36,800,338</u>	<u>1,058,506</u>

CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
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June 30, 2013

NOTE 8 - LONG-TERM DEBT (CONTINUED)

Changes in the Deferred Gain on Bond Refunding for the fiscal year ended June 30, 2013 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	\$ 59,120	-	(5,721)	53,399	(5,721)
	<u>\$ 59,120</u>	<u>0</u>	<u>(5,721)</u>	<u>53,399</u>	<u>(5,721)</u>

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

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 205,000	97,070	302,070
2015	215,000	88,670	303,670
2016	225,000	79,870	304,870
2017	235,000	70,905	305,905
2018	245,000	61,663	306,663
2019-2023	<u>1,400,000</u>	<u>148,008</u>	<u>1,548,008</u>
	<u>\$ 2,525,000</u>	<u>546,186</u>	<u>3,071,186</u>

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

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

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 620,000	547,600	1,167,600
2015	645,000	519,075	1,164,075
2016	675,000	486,075	1,161,075
2017	710,000	451,450	1,161,450
2018	740,000	418,900	1,158,900
2019-2023	<u>4,180,000</u>	<u>1,613,338</u>	<u>5,793,338</u>
2024-2028	<u>5,190,000</u>	<u>605,250</u>	<u>5,795,250</u>
	<u>\$ 12,760,000</u>	<u>4,641,688</u>	<u>17,401,688</u>

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

CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013

NOTE 8 - LONG-TERM DEBT (CONTINUED)

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

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 135,000	1,181,966	1,316,966
2015	140,000	1,178,350	1,318,350
2016	145,000	1,173,981	1,318,981
2017	145,000	1,168,906	1,313,906
2018	155,000	1,163,088	1,318,088
2019-2023	820,000	5,709,718	6,529,718
2024-2028	2,645,000	5,267,806	7,912,806
2029-2033	9,565,000	3,552,513	13,117,513
2034-2036	6,705,000	639,844	7,344,844
	<u>\$ 20,455,000</u>	<u>21,036,172</u>	<u>41,491,172</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.

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

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 960,000	1,826,636	2,786,636
2015	1,000,000	1,786,095	2,786,095
2016	1,045,000	1,739,926	2,784,926
2017	1,090,000	1,691,261	2,781,261
2018	1,140,000	1,643,651	2,783,651
2019-2023	6,400,000	7,471,064	13,871,064
2024-2028	7,835,000	5,873,056	13,708,056
2029-2033	9,565,000	3,552,513	13,117,513
2034-2036	6,705,000	639,844	7,344,844
	<u>\$ 35,740,000</u>	<u>26,224,046</u>	<u>61,964,046</u>

CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013

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 \$1,123,181 in 2013. As of June 30, 2013, \$80,177 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 \$752,416 in 2013. These payments are based on the Department's property, plant and equipment, along with average operating revenues less power costs.

In October 2004, the Department and the City entered into an agreement where the Department would install a lighting system at the Twins baseball field. The terms of this agreement are for the City to pay the Department monthly payments of \$1,337 which includes interest. The interest rate is a fixed interest rate of current prime rate plus 2.0% (as of July 1 of each year) and shall not exceed 7.0%. The interest rate as of June 30, 2013 was 5.25%. The period is for 120 months. The total amount at inception was \$116,436. At June 30, 2013, the total amount due from the City of Elizabethton is \$36,304.

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 \$31,396.

NOTE 11 - COMMITMENTS

The Department has active construction projects as of June 30, 2013 for substations and transmission lines. At year-end, the Department's commitments for the projects total approximately \$2,898,000.

NOTE 12 - PRIOR PERIOD ADJUSTMENTS

A prior period adjustment was made for a credit received from the Tennessee Valley Authority (TVA) for purchased power overbillings in prior years totaling \$3,485,516. The overbillings were caused by an incorrect multiplier within the TVA power bill calculations for the Department. The beginning net position of \$45,997,167, as originally reported, was increased to \$49,482,683. Also, another prior period adjustment was posted to expense \$795,715 of deferred bond costs in accordance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. As a result, beginning net position was reduced by \$795,715 to a restated beginning balance of \$48,686,968.

SECTION II

SUPPLEMENTAL INFORMATION

CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF FUNDING PROGRESS - UNAUDITED
For the Fiscal Year Ended June 30, 2013

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
10/1/2012	\$ 8,932,619	\$ 16,361,523	\$ 7,428,904	54.60%	\$ 1,797,023	413%
10/1/2011	\$ 9,045,025	\$ 15,924,926	\$ 6,879,901	56.80%	\$ 1,827,665	376%
10/1/2010	\$ 9,203,280	\$ 15,948,500	\$ 6,745,220	57.71%	\$ 2,114,294	319%
10/1/2009	\$ 9,180,054	\$ 15,844,265	\$ 6,664,211	57.94%	\$ 2,076,560	321%

CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF FUNDING PROGRESS OF POST-RETIREMENT BENEFITS
OTHER THAN PENSIONS - UNAUDITED
For the Fiscal Year Ended June 30, 2013

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
7/1/2012	\$ -	\$ 1,593,123	\$ 1,593,123	0.00%	\$ 2,060,573	77%
7/1/2010	\$ -	\$ 1,892,996	\$ 1,892,996	0.00%	\$ 2,412,356	78%
7/1/2008	\$ -	\$ 2,213,194	\$ 2,213,194	0.00%	\$ 2,624,138	84%

CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS
June 30, 2013

Schedule 1

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
6/30/2014	\$ 960,000	1,826,636	2,786,636
6/30/2015	1,000,000	1,786,095	2,786,095
6/30/2016	1,045,000	1,739,926	2,784,926
6/30/2017	1,090,000	1,691,261	2,781,261
6/30/2018	1,140,000	1,643,651	2,783,651
6/30/2019	1,180,000	1,597,182	2,777,182
6/30/2020	1,230,000	1,548,386	2,778,386
6/30/2021	1,275,000	1,497,416	2,772,416
6/30/2022	1,330,000	1,443,024	2,773,024
6/30/2023	1,385,000	1,385,056	2,770,056
6/30/2024	1,440,000	1,321,153	2,761,153
6/30/2025	1,500,000	1,251,543	2,751,543
6/30/2026	1,565,000	1,178,350	2,743,350
6/30/2027	1,630,000	1,101,419	2,731,419
6/30/2028	1,700,000	1,020,591	2,720,591
6/30/2029	1,770,000	928,276	2,698,276
6/30/2030	1,840,000	824,487	2,664,487
6/30/2031	1,910,000	716,675	2,626,675
6/30/2032	1,985,000	602,213	2,587,213
6/30/2033	2,060,000	480,862	2,540,862
6/30/2034	2,145,000	352,030	2,497,030
6/30/2035	2,235,000	215,157	2,450,157
6/30/2036	2,325,000	72,657	2,397,657
	<u>\$ 35,740,000</u>	<u>26,224,046</u>	<u>61,964,046</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, 2013

Schedule 2

	Balance June 30, 2012	Additions	Retirements	Balance June 30, 2013
Land	\$ 602,694	-	-	602,694
Buildings	2,179,987	121,044	-	2,301,031
Office Equipment	695,378	9,129	-	704,507
Transportation Equipment	3,033,524	22,908	-	3,056,432
Other Machinery and Equipment	1,115,663	73,379	-	1,189,042
Transmission and Power Distribution System	55,701,870	7,377,771	(1,517,305)	61,562,336
Construction in Progress	<u>28,499,032</u>	<u>7,587,311</u>	<u>(8,377,273)</u>	<u>27,709,070</u>
Totals	<u>\$ 91,828,148</u>	<u>15,191,542</u>	<u>(9,894,578)</u>	<u>97,125,112</u>

See Independent Auditors' Report.

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF INSURANCE
June 30, 2013**

Schedule 3

Insurer	Policy Effective	Property Covered	Risk Covered	Limit of Coverage
TML Risk Management Pool	7/1/11	General Liability	Bodily and Personal Injury	
			- Per Person	\$ 300,000
			- Per Occurrence	700,000
			Property Damage	100,000
			Each Other Loss	1,000,000
	7/1/11	Property	Building	52,431,836
			Electronic Data Processing	100,000
			Mobile Equipment	229,091
			Equipment Breakdown	48,157,215
	7/1/11	Employment Practices Liability	Employee Dishonesty	
			Per Loss	150,000
			Forgery or Alteration	150,000
			Theft	150,000
			Computer Fraud	150,000
	7/1/11	Errors or Omissions	Per Occurrence	1,000,000
	7/1/11	Fleet Auto	Bodily Injury	
			Per Person	300,000
			Per Occurrence	700,000
			Property Damage	100,000
			Each Other Loss	1,000,000
	7/1/11	Workers' Compensation	Per Occurrence: Property Damage	100,000
			Bodily Injury	
			- Each Accident	300,000
			- Disease (policy limit)	700,000
			- Disease (each employee)	300,000

See Independent Auditors' Report.

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF CURRENT UTILITY RATES AND NUMBER OF CUSTOMERS
June 30, 2013**

Schedule 4

<u>Residential Rate Schedule</u>	<u>RS</u>	
Customer Charge -		
per delivery point per month		
(\$9.58 less \$1.71 hydro allocation credit)	\$13.29	
Energy Charge - per kWh per month	\$0.09614	
<u>General Power Rate Schedule</u>	<u>GSA</u>	<u>GSB</u>
	(Demand 0- 5,000 kW)	(Demand 5,000 to 12,000 kW)
<i>Part 1.</i>		
Customer Charge		
Per delivery point per month	\$14.46	\$1,500.00
Energy Charge - per kWh per month	\$0.10504	
Per kWh up to 620 hours per month		\$0.04983
Per kWh all additional per month		\$0.04983
Demand Charge - per kW per month		\$21.63
Excess of billing demand over contract demand - per kW per month		\$21.63
<i>Part 2.</i>		
Customer Charge		
Per delivery point per month	\$55.00	
Demand Charge - per kW per month		
First 50 kW	\$0.00	
Excess over 50kW per month	\$12.44	
Energy charge - per kWh per month		
First 15,000 kWh	\$0.10483	
Additional kWh per month	\$0.06452	
<i>Part 3.</i>		
Customer Charge		
Per delivery point per month	\$150.00	
Demand Charge - per kW per month		
First 1,000 kW	\$13.07	
Excess over 1,000 kW	\$14.36	
Energy Charge - per kWh per month		
First 15,000 kWh	\$0.06451	
Additional kWh	\$0.06451	
<u>Outdoor Lighting Rate Schedule</u>	<u>LS</u>	
Customer Charges		
Per delivery point per month	\$3.70	
Energy Charge - per kWh	\$0.06771	
<u>Number of Customers</u>		
Residential	22,734	
General	3,255	
Street, Athletic and Outdoor Lighting	42	
Total Customers	<u>26,031</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**

Schedule 5

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Primary Government										
Net Investment in Capital Assets	\$ 28,760,803	29,598,525	30,384,839	31,119,505	22,226,537	30,596,682	18,154,567	25,881,750	30,952,626	37,032,893
Unrestricted	<u>2,770,258</u>	<u>3,274,694</u>	<u>5,015,868</u>	<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>
Total Primary Government Activities Net Position	<u>\$ 31,531,061</u>	<u>32,873,219</u>	<u>35,400,707</u>	<u>37,827,458</u>	<u>39,236,925</u>	<u>40,240,133</u>	<u>40,301,042</u>	<u>42,579,595</u>	<u>45,997,167</u>	<u>53,337,614</u>

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

Schedule 6

Fiscal Year	Operating Revenues	Operating Expenses	Operating Income	Total Nonoperating Revenues/ (Expenses)	Income before Transfers	Transfer Out	Change in Net Position
2004	\$ 37,031,743	\$ 35,115,737	\$ 1,243,948	\$ (156,550)	\$ 1,083,615	\$ (634,334)	\$ 1,083,615
2005	37,603,457	35,463,423	2,140,034	(109,117)	2,030,917	(688,758)	1,342,159
2006	41,633,296	38,327,297	3,305,999	(88,519)	3,217,480	(689,992)	2,527,488
2007	43,901,756	40,976,797	2,924,959	190,965	3,115,924	(689,173)	2,426,751
2008	46,038,644	44,209,051	1,829,593	97,188	1,926,781	(517,314)	1,409,467
2009	52,304,639	50,351,085	1,953,554	(384,558)	1,568,996	(565,788)	1,003,208
2010	49,208,207	47,728,135	1,480,072	(813,667)	666,405	(605,496)	60,909
2011	57,456,596	54,094,513	3,362,083	(995,369)	2,366,714	(616,286)	1,750,428
2012	52,843,264	47,942,183	4,901,081	(780,219)	4,120,862	(703,290)	3,417,572
2013	56,216,675	50,123,954	6,092,721	(689,659)	5,403,062	(752,416)	4,650,646

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

Schedule 7

Fiscal Year	Residential	Large Commercial/ Industrial	Small Lighting/ Power	Street and Outdoor Lighting	Other Operating Revenues	Total
2004	\$ 21,702,385	\$ 9,830,428	\$ 3,708,461	\$ 731,145	\$ 1,059,324	\$ 37,031,743
2005	21,946,327	10,215,072	3,476,061	760,913	1,205,084	37,603,457
2006	24,678,822	11,351,765	3,627,682	809,565	1,165,462	41,633,296
2007	26,252,139	11,837,851	3,816,089	825,495	1,170,182	43,901,756
2008	27,653,761	12,366,936	4,123,824	854,016	1,040,107	46,038,644
2009	32,419,144	13,605,402	4,672,946	961,708	645,439	52,304,639
2010	29,833,411	12,261,591	4,412,045	857,402	1,843,758	49,208,207
2011	36,389,623	13,570,064	4,933,634	1,168,494	1,394,781	57,456,596
2012	32,126,180	13,890,364	4,582,639	925,580	1,318,501	52,843,264
2013	35,036,868	13,996,894	4,749,789	979,627	1,453,497	56,216,675

See Independent Auditors' Report.

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

Schedule 8

Fiscal Year	Power Purchased from TVA	Maintenance	Other Operating Expenses	Subtotal, Expenses before Tax and Depreciation	Tax and Tax Equivalents	Provision for Depreciation	Total Operating Expenses
2004	\$ 28,422,424	\$ 1,475,074	\$ 3,517,731	\$ 33,415,229	\$ 361,924	\$ 1,338,584	\$ 35,115,737
2005	28,532,987	1,508,146	3,662,089	33,703,222	387,119	1,373,082	35,463,423
2006	31,810,791	1,571,865	3,167,038	36,549,694	357,101	1,420,502	38,327,297
2007	34,022,346	1,657,904	3,461,806	39,142,056	355,702	1,479,039	40,976,797
2008	36,245,964	2,025,280	3,846,817	42,118,061	552,623	1,538,367	44,209,051
2009	42,343,783	2,121,113	3,915,170	48,380,066	389,379	1,581,640	50,351,085
2010	37,956,861	3,374,706	4,288,329	45,619,896	454,772	1,653,467	47,728,135
2011	45,453,172	2,324,997	4,232,685	52,010,854	365,797	1,717,862	54,094,513
2012	40,140,811	550,010	5,064,933	45,755,754	434,533	1,751,896	47,942,183
2013	41,510,181	1,245,065	4,937,384	47,692,630	625,778	1,805,546	50,123,954

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

Schedule 9

Fiscal Year	Interest on Invested Funds	Interest Expense	Amortization Expense	Total Nonoperating Revenues and Expenses
2004	\$ 43,109	\$ (195,289.00)	\$ (4,370.00)	\$ (156,550.00)
2005	83,452	(188,199)	(4,370)	(109,117)
2006	146,711	(196,329)	(38,901)	(88,519)
2007	344,645	(148,838)	(4,842)	190,965
2008	472,415	(360,613)	(14,614)	97,188
2009	465,089	(831,566)	(18,081)	(384,558)
2010	108,062	(877,369)	(44,360)	(813,667)
2011	37,346	(995,600)	(37,115)	(995,369)
2012	68,188	(811,292)	(37,115)	(780,219)
2013	38,012	(727,671)	-	(689,659)

See Independent Auditors' Report.

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

Schedule 10

Fiscal Year	Revenue Bonds	Advance from TVA	Total		
			Amount	Population	Per Capita
2004	\$ 3,890,000	\$ 1,531,585	\$ 5,421,585	14,017	\$ 387
2005	3,765,000	1,315,704	5,080,704	14,017	362
2006	3,780,000	1,216,534	4,996,534	14,017	356
2007	3,620,000	1,253,795	4,873,795	14,017	348
2008	18,455,000	1,221,192	19,676,192	14,017	1,404
2009	18,280,000	1,429,484	19,709,484	14,017	1,406
2010	38,160,000	1,592,086	39,752,086	14,017	2,836
2011	37,425,000	1,569,857	38,994,857	14,176	2,751
2012	36,665,000	1,472,725	38,137,725	14,176	2,690
2013	35,740,000	1,356,291	37,096,291	14,176	2,617

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

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

See Independent Auditors' Report.

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

Schedule 11

<u>Fiscal Year</u>	<u>Residential</u>	<u>General *</u>	<u>Street and Outdoor Lighting</u>	<u>Total Customers</u>
2004	21,332	3,992	113	25,437
2005	22,157	3,300	117	25,574
2006	22,439	3,230	125	25,794
2007	22,484	3,271	160	25,915
2008	22,504	3,300	159	25,963
2009	22,552	3,290	154	25,996
2010	22,605	3,263	154	26,022
2011	22,717	3,098	172	25,987
2012	22,811	3,287	172	26,270
2013	22,734	3,255	42	26,031

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

See Independent Auditors' Report.

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

Schedule 12

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<u>Residential Rate</u>										
Customer Charge -										
per delivery point per month	\$ 7.25	7.25	7.25	7.79	7.87	7.87	7.87	11.18	13.29	13.29
Energy Charge - per kWh per month	0.06231	0.06231	0.07291	0.07096	0.08092	0.07726	0.08329	0.92620	0.09625	0.09614
<u>General Power Rate</u>										
<u>Part 1.</u>										
Customer Charge										
Per delivery point per month										
(Demand 0-5,000 kW)	\$ 12.40	12.40	13.32	13.32	13.46	13.46	13.46	14.46	14.46	14.46
(Demand 5,000 to 12,000 kW)	1500	1500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
Energy Charge - per kWh per month	0.07088	0.07088	0.08289	0.08054	0.09110	0.08782	0.09464	0.10324	0.10494	0.10504
Per kWh up to 620 hours per month	0.03035	0.03035	0.03588	0.03514	0.04234	0.04592	0.04132	0.94830	0.04983	0.04972
Per kWh all additional per month	0.02477	0.02477	0.02928	0.02883	0.03559	0.00000	0.03372	0.02771	0.04983	0.04972
Demand Charge - per kW per month	11.58	11.58	13.51	12.95	13.78	13.46	15.40	21.03	21.63	21.63
Excess of billing demand over										
contract demand - per kW per month	11.58	11.58	13.51	12.95	13.78	14.21	14.89	18.90	21.63	21.63
<u>Part 2.</u>										
Customer Charge										
Per delivery point per month	\$ 31.00	31.00	33.30	33.30	33.64	33.64	33.64	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	10.44	10.44	12.08	11.65	12.43	12.77	13.70	12.14	12.14	12.44
Energy charge - per kWh per month										
First 15,000 kWh	0.07088	0.07088	0.08289	0.08054	0.09110	0.08782	0.09464	0.10302	0.10494	0.10483
Additional kWh per month	0.03649	0.03649	0.04320	0.04224	0.05021	0.04592	0.04975	0.06367	0.06464	0.06452
<u>Part 3.</u>										
Customer Charge										
Per delivery point per month	\$ 82.60	82.60	88.73	88.73	89.63	89.63	89.63	150.00	150.00	150.00
Demand Charge - per kW per month										
First 1,000 kW	10.16	10.16	11.87	11.41	12.23	12.59	13.57	12.73	13.07	13.07
Excess over 1,000 kW	11.25	11.25	13.28	12.74	13.70	14.12	15.27	13.97	14.36	14.36
Excess of higher of 2,500 kW or										
contract demand	11.25	11.25	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Energy Charge - per kWh per month										
First 15,000 kWh	0.06741	0.06741	0.07450	0.07354	0.08183	0.08592	0.08137	0.06367	0.06463	0.06451
Additional kWh	0.03649	0.03649	0.04320	0.04224	0.05021	0.05430	0.04975	0.06367	0.06463	0.06451
<u>Outdoor Lighting Rate Schedule</u>										
Customer Charges										
Per delivery point per month	\$ 2.50	2.50	2.50	2.50	3.75	3.75	3.75	3.70	3.70	3.70
Energy Charge - per kWh	0.04616	0.04616	0.05257	0.05159	0.05935	0.05493	0.05889	0.06700	0.06782	0.06771

See Independent Auditors' Report.

SECTION III

INTERNAL CONTROL AND COMPLIANCE SECTION

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

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

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 City of Elizabethton Electric Department (the Department), an enterprise fund of the City of Elizabethton, Tennessee, as of and for the fiscal year ended June 30, 2013, and related notes to the financial statements, and have issued our report thereon dated November 14, 2013.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness: 2012-01.

City of Elizabethton Electric Department
Independent Auditors' Report on Internal Control
Over Financial Reporting

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency: 2013-01.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. This included 2012-01.

Elizabethton Electric Department's Responses to Findings

Elizabethton Electric Department's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Department's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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, PLLC
BLACKBURN, CHILDERS & STEAGALL, PLLC
Johnson City, Tennessee

November 14, 2013

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2013**

CURRENT YEAR FINDINGS

2013-01: Significant Deficiency: Storage and Safety of Accounting Records

Condition: As noted during the prior year audit, critical accounting records (including account reconciliations and calculation details) were not always being saved to the Department's computer network. It was also noted that files were being stored on personal portable storage devices.

Criteria: Accounting records should be saved to the Department's computer network. Backups of the computer network should be performed on a regular basis.

Effect: The Department continues to be open to the risk of loss of critical records due to system failure, unexpected employee absences, or employee turnover.

Recommendation: To prevent the further loss of critical, and potentially sensitive, accounting records, the Department should adopt a policy of storing all source documents, such as the general ledger, detailed accounts receivable records, bank reconciliations, etc. in one central place on the Department's network. Once on the network, the information should be backed up frequently and accessible if needed. We also suggest that the Department develop a policy to address the use of storage of information on mobile devices, including the use of personal devices for business purposes. Only persons showing necessity to perform specific job-related duties should be authorized to use portable storage devices.

Management's Response: Management agrees with the finding and currently all source documents are being stored on the City's server and the server is backed up on a daily basis. The backups are stored offsite. Management will develop a policy to address portable storage devices for authorized use.

PRIOR YEAR FINDINGS NOT IMPLEMENTED

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

Condition: The following issues were noted with work orders:

Work Order Report Discrepancies

Capital assets per the CSA plant account ledger differed from the TVA report at June 30, 2013 by approximately \$1,012,544. Differences appear to be caused by the lack of a functioning work order system during fiscal year 2012 and the lack of maintenance and reconciliation in the past.

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2013**

PRIOR YEAR FINDINGS NOT IMPLEMENTED (CONTINUED)

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

Completed Work Orders Remaining in CIP

While improvements in closing completed work orders were noted, several major work orders remained opened and not closed to the proper capital asset account and depreciated. It appears projects that appear to have been complete are remaining within Construction in Progress (CIP).

Work Order Documentation

During our detailed testing of work orders, it was noted that costs associated with contract labor are being posted to the WMS as direct costs instead of being posted as contract labor.

CIP Clearing Account

Expenses relating to a mapping system that the Department was never able to put into service were incorrectly capitalized to a work order and were not properly expensed once the Department was aware that the system could not be used. The Department expensed half of the total work order cost in FY2013. Therefore, an audit adjusting entry was posted to expense the remaining work order cost.

Criteria: Proper work order procedures should be followed to properly capitalize and properly document all aspects of the work order to enhance internal controls over the financial reporting process. The plant account ledger should be properly maintained and reconciled to the monthly TVA report. Once a project has been completed, the corresponding work order should be closed and depreciated.

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

Recommendation: The Department should investigate and correct the differences between the plant account ledger and the TVA report. Once these differences are corrected, the Department should continue to reconcile the plant account ledger and the TVA report on a monthly basis so that any differences are timely noted and corrected. The Department should continue to close and depreciate all completed work orders. Contract labor expense should be posted as such within the work order management system so that work order reports are reflective of the work being performed either by the Department or by an outside party. Expenses relating to any nonfunctioning assets should be expensed.

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2013**

PRIOR YEAR FINDINGS NOT IMPLEMENTED (CONTINUED)

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

Management's Response: Management agrees with the finding. The senior accountant is currently reconciling the plant account with the TVA report. The work order coordinator is continuing the process of closing outstanding work orders. Due to the conversion to the CSA system, a lump sum amount was used for work order costs to facilitate the conversion. Currently, the details including contract labor are being posted.

PRIOR YEAR FINDINGS IMPLEMENTED

2010-02: Adjustments

2012-02: Payroll Allocation