

CITY OF ELIZABETHTON, TENNESSEE

FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION

WITH  
INDEPENDENT AUDITORS' REPORT

For the Year Ended June 30, 2006

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006

---

	<u>PAGE NUMBER</u>
I. FINANCIAL SECTION	
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets	15
Statement of Activities	16
Fund Financial Statements	
Balance Sheet - Governmental Funds	17
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	18
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	19
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	20
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund	21
Statement of Net Assets - Proprietary Funds	29
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds	30
Statement of Cash Flows - Proprietary Funds	31
Statement of Fiduciary Net Assets - Fiduciary Fund	33
Statement of Changes in Fiduciary Net Assets - Fiduciary Fund	34
Notes to Financial Statements	35
Combining and Individual Fund Statements and Schedules:	
Combining Balance Sheet - Nonmajor Governmental Funds	86
Combining Balance Sheet - Nonmajor Capital Project Funds	87
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds	88
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Capital Project Funds	89

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006

---

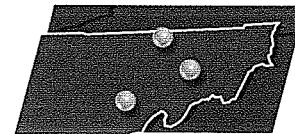
	<u>PAGE NUMBER</u>
I. FINANCIAL SECTION (CONTINUED)	
Combining and Individual Fund Statements and Schedules (Continued)	
Schedules of Revenues, Expenditures, and Changes in Fund Balance -	
Budget and Actual:	
Police Drug Enforcement Fund	90
Police Community Relations Fund	91
Police Equipment Fund	92
Solid Waste/Sanitation Fund	93
East Tennessee Railroad Authority Fund	94
Park and Recreation Capital Projects Fund	95
Joe O'Brien Field Fund	96
Special Capital Projects Fund	97
Airport Capital Projects Fund	98
General Obligation Bond Proceeds Fund	99
Veteran's Walk of Honor Fund	100
Veteran's Walk of Honor Phase II Fund	101
Veteran's War Memorial Fund	102
II. SUPPLEMENTAL SECTION	
Supplemental Section	
Schedule of Expenditures of Federal Awards	103
Schedule of Expenditures of State Awards	104
Schedule of Interfund Transfers	105
Schedule of Changes in General Bonded Debt and Notes Payable	
- Primary Government	106
Schedule of Bond Principal and Interest Requirements - All Funds	
- Primary Government	107
Schedule of Bond Principal and Interest Requirements - Component Units	108
Schedule of Note Principal and Interest Requirements - All Funds	
- Primary Government	109
Schedule of Note Principal and Interest Requirements - Components Units	110
Net Assets by Component	111
Changes in Net Assets	112
Fund Balances of Governmental Funds	114
Changes in Fund Balances of Governmental Funds	115

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006

---

	<u>PAGE NUMBER</u>
II. SUPPLEMENTAL SECTION (Continued)	
Supplemental Section (Unaudited)	
Fund Information:	
Combined Schedule of Changes in Taxes Receivable	117
Assessed and Estimated Actual Value of Property	118
Computation of Legal Debt Margin	119
Ratio of Net General Obligation Bonded Debt to Assessed Value and Net General Obligation Bonded Debt per Capita	120
Tax Rates and Assessments	121
Utility Rates for Water and Sewer	122
Current Utility Rates and Number of Customers	123
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 <i>Government Auditing Standards</i>	124
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	126
Schedule of Findings and Questioned Costs	128

FINANCIAL  
SECTION



## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Elizabethton, Tennessee (the "City") as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Elizabethton Municipal Airport (the Airport), a blended component unit, or the Elizabethton Board of Education (the Board), a discretely presented component unit. The financial statements of the Airport represent three percent and one percent respectively of the assets and revenues of the enterprise funds. The financial statements of the Board represent ninety percent and ninety-six percent respectively of the assets and revenues of the discretely presented component units. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Airport in the business-type activities columns, and the Board in the component unit columns, is based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Elizabethton, Tennessee as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

Page 2

In accordance with *Government Auditing Standards* we have also issued our report dated December 18, 2006, on our consideration of the City of Elizabethton, Tennessee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 3 through 14 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Elizabethton, Tennessee's basic financial statements. The combining and individual nonmajor fund financial statements and schedules and the supplemental and supplemental (unaudited) sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements of the City. The combining and individual nonmajor fund financial statements and schedules, the schedule of expenditures of federal awards, and, the supplemental section except for the supplemental section (unaudited) have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The supplemental section (unaudited) has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

*Blackburn, Childers and Steagall, PLC*  
BLACKBURN, CHILDERS AND STEAGALL, PLC

December 18, 2006

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Elizabethton, Tennessee (the City), we offer readers of the financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2006.

### Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by **\$71,754,310** (*net assets*). Of this amount, **\$55,715,684** is invested in capital assets (*net of related debt*).
- The City's total net assets increased by **\$3,172,651**.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of **\$6,852,229**. Of this amount, **\$4,178,565** is reserved for specific purposes.
- At the end of the current fiscal year, fund balance for the general fund was **\$6,129,862**, or **47%** of total general fund expenditures including transfers out. This balance included **\$4,178,565** committed for specific purposes.
- The City's total debt decreased by **\$1,344,362 (7%)** during the current fiscal year.

### Overview of the Financial Statements.

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

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

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes, licenses and permits, and intergovernmental revenues (governmental activities), from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, health and welfare, building code enforcement, community development, culture and recreation and other. The business-type activities of the City include water and sewer, electric system, airport, and golf course. The government-wide financial statements can be found on pages 15 through 16 of this report.



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

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

The City maintains fifteen (15) individual governmental funds. Fourteen (14) of these governmental funds are classified as non-major and are summarized under the heading "Other Governmental Funds" in the governmental fund presentation. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, and non-major governmental funds, all of which are combined into a single, aggregated presentation. Individual fund data for non-major governmental funds is provided in the form of combining statements elsewhere in this report. The basic governmental fund financial statements can be found on pages 17 through 29 of this report.

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

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

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information of the water and sewer, electric system and airport, which (with the exception of the airport fund) are considered to be major funds of the City. The basic proprietary fund financial statements can be found on pages 30 through 33 of this report.

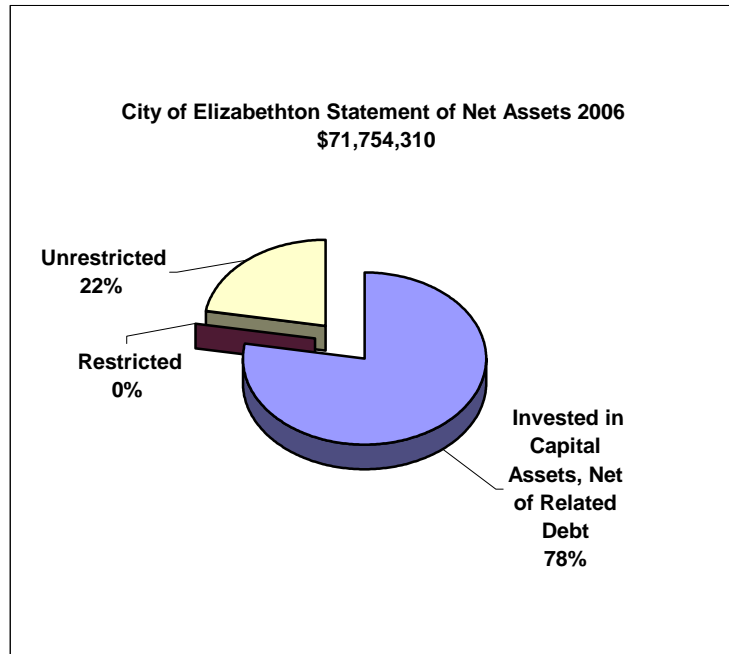
**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 36 through 86 of this report.

**Other Information.** The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 87 through 103 of this report.

## Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a City's financial position. In the case of the City, assets exceeded liabilities by **\$71,754,310** at the close of the most recent fiscal year.

By far, the largest portion of the City's net assets (**78%**) reflects its investment in capital assets (e.g. land, buildings, equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.



**City of Elizabethton**  
**STATEMENT OF NET ASSETS**

As of June 30, 2006

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Assets:</b>						
Current Assets	\$11,566,941	11,499,400	15,863,497	13,925,060	27,430,438	25,424,460
Bond Issue Cost (Net of Accum. Amortization)	11,032	14,516	1,445,550	1,506,780	1,456,582	1,521,296
Plant and Equipment (Net of Accum. Depreciation)	14,216,239	14,448,375	60,818,252	60,453,976	75,034,491	74,902,351
<b>Total Assets</b>	<b>25,794,212</b>	<b>25,962,291</b>	<b>78,127,299</b>	<b>75,885,816</b>	<b>103,921,511</b>	<b>101,848,107</b>
<b>Liabilities:</b>						
Current Liabilities	4,391,694	4,482,207	7,155,063	6,814,925	11,546,757	11,297,132
Other Liabilities	3,168,262	3,796,128	17,452,182	18,182,380	20,620,444	21,978,508
<b>Total Liabilities</b>	<b>7,559,956</b>	<b>8,278,335</b>	<b>24,607,245</b>	<b>24,997,305</b>	<b>32,167,201</b>	<b>33,275,640</b>
<b>Net Assets:</b>						
Invested in Capital Assets, Net of Related Debt	11,444,573	10,681,542	44,271,111	42,776,756	55,715,684	53,458,298
Restricted	-	-	927	12,072	927	12,072
Unrestricted	6,789,683	7,031,709	9,248,016	8,099,683	16,037,699	15,131,392
<b>Total Net Assets</b>	<b>\$ 18,234,256</b>	<b>17,713,251</b>	<b>53,520,054</b>	<b>50,888,511</b>	<b>71,754,310</b>	<b>68,601,762</b>

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

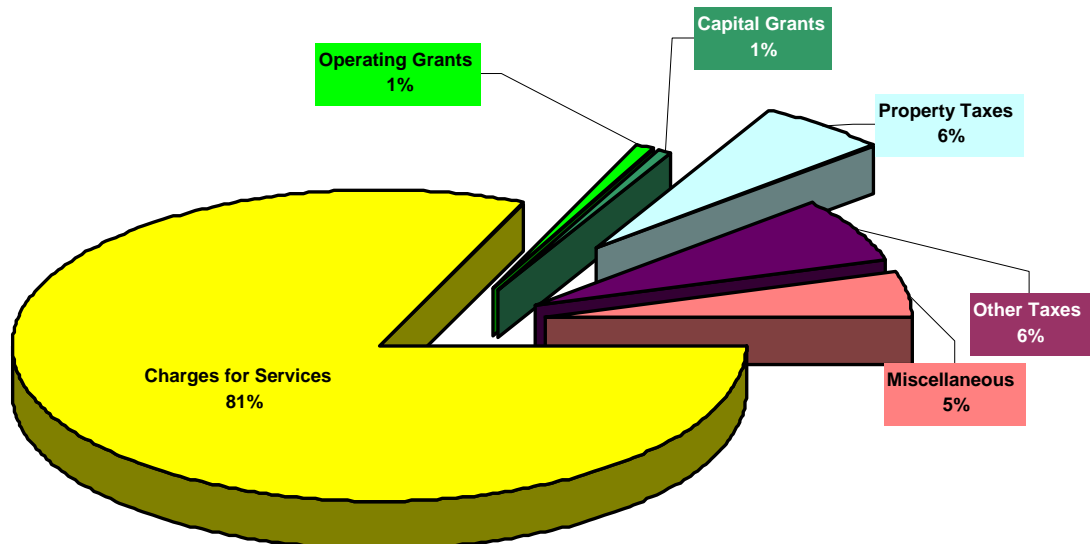
The government's net assets **increased** by **\$3,172,651** during the current fiscal year. About **16%** of this increase **\$521,005** was from the governmental activities while the remaining **84%** of the increase **\$2,651,646** was from the business-type activities.

The following is a summary of financial activities for the City during the 2006 fiscal year:

**City of Elizabethton**  
**CHANGE IN NET ASSETS (REVENUE)**  
**As of June 30, 2006**

<b>Revenues</b>	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Program Revenues:						
Charges for Services	\$ 1,645,615	1,261,861	48,187,308	44,050,045	49,832,923	45,311,906
Operating Grants	137,993	77,139	337,513	427,175	475,506	504,314
Capital Grants	334,270	255,533	-	519,040	334,270	774,573
<b>Total Program Revenues</b>	<b>2,117,878</b>	<b>1,594,533</b>	<b>48,524,821</b>	<b>44,996,260</b>	<b>50,642,699</b>	<b>46,590,793</b>
General Revenues:						
Property Taxes	3,705,114	3,592,858	-	-	3,705,114	3,592,858
Other Taxes	3,912,390	3,481,008	-	-	3,912,390	3,481,008
Miscellaneous	2,730,332	3,126,201	287,001	161,073	3,017,333	3,287,274
<b>Total General Revenues</b>	<b>10,347,836</b>	<b>10,200,067</b>	<b>287,001</b>	<b>161,073</b>	<b>10,634,837</b>	<b>10,361,140</b>
<b>Total Revenues</b>	<b>\$ 12,465,714</b>	<b>11,794,600</b>	<b>48,811,822</b>	<b>45,157,333</b>	<b>61,277,536</b>	<b>56,951,933</b>

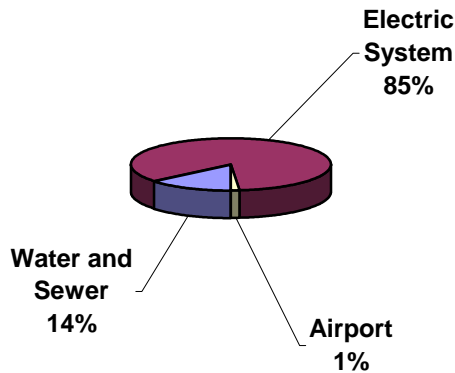
**TOTAL REVENUE SOURCES**



**CITY OF ELIZABETHTON**  
**CHANGE IN NET ASSETS - (Continued)**  
as of JUNE 30, 2006

	Governmental Activities		Business Type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Expenses</b>						
General Government	1,964,833	1,838,201	-	-	1,964,833	1,838,201
Public Safety	4,220,050	3,819,315	-	-	4,220,050	3,819,315
Public Works	1,655,130	1,519,457	-	-	1,655,130	1,519,457
Health and Welfare	128,009	128,225	-	-	128,009	128,225
Building Code Enforcement	245,923	252,559	-	-	245,923	252,559
Community Development	97,378	128,953	-	-	97,378	128,953
Culture and Recreation	1,255,737	1,177,105	-	-	1,255,737	1,177,105
Other	597,845	782,368	-	-	597,845	782,368
Interest on Long-Term Debt	100,446	126,176	-	-	100,446	126,176
<b>Total Governmental Activities</b>	<b>10,265,351</b>	<b>9,772,359</b>	<b>-</b>	<b>-</b>	<b>10,265,351</b>	<b>9,772,359</b>
<b>Business-Type Activities:</b>						
Water and Sewer	-	-	6,258,684	6,101,136	6,258,684	6,101,136
Electric System	-	-	38,562,527	35,655,992	38,562,527	35,655,992
Airport	-	-	686,323	576,956	686,323	576,956
<b>Total Business-Type Activities</b>	<b>-</b>	<b>-</b>	<b>45,507,534</b>	<b>42,334,084</b>	<b>45,507,534</b>	<b>42,334,084</b>
<b>Total Expenses</b>	<b>10,265,351</b>	<b>9,772,359</b>	<b>45,507,534</b>	<b>42,334,084</b>	<b>55,772,885</b>	<b>52,106,443</b>
Transfers	(1,679,358)	(1,680,592)	(652,642)	(651,408)	(2,332,000)	(2,332,000)
<b>Change in Net Assets</b>	<b>521,005</b>	<b>341,649</b>	<b>2,651,646</b>	<b>2,171,841</b>	<b>3,172,651</b>	<b>2,513,490</b>
Net Assets, Beginning - Restated	17,713,251	17,371,602	50,868,408	48,716,670	68,581,659	66,088,272
<b>Net Assets, Ending</b>	<b>\$ 18,234,256</b>	<b>17,713,251</b>	<b>53,520,054</b>	<b>50,888,511</b>	<b>71,754,310</b>	<b>66,269,762</b>

**TOTAL BUSINESS-TYPE EXPENDITURES**



**Governmental Activities.** Governmental activities increased the City's net assets by **\$521,005**, thereby accounting for **16%** of the total growth in the net assets of the City.

**Business-type activities.** Business-type activities increased the City's net assets by **\$2,651,646** accounting for **84%** of the total growth in the City's net assets. Key elements of this increase are as follows:

- Elizabethton Electric System achieved a net income and contributed **95%** of the total growth in net assets for business-type activities
- Water and Sewer Activities achieved a net income and contributed **1%** of the total net assets growth (business-type activities) to provide funds for debt repayments and capital expansion as indicated in the statement of cash flows located on pages 31 through 32 of this report.

### **Financial Analysis of the City's Funds**

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

**Governmental Funds.** The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a City's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of **\$6,852,229**. Of this amount, **\$4,178,565** is reserved to indicate that it has already been committed to: (1) **future debt service \$3,330,946**, (2) **industrial development \$349,705**, (3) **retirement \$497,711**, (4) **Police \$180**, and (5) **Christmas Tree \$23**.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, total fund balance reached **\$6,129,862**, including **\$4,178,565** committed for specific purposes. As a measure of the general fund's liquidity, it may be useful to compare both unreserved, undesignated fund balance and total fund balance to total fund expenditures and transfers out. Unreserved, undesignated fund balance represents **15%** of total general fund expenditures and transfers out, while total fund balance represents **47%** of that same amount. The fund balance of the City's general fund **decreased** as a result of **capital projects paid from fund balance**.

Non-major (other) governmental funds have a fund balance of **\$722,367**. The net **increase** in fund balance during the current year was **\$371,810**. This net **increase** is primarily attributed to **receipts received for the Walk of Honor Memorial**.

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

Unrestricted net assets of the proprietary funds at the end of the year amounted to **\$9,248,016**. Other factors concerning the financial position of these funds have already been addressed in the discussion of the City's business-type activities.

**General Fund Budgetary Highlights**

**Original and Final Budgeted Amounts.** Differences between the original budget and the final amended budget represent a **\$624,387 increase** in appropriations and include the following:

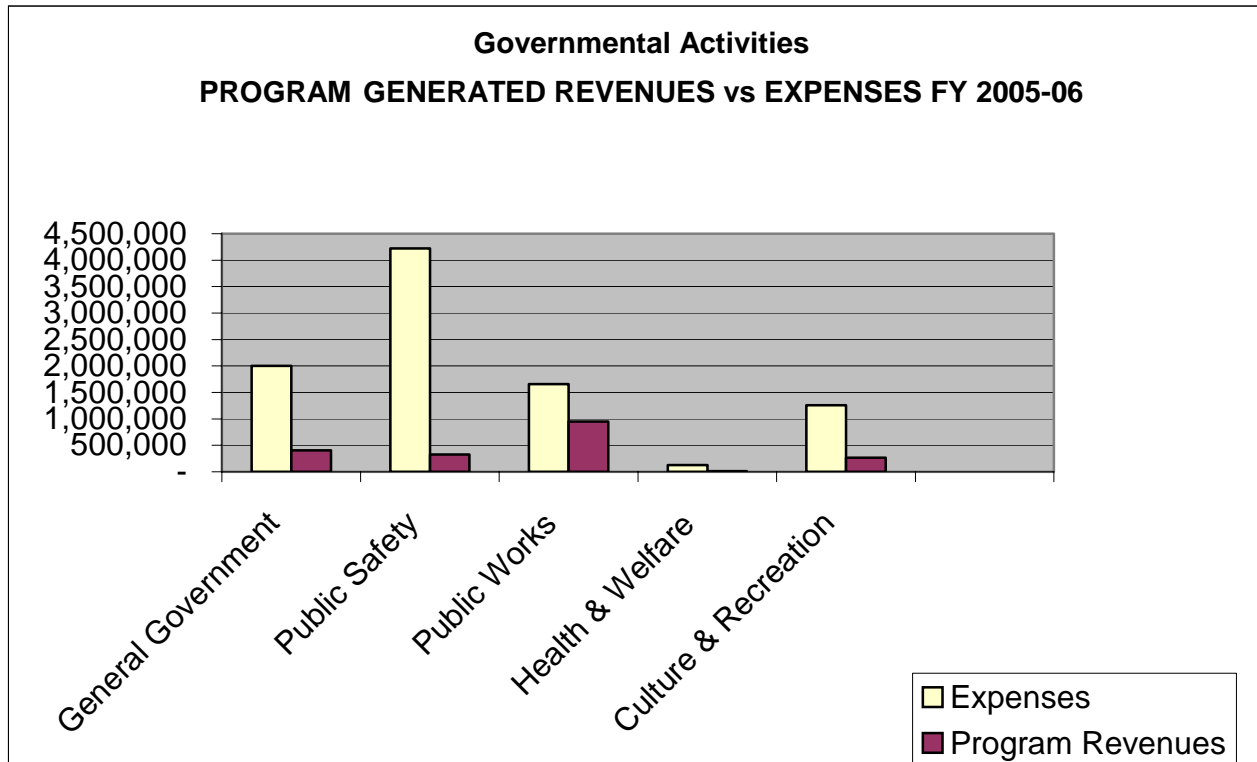
- \$ 350,000      Funding to cover increases in fuel costs**
- 175,000      Funding to enact additional street improvements**
- 130,000      Funding for Sanitation/Solid Waste expenditures**

Of this **increase**, most of the cost was funded from fund balance.

One measure of a general fund budget is to compare revenue generated by departments with total expenditures of the department to determine the amount of supplement required to fund the department. The following charts and graphs do that comparison for the year ending June 30, 2006.

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

General Government	2006		General Fund Subsidy
	Expenses	Revenues	
General Government	\$ 1,964,833	561,471	1,403,362
Public Safety	4,220,050	324,690	3,895,360
Public Works	1,655,130	950,787	704,343
Health and Welfare	128,009	12,662	115,347
Culture and Recreation	1,255,737	268,268	987,469
<b>Total General Fund Subsidy</b>			<b>7,105,881</b>



**Capital Asset and Debt Administration**

**Capital Assets.** The City’s investment in capital assets for its governmental and business-type activities as of June 30, 2006, amounts to **\$75,034,491** (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, plant in service, equipment and vehicles, paving, transmission and power distribution system, garbage containers, infrastructure and construction in progress.

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

- Acquisition of new equipment for fire protection.
- Acquisition of sewer envirosight rover 600.
- Acquisition of new dump truck for snow removal.
- Acquisition of new police cars (5).
- Acquisition of new water & sewer telemetry.
- Acquisition of land and building purchases.

**City of Elizabethton  
Total Net Capital Assets  
as of June 30, 2006**

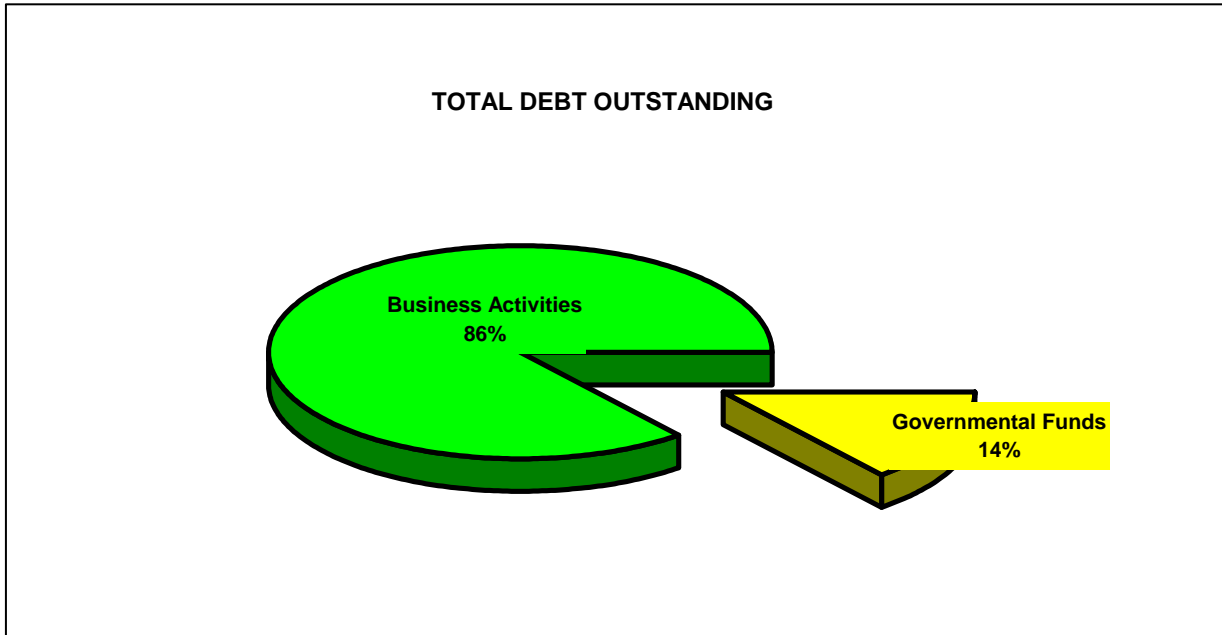
Net Capital Assets	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$ 2,276,568	2,122,568	1,036,362	1,035,362	3,312,930	3,157,930
Library Infrastructure	546,651	546,651	-	-	546,651	546,651
Construction in Progress	13,611	-	2,278,252	2,566,307	2,291,863	2,566,307
Buildings	4,378,863	4,561,799	15,801,744	16,376,604	20,180,607	20,938,403
Lines & Transmissions	-	-	39,802,737	38,589,723	39,802,737	38,589,723
Plant	-	-	220,339	198,949	220,339	198,949
Motor	1,167,166	1,268,841	839,510	867,768	2,006,676	2,136,609
Office	430,455	568,952	384,925	383,921	815,380	952,873
Other Improvements	-	-	453,763	434,590	453,763	434,590
Furniture	-	-	620	752	620	752
Infrastructure	5,402,925	5,379,564	-	-	5,402,925	5,379,564
<b>Total Net Capital Assets</b>	<b>\$ 14,216,239</b>	<b>14,448,375</b>	<b>60,818,252</b>	<b>60,453,976</b>	<b>75,034,491</b>	<b>74,902,351</b>

Additional information on the City's capital assets can be found in Note 6 on pages 55 through 58 of this report.

**Long-term debt.** At the end of the current fiscal year, the City had total debt outstanding of **\$19,395,611**. All of this debt is backed by the full faith and credit of the government.

City of Elizabethton Debt Outstanding						
As of June 30, 2006						
	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b><u>Outstanding Debt</u></b>						
General Obligation	\$ 1,705,000	2,175,000	-	-	1,705,000	2,175,000
Notes Payable	1,066,666	1,195,833	2,196,531	2,536,726	3,263,197	3,732,559
Revenue Bonds	-	-	14,427,414	14,832,414	14,427,414	14,832,414
<b>Total Outstanding Debt</b>	<b>\$ 2,771,666</b>	<b>3,370,833</b>	<b>16,623,945</b>	<b>17,369,140</b>	<b>19,395,611</b>	<b>20,739,973</b>





The City's total debt **decreased by \$1,344,362 (7%)** during the current fiscal year. The City maintains an 'A3' rating from Moody's Investors Service and Standard & Poor's, for its General Obligation Debt.

The City is **not** subject to debt limitations imposed by its Charter. Additional information on the City's long-term debt can be found in Note 10 on pages 62 through 73 of this report.

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

- The unemployment rate for the metropolitan statistical area is currently **5.9%**, which is a **decrease of 0.1%** from a year ago. This compares to the state's average unemployment rate of **6.3%** as of June 30, 2006.
- Inflationary trends in the region are comparable to national indexes.
- New construction permitted and inspected over the previous year, was **\$13.5 million**, including **98 permits issued**.
- Growth in local sales tax collections is expected to approximate **4%** in fiscal year 2007, including new businesses locating in Elizabethton.

All of these factors were considered in preparing the City's budget for fiscal year 2006-07.

During the current fiscal year, unreserved fund balance in the general fund **decreased \$412,333** primarily because of increased fuel and utility costs that were unexpected.

As the result of a water and sewer cost rate study by the city finance director, water and sewer rates were recommended to be adjusted up by 9% for fiscal year 2007-08 to fund inflationary costs associated with operations and planned capital improvements. Recommended water and sewer rate adjustments were not implemented by council. Residential garbage collection rates, as well as commercial and industrial collection rates, remained steady.

**Discretely Presented Component Units**

**-EDUCATION FUND-**

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

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

**-GOLF COURSE-**

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

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

**Other Separately Issued Reports**

**-AIRPORT-**

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

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

**-ELECTRIC SYSTEM-**

Detailed audit information about the Elizabethton Electric System can be obtained by contacting the electric system at:

Elizabethton Electric System  
400 Hatcher Lane  
Elizabethton, TN 37643  
Phone (423) 542-1100

### **Requests for Information**

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

CITY OF ELIZABETHTON, TENNESSEE  
STATEMENT OF NET ASSETS  
June 30, 2006

	Primary Government			Component Units	
	Governmental	Business-Type	Total	Elizabethton Board of Education	Elizabethton Municipal Golf Course
	Activities	Activities			
<b>ASSETS</b>					
Cash	\$ 1,518,301	5,583,491	7,101,792	678,810	110,941
Cash on Hand	6,304	15,000	21,304	-	1,400
Certificates of Deposit	2,745,622	1,666,322	4,411,944	-	-
Investments	302,767	2,237,066	2,539,833	-	-
Receivables (Net of allowances for uncollectibles)					
Taxes	4,039,322	-	4,039,322	-	-
Accounts	26,353	3,224,661	3,251,014	5,633	-
Notes	265,773	-	265,773	-	-
Internal Balances	(130,740)	130,740	-	-	-
Due from Other Governments	1,008,448	29,247	1,037,695	373,870	-
Inventories	43,935	757,923	801,858	17,786	17,795
Prepaid Expense	92,478	6,509	98,987	-	291
Restricted Assets:					
Investments	1,648,378	-	1,648,378	-	-
Cash	-	2,212,538	2,212,538	-	-
Bond Issue Cost (Net of Accumulated Amortization)	11,032	1,445,550	1,456,582	-	-
Plant and Equipment (Net of Accumulated Depreciation)	14,216,239	60,818,252	75,034,491	7,915,262	801,633
Total Assets	<u>25,794,212</u>	<u>78,127,299</u>	<u>103,921,511</u>	<u>8,991,361</u>	<u>932,060</u>
<b>LIABILITIES</b>					
Accounts Payable	113,789	3,046,369	3,160,158	381,567	17,405
Cash Overdraft	536,267	-	536,267	-	-
Matured Bonds and Interest	3,783	-	3,783	-	-
Customer Deposits	-	2,222,436	2,222,436	-	-
Advance from TVA	-	1,216,534	1,216,534	-	-
Accrued Expenses	12,743	486,770	499,513	-	24,024
Due to Other Governments	27,084	-	27,084	-	-
Other Liabilities	10,759	116,671	127,430	-	-
Unearned Revenues	3,687,269	135,307	3,822,576	-	125,717
Bond Discount	-	(69,026)	(69,026)	-	-
Long-term Liabilities:					
Due within one year	842,534	1,208,068	2,050,602	4,000	76,426
Due within more than one year	2,325,728	16,244,116	18,569,844	17,868	261,718
Total Liabilities	<u>7,559,956</u>	<u>24,607,245</u>	<u>32,167,201</u>	<u>403,435</u>	<u>505,290</u>
<b>NET ASSETS</b>					
Invested in Capital Assets, Net of Related Debt	11,444,573	44,271,111	55,715,684	7,915,262	463,489
Restricted	-	927	927	409,446	-
Unrestricted	6,789,683	9,248,016	16,037,699	263,218	(36,719)
TOTAL NET ASSETS	<u>\$ 18,234,256</u>	<u>53,520,054</u>	<u>71,754,310</u>	<u>8,587,926</u>	<u>426,770</u>

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

CITY OF ELIZABETHTON, TENNESSEE  
STATEMENT OF ACTIVITIES  
For the Fiscal Year Ended June 30, 2006

Functions/Programs	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units	
					Governmental Activities	Business-Type Activities	Total	Elizabethton School Board	Municipal Golf Course
<b>Primary Government</b>									
Governmental Activities									
General Government	\$ 1,964,833	561,471	-	-	(1,403,362)	-	(1,403,362)	-	-
Public Safety	4,220,050	308,381	16,309	-	(3,895,360)	-	(3,895,360)	-	-
Public Works	1,655,130	519,593	120,322	310,872	(704,343)	-	(704,343)	-	-
Health and Welfare	128,009	12,662	-	-	(115,347)	-	(115,347)	-	-
Building Code Enforcement	245,923	-	-	-	(245,923)	-	(245,923)	-	-
Community Development	97,378	-	-	-	(97,378)	-	(97,378)	-	-
Culture and Recreation	1,255,737	243,508	1,362	23,398	(987,469)	-	(987,469)	-	-
Other	597,845	-	-	-	(597,845)	-	(597,845)	-	-
Interest on Long-Term Debt	100,446	-	-	-	(100,446)	-	(100,446)	-	-
Total Governmental Activities	<u>10,265,351</u>	<u>1,645,615</u>	<u>137,993</u>	<u>334,270</u>	<u>(8,147,473)</u>	<u>-</u>	<u>(8,147,473)</u>	<u>-</u>	<u>-</u>
Business-Type Activities									
Water and Sewer	6,258,684	5,877,228	274,875	-	-	(106,581)	(106,581)	-	-
Electric System	38,562,527	41,633,296	-	-	-	3,070,769	3,070,769	-	-
Airport	686,323	676,784	62,638	-	-	53,099	53,099	-	-
Total Business-Type Activities	<u>45,507,534</u>	<u>48,187,308</u>	<u>337,513</u>	<u>-</u>	<u>-</u>	<u>3,017,287</u>	<u>3,017,287</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>\$ 55,772,885</u>	<u>49,832,923</u>	<u>475,506</u>	<u>334,270</u>	<u>(8,147,473)</u>	<u>3,017,287</u>	<u>(5,130,186)</u>	<u>-</u>	<u>-</u>
<b>Component Units</b>									
Education - School Board	\$ 16,178,103	695,156	2,016,944	-	-	-	-	(13,466,003)	-
Golf Course	632,171	593,144	-	-	-	-	-	-	(39,027)
Total Component Units	<u>\$ 16,810,274</u>	<u>1,288,300</u>	<u>2,016,944</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(13,466,003)</u>	<u>(39,027)</u>
General Revenues:									
Taxes									
Property Taxes					\$ 3,705,114	-	3,705,114	1,552,922	-
Sales Taxes					3,631,223	-	3,631,223	-	-
In-Lieu of Taxes					29,861	-	29,861	-	-
Business Taxes					251,306	-	251,306	-	-
Other Taxes					-	-	-	1,222,878	-
Other Local Governments					166,627	-	166,627	-	-
State Aid					1,773,976	-	1,773,976	-	-
Federal Aid					492,029	-	492,029	-	-
Unrestricted Investment Earnings					241,330	285,842	527,172	58,008	996
Miscellaneous					56,370	1,159	57,529	37,742	-
Grants and Contributions not restricted to specific programs					-	-	-	7,632,812	-
Transfers					(1,679,358)	(652,642)	(2,332,000)	2,332,000	-
Total General Revenues, Special Items and Transfers					<u>8,668,478</u>	<u>(365,641)</u>	<u>8,302,837</u>	<u>12,836,362</u>	<u>996</u>
Change in Net Assets					521,005	2,651,646	3,172,651	(629,641)	(38,031)
Net Assets - Beginning					17,713,251	50,888,511	68,601,762	9,217,567	464,801
Prior Period Adjustment					-	(20,103)	(20,103)	-	-
Net Assets - Ending					<u>\$ 18,234,256</u>	<u>53,520,054</u>	<u>71,754,310</u>	<u>8,587,926</u>	<u>426,770</u>

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

CITY OF ELIZABETHTON, TENNESSEE  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2006

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash	\$ 930,009	594,596	1,524,605
Certificates of Deposit	2,745,622	-	2,745,622
Investments	270,896	31,871	302,767
Receivables (Net of Allowances for Uncollectibles)			
Taxes	4,039,322	-	4,039,322
Accounts	1,937	24,416	26,353
Notes	265,773	-	265,773
Due From Other Funds	4,752	173	4,925
Due From Other Governments	1,002,961	5,487	1,008,448
Inventory	43,935	-	43,935
Prepaid Expenses	2,814	89,664	92,478
Restricted Assets:			
Investments	1,637,169	11,209	1,648,378
<b>TOTAL ASSETS</b>	<u>10,945,190</u>	<u>757,416</u>	<u>11,702,606</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts Payable	96,350	17,439	113,789
Cash Overdraft	520,637	15,630	536,267
Matured Bonds	1,500	-	1,500
Matured Bond Interest	2,283	-	2,283
Due to Other Governments	27,084	-	27,084
Other Liabilities	7,975	-	7,975
Deferred Revenues	4,025,814	-	4,025,814
Due to Other Funds	133,685	1,980	135,665
<b>TOTAL LIABILITIES</b>	<u>4,815,328</u>	<u>35,049</u>	<u>4,850,377</u>
<b>FUND BALANCES</b>			
Unreserved - Designated for Retirement	497,711	-	497,711
Unreserved - Designated for Debt Service	3,330,946	-	3,330,946
Unreserved - Designated for Industrial Development	349,705	-	349,705
Unreserved - Designated for Police	180	-	180
Unreserved - Designated for Christmas Tree	23	-	23
Unreserved - Undesignated	1,951,297	722,367	2,673,664
<b>TOTAL FUND BALANCES</b>	<u>6,129,862</u>	<u>722,367</u>	<u>6,852,229</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 10,945,190</u>	<u>757,416</u>	<u>11,702,606</u>

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

CITY OF ELIZABETHTON, TENNESSEE  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
June 30, 2006

---

Total Fund Balances - Governmental Funds	\$ 6,852,229
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and; therefore, are not reported as assets in governmental funds. The cost of the assets is \$25,912,042 and the accumulated depreciation is \$(11,695,803)	14,216,239
Revenue, for amounts not received during the period of availability, is not considered "available" and has been deferred in the funds.	338,546
Accrued interest is not due and payable in the current period and; therefore, is not reported as a liability in the funds.	(15,528)
Governmental funds report the effect of debt issuance costs when debt is issued. These amounts are amortized over the life of the debt for the statement of net assets.	11,032
Long-term liabilities are not due and payable in the current period and; therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of bonds payable, notes payable, and compensated absences.	<u>(3,168,262)</u>
Total Net Assets - Governmental Activities	<u><u>\$18,234,256</u></u>

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

CITY OF ELIZABETHTON, TENNESSEE  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-  
GOVERNMENTAL FUNDS  
For the Fiscal Year Ended June 30, 2006

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>			
Taxes	\$ 7,604,318	-	7,604,318
Licenses and Permits	93,181	-	93,181
Intergovernmental	1,925,234	-	1,925,234
Charges for Services	1,474,975	530,543	2,005,518
Donations	-	176,801	176,801
Grant Income	-	348,354	348,354
Fines and Forfeitures	181,135	133,750	314,885
Miscellaneous	582,258	59,996	642,254
Interest Earned	233,420	7,957	241,377
<b>TOTAL REVENUES</b>	<b>12,094,521</b>	<b>1,257,401</b>	<b>13,351,922</b>
<b>EXPENDITURES</b>			
General Government	1,655,060	904,343	2,559,403
Public Safety	4,039,822	5,656	4,045,478
Public Works	1,290,099	-	1,290,099
Health and Welfare	125,157	-	125,157
Building Code Enforcement	245,905	-	245,905
Community Development	97,354	-	97,354
Culture and Recreation	1,175,390	-	1,175,390
Special Appropriations	225,432	-	225,432
Debt Service	706,107	-	706,107
Other Operating Expenses	-	411,724	411,724
Capital Outlay	481,878	208,218	690,096
<b>TOTAL EXPENDITURES</b>	<b>10,042,204</b>	<b>1,529,941</b>	<b>11,572,145</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In	689,992	644,350	1,334,342
Transfers Out	(2,976,350)	-	(2,976,350)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(2,286,358)</b>	<b>644,350</b>	<b>(1,642,008)</b>
Net Change in Fund Balances	(234,041)	371,810	137,769
Fund Balances - Beginning	6,363,903	350,557	6,714,460
Fund Balances - Ending	<u>\$ 6,129,862</u>	<u>722,367</u>	<u>6,852,229</u>

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



CITY OF ELIZABETHTON, TENNESSEE  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
For the Fiscal Year Ended June 30, 2006

---

Total Net Change in Fund Balances - Governmental Funds	\$ 137,769
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense of (\$922,232) exceeds capital outlay of \$690,096.	(232,136)
Because some property taxes and grants will not be collected for several months after the City's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds. Deferred tax revenues increased by this amount for the current year.	13,790
In the statement of activities, certain operating expenses such as compensated absences, are measured by the amounts earned during the year. In the governmental funds; however, expenditures for these items are measured by the amount of financial resources used. Compensated absences increased by this amount for the current year.	(596)
Repayment of bond and note principal and leases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	599,167
Interest expense reported in the statement of activities does not require the use of current financial resources. Therefore, it is not reported as an expenditure in the governmental funds.	6,495
Governmental funds report debt issuance cost when debt is first issued. These amounts are deferred and amortized in the statement of activities. This amount is the net effect of the treatment of long-term debt items.	<u>(3,484)</u>
Change in Net Assets of Governmental Activities	<u>\$ 521,005</u>

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

CITY OF ELIZABETHTON, TENNESSEE  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts Budgetary & GAAP Basis	Variance with Final Budget- Favorable (Unfavorable)
	Original	Final		
<b>REVENUES</b>				
Taxes				
General Property Taxes				
Current Property Taxes	\$ 3,363,000	3,363,000	3,327,114	(35,886)
Delinquent Property Taxes	373,000	373,000	304,674	(68,326)
Interest, Penalty and Attorney Fees	90,000	90,000	60,138	(29,862)
Total General Property Taxes	<u>3,826,000</u>	<u>3,826,000</u>	<u>3,691,926</u>	<u>(134,074)</u>
General Sales Tax				
Local Option Sales Tax	<u>3,191,150</u>	<u>3,191,150</u>	<u>3,244,973</u>	<u>53,823</u>
Selective Use and Sales Tax				
Local Beer Tax 17%	<u>370,000</u>	<u>370,000</u>	<u>386,251</u>	<u>16,251</u>
In-Lieu of Taxes				
Elizabethton Housing Authority	18,631	18,631	12,603	(6,028)
Frank Shafer Publications	3,000	3,000	3,000	-
AY McDonald	5,000	5,000	5,000	-
Brookhaven Homes for Elderly	3,300	3,300	3,259	(41)
Star Industry	6,000	6,000	6,000	-
Sycamore Shoals State Park	634	634	-	(634)
Total In-Lieu of Taxes	<u>36,565</u>	<u>36,565</u>	<u>29,862</u>	<u>(6,703)</u>
Gross Receipts and Business Licenses				
Gross Receipts Taxes	<u>245,000</u>	<u>245,000</u>	<u>251,306</u>	<u>6,306</u>
Total Taxes	<u>\$ 7,668,715</u>	<u>7,668,715</u>	<u>7,604,318</u>	<u>(64,397)</u>

(Continued)

CITY OF ELIZABETHTON, TENNESSEE  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts Budgetary & GAAP Basis	Variance with Final Budget- Favorable (Unfavorable)
	Original	Final		
REVENUES (CONTINUED)				
Licenses and Permits				
Licenses				
Business License	\$ 7,500	7,500	9,780	2,280
Interest and Penalty	3,050	3,050	2,611	(439)
Beer License	4,125	4,125	4,908	783
Recording Fee	3,100	3,100	3,535	435
Electric, Gas and Plumbing	1,300	1,300	750	(550)
Mixed Drinks Sales Permit	800	800	-	(800)
	<u>19,875</u>	<u>19,875</u>	<u>21,584</u>	<u>1,709</u>
Total Licenses				
Special Permits				
Electrical	7,500	7,500	9,341	1,841
Building	44,000	44,000	54,157	10,157
Plumbing	2,670	2,670	4,513	1,843
Gas	750	750	814	64
Demolition	500	500	600	100
Curb Cuts	90	90	267	177
Street Cuts	300	300	-	(300)
Miscellaneous Permits	50	50	60	10
Pool	-	-	45	45
Fireworks	1,200	1,200	1,800	600
	<u>57,060</u>	<u>57,060</u>	<u>71,597</u>	<u>14,537</u>
Total Special Permits				
Total Licenses and Permits				
	<u>76,935</u>	<u>76,935</u>	<u>93,181</u>	<u>16,246</u>
Intergovernmental Revenue				
Federal through State				
MPO/GIS Grant	\$ 23,700	23,700	-	(23,700)

(Continued)

CITY OF ELIZABETHTON, TENNESSEE  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts Budgetary & GAAP Basis	Variance with Final Budget- Favorable (Unfavorable)
	Original	Final		
REVENUES (CONTINUED)				
Intergovernmental Revenue (Continued)				
State Awards				
TN Dept. of Tran.-Highway Maint.	\$ 56,000	76,000	66,844	(9,156)
TN Dept. of Transportation	-	45,000	45,000	-
LSTA Library Matching Grant	4,200	4,200	4,200	-
Total State Awards	<u>60,200</u>	<u>125,200</u>	<u>116,044</u>	<u>(9,156)</u>
State Shared Revenues				
City Streets	33,000	33,000	31,225	(1,775)
Public Safety Supplemental Pay	33,000	33,000	28,667	(4,333)
Mixed Drink Tax	20,000	20,000	17,086	(2,914)
Income Tax	107,576	107,576	91,582	(15,994)
Sales Tax	885,000	885,000	943,306	58,306
State Street Aid	410,000	410,000	395,465	(14,535)
Beer Tax	7,200	7,200	6,945	(255)
TVA Replacement Tax	101,600	101,600	103,187	1,587
Excise Tax	130,000	130,000	117,820	(12,180)
Telecommunications Tax	2,410	2,410	2,428	18
Total State Shared Revenues	<u>1,729,786</u>	<u>1,729,786</u>	<u>1,737,711</u>	<u>7,925</u>
Local Government Revenue				
HIDTA	-	-	8,717	8,717
Carter County-Animal Shelter	37,000	37,000	(301)	(37,301)
Carter County-Library	33,250	33,250	33,250	-
Carter County-Park & Recreation	25,000	25,000	29,813	4,813
Total Local Government Revenue	<u>95,250</u>	<u>95,250</u>	<u>71,479</u>	<u>(23,771)</u>
Total Intergovernmental Revenue	<u>\$ 1,908,936</u>	<u>1,973,936</u>	<u>1,925,234</u>	<u>(48,702)</u>

(Continued)

CITY OF ELIZABETHTON, TENNESSEE  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts Budgetary & GAAP Basis	Variance with Final Budget- Favorable (Unfavorable)
	Original	Final		
REVENUES (CONTINUED)				
Charges for Services				
Various General Government Charges				
Garage Services	\$ 359,630	535,630	320,073	(215,557)
Elizabethton Water and Sewer Division	900,000	900,000	900,000	-
Special Police Services	31,250	31,250	47,332	16,082
East TN Railroad Authority	400	400	1,676	1,276
Total Various General Government Charges	<u>1,291,280</u>	<u>1,467,280</u>	<u>1,269,081</u>	<u>(198,199)</u>
Health				
Dog Tags	1,950	1,950	1,212	(738)
Animal Control and Shelter Fees	13,000	13,000	11,450	(1,550)
Total Health	<u>14,950</u>	<u>14,950</u>	<u>12,662</u>	<u>(2,288)</u>
Culture and Recreation				
Swimming Pool-Season Tickets	3,346	3,346	2,525	(821)
Swimming Pool-Daily Tickets	28,347	28,347	28,396	49
Swimming Pool-Concessions	6,857	6,857	14,129	7,272
Swimming Lessons	3,013	3,013	-	(3,013)
Baseball-Season Tickets	5,536	5,536	4,239	(1,297)
Baseball-Daily Tickets	9,368	9,368	9,681	313
Baseball-Souvenir Sales	12,465	12,465	11,083	(1,382)
Baseball-Baseball Cards	15,000	15,000	1,637	(13,363)
Baseball-Advertising	3,450	3,450	14,173	10,723
Parks-Concession Sales	24,552	24,552	30,199	5,647
Other Miscellaneous -Park & Recreation	13,241	38,596	40,383	1,787
Vendor Fees	355	-	627	627
League Entrance Fees	21,495	21,495	29,245	7,750
Rental	1,553	1,553	6,915	5,362
Total Culture and Recreation	<u>148,578</u>	<u>173,578</u>	<u>193,232</u>	<u>19,654</u>
Total Charges for Services	<u>\$ 1,454,808</u>	<u>1,655,808</u>	<u>1,474,975</u>	<u>(180,833)</u>

(Continued)

CITY OF ELIZABETHTON, TENNESSEE  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts Budgetary & GAAP Basis	Variance with Final Budget- Favorable (Unfavorable)
	Original	Final		
<b>REVENUES (CONTINUED)</b>				
Fines and Forfeitures				
Non-Moving Traffic Violations	\$ 9,950	9,950	2,475	(7,475)
Moving Traffic Fines	88,325	88,325	79,145	(9,180)
Fines - Defense Driving School	50,150	50,150	39,975	(10,175)
Fines - Impounded Vehicle Fees	300	300	-	(300)
Court Fines	19,725	44,725	43,923	(802)
Illegal Beer Sales	2,000	2,000	-	(2,000)
Sex Offender	-	-	60	60
Library Fines	13,000	13,000	15,557	2,557
Total Fines and Forfeitures	<u>183,450</u>	<u>208,450</u>	<u>181,135</u>	<u>(27,315)</u>
Interest Earnings				
Investments	115,000	225,000	221,548	(3,452)
Note Receivable	60,000	60,000	8,268	(51,732)
Checking	1,200	1,200	3,604	2,404
Total Interest Earnings	<u>176,200</u>	<u>286,200</u>	<u>233,420</u>	<u>(52,780)</u>
Miscellaneous Revenue				
Rents and Royalties				
TV Cable Franchise	150,000	150,000	135,942	(14,058)
Natural Gas Franchise	275,000	275,000	278,412	3,412
City Property	-	-	10	10
Tennessee Vocational Training Ctr	78,960	78,960	85,540	6,580
Total Rents and Royalties	<u>503,960</u>	<u>503,960</u>	<u>499,904</u>	<u>(4,056)</u>
Other				
Miscellaneous	21,700	240,087	77,062	(163,025)
Donations	500	5,500	5,292	(208)
Total Other Revenue	<u>22,200</u>	<u>245,587</u>	<u>82,354</u>	<u>(163,233)</u>
Total Miscellaneous Revenue	<u>526,160</u>	<u>749,547</u>	<u>582,258</u>	<u>(167,289)</u>
<b>TOTAL REVENUES</b>	<u>\$ 11,995,204</u>	<u>12,619,591</u>	<u>12,094,521</u>	<u>(525,070)</u>

(Continued)

CITY OF ELIZABETHTON, TENNESSEE  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts Budgetary & GAAP Basis	Variance with Final Budget- Favorable (Unfavorable)
	Original	Final		
<b>EXPENDITURES</b>				
General Government				
City Council	\$ 49,814	57,488	53,752	3,736
City Judge	16,274	17,274	16,944	330
City Manager	155,571	155,871	150,076	5,795
Financial	514,203	556,788	495,284	61,504
Fleet Maintenance	533,027	627,227	481,102	146,125
Management Information Systems	109,385	110,085	113,490	(3,405)
Purchasing	155,440	166,090	167,020	(930)
City Attorney	51,693	76,693	72,566	4,127
Personnel	141,634	112,849	104,826	8,023
Capital Outlay	87,400	75,300	50,964	24,336
Total General Government	<u>1,814,441</u>	<u>1,955,665</u>	<u>1,706,024</u>	<u>249,641</u>
Public Safety				
Police Patrol	2,255,564	2,345,606	2,347,355	(1,749)
Fire Prevention	1,661,653	1,663,653	1,692,467	(28,814)
Capital Outlay	168,170	162,565	115,479	47,086
Total Public Safety	<u>4,085,387</u>	<u>4,171,824</u>	<u>4,155,301</u>	<u>16,523</u>
Public Works				
Street Maintenance	679,134	699,134	675,540	23,594
Parks and Special Events	4,500	4,500	4,311	189
Engineering	229,446	229,446	220,448	8,998
Capital Outlay	7,350	7,350	15,432	(8,082)
Total Public Works	<u>920,430</u>	<u>940,430</u>	<u>915,731</u>	<u>24,699</u>
State Street Aid				
Crushed Stone and Gravel	5,600	5,600	2,239	3,361
Concrete Products	7,000	7,000	8,461	(1,461)
Salt/Sodium Chloride	35,000	15,000	16,317	(1,317)
Asphalt-Hot Mix	8,500	8,500	7,472	1,028
Street Improvements	-	3,000	-	3,000
Electricity	303,000	307,500	355,311	(47,811)
Capital Outlay	139,430	300,111	288,684	11,427
Total State Street Aid	<u>\$ 498,530</u>	<u>646,711</u>	<u>678,484</u>	<u>(31,773)</u>

(Continued)

CITY OF ELIZABETHTON, TENNESSEE  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts Budgetary & GAAP Basis	Variance with Final Budget- Favorable (Unfavorable)
	Original	Final		
EXPENDITURES (CONTINUED)				
Health and Welfare				
Animal Shelter Operations	\$ 55,828	59,828	55,027	4,801
Contributions to Non-Profit Organizations	63,455	70,955	70,130	825
Total Health and Welfare	<u>119,283</u>	<u>130,783</u>	<u>125,157</u>	<u>5,626</u>
Building Code Enforcement				
Enforcement	233,584	244,084	245,905	(1,821)
Total Building Code Enforcement	<u>233,584</u>	<u>244,084</u>	<u>245,905</u>	<u>(1,821)</u>
Community Development				
Administration	87,085	97,785	97,354	431
Capital Outlay	3,200	11,319	11,319	-
Total Community Development	<u>90,285</u>	<u>109,104</u>	<u>108,673</u>	<u>431</u>
Culture and Recreation				
Administration	65,873	66,873	73,230	(6,357)
Swimming Pools	55,675	58,475	63,248	(4,773)
Athletic Fields and Parks	351,625	449,125	404,999	44,126
Recreation Center	114,317	125,817	132,357	(6,540)
Leagues	99,401	106,401	132,601	(26,200)
Public Library	358,759	369,159	368,955	204
Capital Outlay	92,200	-	-	-
Total Culture and Recreation	<u>1,137,850</u>	<u>1,175,850</u>	<u>1,175,390</u>	<u>460</u>
Debt Service				
Principal	532,707	599,353	599,167	186
Interest	175,712	104,566	105,453	(887)
Paying Agent Fees	-	3,100	1,487	1,613
Total Debt Service	<u>\$ 708,419</u>	<u>707,019</u>	<u>706,107</u>	<u>912</u>

(Continued)



CITY OF ELIZABETHTON, TENNESSEE  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts Budgetary & GAAP Basis	Variance with Final Budget- Favorable (Unfavorable)
	Original	Final		
EXPENDITURES (CONTINUED)				
Special Appropriations to Other Governmental Entities	\$ 191,129	225,529	225,432	97
TOTAL EXPENDITURES	9,799,338	10,306,999	10,042,204	264,795
Excess of Revenues over Expenditures	2,195,866	2,312,592	2,052,317	(260,275)
TRANSFERS				
Elizabethton Electric System	688,758	688,758	689,992	1,234
Sanitation/Solid Waste Fund	(308,274)	(425,000)	(425,000)	-
General Purpose School Fund	(2,332,000)	(2,332,000)	(2,332,000)	-
Parks & Recreation	(82,000)	(82,000)	(82,000)	-
Elizabethton Municipal Airport	(37,350)	(37,350)	(37,350)	-
Special Capital Projects	(125,000)	(125,000)	(100,000)	25,000
TOTAL TRANSFERS	(2,195,866)	(2,312,592)	(2,286,358)	26,234
Excess (Deficiency) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	-	-	(234,041)	(234,041)
Fund Balances, July 1, 2005	7,520,218	7,520,218	6,363,903	(1,156,315)
Fund Balances, June 30, 2006	\$ 7,520,218	7,520,218	6,129,862	(1,390,356)

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

CITY OF ELIZABETHTON, TENNESSEE  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
June 30, 2006

	Business - Type Activities - Enterprise Funds			Total Enterprise Funds
	Elizabethton Water and Sewer Fund	Elizabethton Electric System	Elizabethton Municipal Airport	
<b>ASSETS</b>				
Current Assets				
Cash	\$ 1,709,959	3,837,101	51,431	5,598,491
Cash - Restricted	416,194	1,795,417	927	2,212,538
Certificates of Deposit	-	1,666,322	-	1,666,322
Investments	2,237,066	-	-	2,237,066
Accounts Receivable-Net	278,574	2,903,418	42,669	3,224,661
Prepaid Insurance	-	-	6,509	6,509
Inventories	344,068	376,729	37,126	757,923
Due from Other Funds	-	167,651	-	167,651
Due from Other Governments	24,663	-	4,584	29,247
<b>Total Current Assets</b>	<b>5,010,524</b>	<b>10,746,638</b>	<b>143,246</b>	<b>15,900,408</b>
Capital Assets				
Property, Plant and Equipment-Net	24,490,386	34,010,304	2,317,562	60,818,252
<b>Total Capital Assets</b>	<b>24,490,386</b>	<b>34,010,304</b>	<b>2,317,562</b>	<b>60,818,252</b>
Other Noncurrent Assets				
Other Assets	141,890	1,303,660	-	1,445,550
<b>Total Other Noncurrent Assets</b>	<b>141,890</b>	<b>1,303,660</b>	<b>0</b>	<b>1,445,550</b>
<b>TOTAL ASSETS</b>	<b>29,642,800</b>	<b>46,060,602</b>	<b>2,460,808</b>	<b>78,164,210</b>
<b>LIABILITIES AND FUND EQUITY</b>				
Liabilities				
Current Liabilities				
Accounts Payable - Net	27,286	2,935,361	83,722	3,046,369
Customer Deposits	426,894	1,795,417	125	2,222,436
Other Current Liabilities	49,223	67,450	68,985	185,658
Accrued Payroll	489	55,962	-	56,451
Accrued Interest - Bonds	310,777	50,555	-	361,332
Deferred Revenue	15,335	-	-	15,335
Due to Other Funds	36,911	-	-	36,911
Bonds Payable	435,000	160,000	-	595,000
Notes Payable	-	-	25,803	25,803
State Loans Payable	312,144	-	-	312,144
Compensated Absences	61,020	212,301	1,800	275,121
<b>Total Current Liabilities</b>	<b>1,675,079</b>	<b>5,277,046</b>	<b>180,435</b>	<b>7,132,560</b>
Long-Term Liabilities				
Bonds Payable	10,212,414	3,620,000	-	13,832,414
Bond Discount	-	(69,026)	-	(69,026)
Notes Payable - net	-	-	93,969	93,969
State Loans Payable	1,764,615	-	-	1,764,615
Advance from TVA	-	1,216,534	-	1,216,534
Deferred Revenue	-	119,972	-	119,972
Compensated Absences	52,766	495,369	4,983	553,118
<b>Total Long-Term Liabilities</b>	<b>12,029,795</b>	<b>5,382,849</b>	<b>98,952</b>	<b>17,511,596</b>
<b>TOTAL LIABILITIES</b>	<b>13,704,874</b>	<b>10,659,895</b>	<b>279,387</b>	<b>24,644,156</b>
<b>NET ASSETS</b>				
Invested in Capital Assets, Net of Related Debt	11,766,213	30,384,839	2,120,059	44,271,111
Restricted for Capital Improvements	-	-	927	927
Unrestricted	4,171,713	5,015,868	60,435	9,248,016
<b>TOTAL NET ASSETS</b>	<b>\$ 15,937,926</b>	<b>\$ 35,400,707</b>	<b>2,181,421</b>	<b>53,520,054</b>

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

CITY OF ELIZABETHTON, TENNESSEE  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
For the Fiscal Year Ended June 30, 2006

	Business - Type Activities - Enterprise Funds			Total Enterprise Funds
	Elizabethton Water and Sewer Fund	Elizabethton Electric System	Elizabethton Municipal Airport	
<b>OPERATING REVENUES</b>				
Charges for Services - Security for Revenue Bonds	\$ 5,856,418	41,633,296	676,784	48,166,498
<b>OPERATING EXPENSES</b>				
Wages and Employee Benefits	2,001,064	-	113,800	2,114,864
Purchases of Power, Water and Other	-	31,810,791	308,932	32,119,723
Other Operating Expenses	1,090,970	3,167,038	168,658	4,426,666
Maintenance	183,142	1,571,865	7,181	1,762,188
Tax Equivalent	-	357,101	-	357,101
Treatment, Transmissions and Utilities	502,051	-	-	502,051
Administrative	900,000	-	-	900,000
Depreciation	1,175,530	1,420,502	81,824	2,677,856
<b>TOTAL OPERATING EXPENSES</b>	<b>5,852,757</b>	<b>38,327,297</b>	<b>680,395</b>	<b>44,860,449</b>
<b>OPERATING INCOME (LOSS)</b>	<b>3,661</b>	<b>3,305,999</b>	<b>(3,611)</b>	<b>3,306,049</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Interest Income	138,002	146,711	1,129	285,842
Interest Expense and Fiscal Charges	(363,684)	(196,329)	(5,928)	(565,941)
Other Revenue	20,810	-	1,159	21,969
Other Expense	(42,243)	(38,901)	-	(81,144)
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>(247,115)</b>	<b>(88,519)</b>	<b>(3,640)</b>	<b>(339,274)</b>
Income (Loss) Before Contributions and Transfers	(243,454)	3,217,480	(7,251)	2,966,775
Transfer to General Fund	-	(689,992)	-	(689,992)
Transfer from General Fund	-	-	37,350	37,350
Reimbursements and Grants	274,875	-	62,638	337,513
Change in Net Assets	31,421	2,527,488	92,737	2,651,646
NET ASSETS, JULY 1, 2005	15,906,505	32,873,219	2,108,787	50,888,511
PRIOR PERIOD ADJUSTMENT	-	-	(20,103)	(20,103)
NET ASSETS, JUNE 30, 2006	<u>\$ 15,937,926</u>	<u>35,400,707</u>	<u>2,181,421</u>	<u>53,520,054</u>

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

CITY OF ELIZABETHTON, TENNESSEE  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For the Fiscal Year Ended June 30, 2006

	Business-Type Activities - Enterprise Funds			Total Enterprise Funds
	Elizabethton Water and Sewer Fund	Elizabethton Electric System	Elizabethton Municipal Airport	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash Received From Customers	\$ 5,909,551	39,247,884	637,458	45,794,893
Cash Received from City of Elizabethton for Services	-	893,570	-	893,570
Cash Received from Rentals and Other Sales	-	1,387,412	43,732	1,431,144
Cash Received/Payments for Tax Equivalent	-	(203,741)	-	(203,741)
Cash Payments for Employee Services & Benefits	(2,072,988)	(213,699)	(550,791)	(2,837,478)
Cash Payments for Energy Right Customers	-	3,702	-	3,702
Cash Received for Customer Deposits	-	189,616	-	189,616
Cash Payments to Suppliers for Goods and Services	(2,632,789)	(36,311,171)	-	(38,943,960)
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>	<b>1,203,774</b>	<b>4,993,573</b>	<b>130,399</b>	<b>6,327,746</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Acquisition and Construction of Capital Assets	(747,429)	(2,248,693)	(151,306)	(3,147,428)
Proceeds from bond issue	-	3,495,000	-	3,495,000
Bond Issue Costs	-	(116,874)	-	(116,874)
Principal Paid on Bonds	(420,000)	(3,480,000)	-	(3,900,000)
Principal Paid on Notes Payable	-	-	(38,455)	(38,455)
Interest Paid on Bonds and Notes Payable	(287,132)	(208,151)	(5,925)	(501,208)
Principal Paid on State Loans	(301,740)	-	-	(301,740)
Grant Proceeds	274,875	-	52,638	327,513
<b>NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(1,481,426)</b>	<b>(2,558,718)</b>	<b>(143,048)</b>	<b>(4,183,192)</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>				
Transfers to Other Funds	5,593	(689,992)	-	(684,399)
Transfer from Other Funds	(839)	-	37,350	36,511
<b>NET CASH PROVIDED BY (USED FOR) NON-CAPITAL FINANCING ACTIVITIES</b>	<b>4,754</b>	<b>(689,992)</b>	<b>37,350</b>	<b>(647,888)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Sale of Investments	711,153	-	-	711,153
Purchase of Investments	-	(902,282)	-	(902,282)
Interest on Investments	138,002	130,057	1,129	269,188
<b>NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES</b>	<b>849,155</b>	<b>(772,225)</b>	<b>1,129</b>	<b>78,059</b>
Net Increase (Decrease) in Cash	576,257	972,638	25,830	1,574,725
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>1,549,896</b>	<b>4,659,880</b>	<b>26,528</b>	<b>6,236,304</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 2,126,153</b>	<b>5,632,518</b>	<b>52,358</b>	<b>7,811,029</b>

(Continued)

CITY OF ELIZABETHTON, TENNESSEE  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For the Fiscal Year Ended June 30, 2006

	<u>Business-Type Activities - Enterprise Funds</u>			<u>Total Enterprise Funds</u>
	<u>Elizabethton Water and Sewer Fund</u>	<u>Elizabethton Electric System</u>	<u>Elizabethton Municipal Airport</u>	
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities				
NET OPERATING INCOME (LOSS)	\$ 3,661	3,305,999	(3,611)	3,306,049
Adjustments				
Depreciation and Amortization	1,175,530	1,525,797	81,824	2,783,151
Other Income and Expense	(14,190)	-	11,159	(3,031)
Provision for Uncollectibles	-	32,145	-	32,145
Changes in Assets and Liabilities				
(Increase) Decrease in Receivables	32,323	(98,681)	(21,605)	(87,963)
(Increase) Decrease in Inventory	(9,170)	(83,359)	(10,476)	(103,005)
Increase (Decrease) in Accounts Payable - net	27,265	178,747	73,108	279,120
Increase (Decrease) in Customer Deposits	40,639	189,616	-	230,255
Increase (Decrease) in Other				
Liabilities/Accruals	19,218	9,397	-	28,615
Increase (Decrease) in Accrued Payroll	(79,230)	(68,511)	-	(147,741)
Increase (Decrease) in Deferred Revenue	422	(5,749)	-	(5,327)
Increase (Decrease) in Compensated Absences	7,306	8,172	-	15,478
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>\$ 1,203,774</u>	<u>4,993,573</u>	<u>130,399</u>	<u>6,327,746</u>

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

CITY OF ELIZABETHTON, TENNESSEE  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
June 30, 2006

---

	<u>Military Family Support Private-Purpose Trust</u>
ASSETS	
Cash	<u>\$ 2,660</u>
NET ASSETS	
Held in Trust for Military Families	<u>\$ 2,660</u>

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

CITY OF ELIZABETHTON, TENNESSEE  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
For the Fiscal Year Ended June 30, 2006

---

ADDITIONS	
Interest	\$ 20
TOTAL ADDITIONS	<u>20</u>
DEDUCTIONS	
Benefits to Military Families	<u>-</u>
TOTAL DEDUCTIONS	<u>0</u>
CHANGE IN NET ASSETS	20
NET ASSETS, JULY 1, 2005	<u>2,640</u>
NET ASSETS, JUNE 30, 2006	<u>\$ 2,660</u>

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

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006

---

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Financial Reporting Entity

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

Individual Component Unit Disclosures

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

The financial statements are formatted to allow the user to clearly distinguish between the primary government and its component units. Discretely presented component units are reported in separate columns in the government-wide financial statements (see note below for description) to emphasize that those entities are legally separate from the City.



CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006

---

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

Blended Component Unit

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

Primary Government – Enterprise Funds

Elizabethton Electric System

The Elizabethton Electric System was established in accordance with the TCA Power Act of 1937 by the City of Elizabethton. The majority of the plant, equipment, and other resources of the System are located within the corporate boundaries of the City. Electric service is provided to customers both inside and outside the city. In May 2005, the City council voted to abolish the electric system board and return supervision and control of the electric system to the City Council. All revenues generated from customers in the System are used exclusively for the operation, maintenance, and expansion of the System. The City of Elizabethton is responsible for authorizing all applicable indebtedness incurred by the System. The City is financially accountable and is able to impose its will on the Elizabethton, TN Electric System.

Related Organizations

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

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

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

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006

---

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Elizabethton/Carter County Economic Development Commission

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

Carter County Emergency 911 Communications District

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

Carter County Equalization Board

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

Health and Education Facilities Board

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

Watauga Regional Library Board

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

Solid Waste Regional Board

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

Elizabethton Housing Authority

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

Joint Venture

Carter County Solid Waste Disposal System Board

The City appoints two members to the Board and the County appoints two members. A fifth member is jointly approved by both the City Council and the Carter County Commission. Also, the City Manager is an ex-officio member. No appropriation is made by the City to this Board. The City and County have entered into an agreement to jointly and cooperatively operate and maintain a solid waste disposal system for the duration of the life of the Campbell Hollow Solid Waste Sanitary Landfill. The proceeds of the disposal of all land and property purchased jointly will be returned in equal parts to the City and County. As discussed in Note 15, the City's portion of monitoring costs for the year ended was \$26,576. There is no separately issued financial report for this entity.

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006

---

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Discretely Presented Component Units

Elizabethton Municipal Golf Course

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

The Elizabethton Board of Education

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

Government-wide and Fund Financial Statements

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

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

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006

---

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-wide and Fund Financial Statements (Continued)

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

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

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

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006

---

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The City reports the following major governmental fund:

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

The City reports the following major proprietary funds:

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

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

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

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

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

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006

---

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Assets, Liabilities and Equity

1. Deposits and Investments

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

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

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006

---

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities and Equity (Continued)

2. Receivables and Payables

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

All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 180 days comprise the trade accounts receivable allowance for uncollectible. The property tax receivable allowance is equal to 2.5% of current taxes and 8.0% of all other years at June 30, 2006. Estimated uncollectible taxes were based on the prior year's collection experience.

Property taxes are levied as of August 1 on property values assessed on the same date. All real property taxes and personal property taxes are due and payable on the tenth of November. The billings are considered past due on January 1 at which time the applicable property is subject to lien and penalties and interest are assessed. Property taxes recognized as receivable before the period of revenue recognition have been reported as deferred revenues. For the fiscal year ending June 30, 2006 the 2005 calendar-year property tax rate was \$2.30 per \$100.00 of assessed value.

3. Inventories and Prepaid Items

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

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

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

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006

---

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities and Equity (Continued)

4. Restricted Assets

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

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

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

5. Capital Assets

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

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

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

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



CITY OF ELIZABETHTON, TENNESSEE  
 NOTES TO THE FINANCIAL STATEMENTS  
 June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities and Equity (Continued)

5. Capital Assets (continued)

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

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

The assets of the Elizabethton Electric System are being depreciated on the straight-line method over the useful lives per guidelines of the T.V.A. When property is retired or otherwise disposed of, its average cost, together with its cost of removal less salvage, is charged to accumulated depreciation; no gain or loss is recognized as per federal energy regulations. \$105,295 of depreciation was charged to operating expense per T.V.A. guidelines.

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

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

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

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

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006

---

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities and Equity (Continued)

6. Compensated Absences

Policy of the City of Elizabethton

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

The proprietary fund financial statements reflect \$828,239 of vacation benefits payable. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Expected future demands of \$396,596 for vacation benefits have been reflected in the statement of net assets as compensated absences for the governmental activities.

Policy of the Elizabethton Electric System

Accumulated Sick Leave:

Prior to May 12, 2005, sick leave accumulated at the rate of one day each month after an employee had been on the payroll for ninety days. Also, sick leave accumulated from year to year to a maximum of one hundred and eighty (180) days or 1440 hours. For those employees with more than 180 days or 1440 hours accumulated as of July 1, 1993, the amount accumulated will be the maximum. On date of termination or retirement, an employee will be paid one hundred percent (100%) of accumulated days of sick leave. In fiscal year 1996, the board agreed that employees may transfer sick days to other employees that suffer catastrophic sickness and exhaust their accumulated sick days.

After May 12, 2005, the policy of the City of Elizabethton became effective. The policy is to permit employees to accumulate unused vacation and sick pay benefits. No liability is recorded for unpaid accumulated sick leave earned after May 12, 2005. The sick hours earned and unused after May 12, 2005 are added towards years of service when determining retirement eligibility. Vacation pay is accrued when earned.

Accumulated Vacation:

Employees earn various days of vacation based on the number of years of service. Employees with more than twenty (20) years of service are entitled to a maximum of twenty-five (25) days of vacation per year. A maximum of thirty (30) days of accumulated vacation may be carried to the next calendar year. Vacation time accumulated prior to January 1, 1978 is exempt from the carry-forward limitation. At the end of December 31 of each year, accumulated vacation leave in excess of thirty (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.

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006

---

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities and Equity (Continued)

6. Compensated Absences (continued)

A liability for compensated absences and related fringe benefits is reflected on the statement of net assets at June 30, 2006, in the amount of \$707,670. The portion of this liability expected to be paid within one (1) year is classified as a current liability and the remainder as a long-term liability.

7. Long-term Obligations

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

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

8. Fund Equity

Reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

9. Use of Estimates

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

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006

---

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities and Equity (Continued)

Discretely Presented Component Units

Elizabethton Board of Education

Significant Accounting Policies

1. Inventories

Inventories are stated at lower cost of cost (first-in, first-out) or market (net realizable value). Inventory items are recognized as expenditures when purchased (purchases method). Fund balances have been reserved for the amount of inventories on hand at year end. Donated inventory from USDA (commodities) is not recorded in the cafeteria fund in accordance with generally accepted accounting principles applicable to governmental funds.

Because the cafeteria utilizes the single inventory method for all inventory, whether purchased or donated, the value of ending inventory related to commodities has been estimated based on the assumption that commodities are consumed prior to the use of purchased, inventory, resulting in a \$0 balance for commodities inventory. The value of commodities received and used during the fiscal year is estimated to be \$44,690.

2. Accumulated Unpaid Vacation and Sick Leave

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

3. Estimates

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

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006

---

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities and Equity (Continued)

Discretely Presented Component Units (Continued)

Elizabethton Board of Education (Continued)

Significant Accounting Policies (Continued)

4. Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 for vehicles and equipment and \$50,000 for buildings and improvements or more are reported at historical costs or estimated historical cost. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Building and improvements	40 years
Vehicles and equipment	3-20 years

Elizabethton Municipal Golf Course

Significant Accounting Policies

1. Property, Plant and Equipment

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

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

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

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006

---

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities and Equity (Continued)

Discretely Presented Component Units (Continued)

Elizabethton Municipal Golf Course, Inc. (Continued)

Significant Accounting Policies (Continued)

2. Cash and Cash Equivalents

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

3. Inventories

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

4. Estimates

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

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

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

The governmental fund balance sheet includes a reconciliation between *fund balance-total governmental funds* and *net assets-governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “long-term liabilities, including bonds payable, notes payable and compensated absences are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$(3,168,262) difference are as follows:

Bonds payable	\$ (1,705,000)
Notes payable	(1,066,666)
Compensated absences	<u>(396,596)</u>
Net adjustment to reduce <i>fund balance-total governmental funds</i> to arrive at <i>net assets-governmental activities</i>	\$ <u>(3,168,262)</u>

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006

---

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

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

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

One element of that reconciliation states that “the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. The details of this \$599,167 difference is as follows:

Principal repayments:

General obligation debt	\$ 470,000
Notes	<u>129,167</u>

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

\$ 599,167

Another element of that reconciliation states that “Compensated absences are measured by the amounts earned during the year in the statement of activities. However, expenditures for these items are measured by the amount of financial resources used in the governmental funds.” The details of this \$(596) are as follows:

Compensated absences for the prior year	\$ 396,000
Compensated absences for the current year	<u>(396,596)</u>

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

\$ (596)

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006

---

NOTE 3 - BUDGETARY INFORMATION AND COMPLIANCE

A. BUDGETARY REPORTING

The City Council authorizes an annual operating budget ordinance for expenditures and related estimated revenues for the General fund, all Special Revenue funds, and certain Capital Projects funds. The City's financial operations are subject to the comprehensive appropriated budget. Budget amendments are authorized during the year. The Statements of Budget to Actual are as originally adopted or as amended by the City Council. The budgetary basis only differs from accounting principles generally accepted in the United States of America concerning the reporting of property tax collections. The budget is prepared using the actual cash collections expected. The actual amounts reported by the modified accrual basis are immaterially different from the cash basis used for the budget. During the year, the actual expenditures exceeded the budget in the State Street Aid department by \$31,773 and in Building Code Enforcement by \$1,821.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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



CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006

---

NOTE 4 - DEPOSITS AND INVESTMENTS (CONTINUED)

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

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

The City does not have a policy for interest rate risk or other credit risk other than pledging securities for amounts in excess of FDIC coverage.

Deposits

At year end, the City had \$21,304 of cash on hand which has been included in cash and cash equivalents. The City's carrying amount of deposits was \$13,190,007 and the bank balance was \$14,165,338.

The bank balances' are collateralized or insured as follows:

Amount insured by FDIC or collateralized with State of Tennessee Bank Collateral Pool	\$ <u>14,165,338</u>
--	----------------------

The City also manages cash for the Military Family Support Private Purpose Trust fund. The City's carrying amount of deposits for the fund was \$2,660 and the bank balance was \$2,660. These deposits have not been reflected in the statement of net assets. The entire amount of the deposits was covered by the State of Tennessee Collateral Pool. The School System and Municipal Golf Course, discretely presented component units, had deposits with a balance per books of \$789,751 and a bank balance of \$1,215,500. The deposits in excess of Federal Deposit Insurance Corporation limits were fully collateralized by the State of Tennessee Collateral Pool.

CITY OF ELIZABETHTON, TENNESSEE  
 NOTES TO THE FINANCIAL STATEMENTS  
 June 30, 2006

---

NOTE 4 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments

At June 30, 2006, the City of Elizabethton's investment balances were as follows:

Investment Type:	Primary Government	
	Reported Amount	Fair Value
Local Government Investment Pool	\$ <u>4,188,211</u>	<u>4,188,211</u>
Total Primary Government	\$ <u>4,188,211</u>	<u>4,188,211</u>

These amounts are reflected on the statement of net assets as Investments \$2,539,833 and Restricted Assets: Investments \$1,648,378.

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

<i>Total Deposits:</i>	City of <u>Elizabethton</u>	Discretely Presented Component <u>Units</u>
Carrying Amount of Deposits	\$ <u>13,190,007</u>	<u>789,751</u>
<i>Amounts per Statement of Net Assets:</i>		
Cash	\$ 7,101,792	
Certificates of Deposit	4,411,944	
Cash Overdraft	(536,267)	
Restricted Cash	<u>2,212,538</u>	
Total per Statement of Net Assets	\$ <u>13,190,007</u>	

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006

NOTE 5 - RECEIVABLES

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

	General	Water and Sewer	Electric System	Nonmajor and Other Funds	Component Units	Total
Receivables:						
Accounts	\$ 1,937	280,082	3,056,904	67,085	5,633	3,411,641
Taxes	4,059,155	-	-	-	-	4,059,155
Notes Receivable	265,773	-	-	-	-	265,773
Due from Other Governments	1,002,961	24,663	-	10,071	373,870	1,411,565
Gross Receivables	5,329,826	304,745	3,056,904	77,156	379,503	9,148,134
Less: Allowance for Uncollectibles	(19,833)	(1,508)	(153,486)	-	-	(174,827)
Total Receivables	<u>\$ 5,309,993</u>	<u>303,237</u>	<u>2,903,418</u>	<u>77,156</u>	<u>379,503</u>	<u>8,973,307</u>

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Receivables not received within period of availability:		
Property tax levied for ensuing fiscal year:		
General Fund	\$ -	3,687,269
Property tax levied but not collected in period of availability	286,786	-
Other taxes	51,760	-
	<u>\$ 338,546</u>	<u>3,687,269</u>

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 is as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Adjustments</u>	<u>Ending Balance</u>
Governmental Activities					
Capital assets, not being depreciated:					
Land	\$ 2,122,568	154,000	-	-	2,276,568
Construction in Progress	-	13,611	-	-	13,611
Library Infrastructure	546,651	-	-	-	546,651
Total capital assets, not being depreciated	<u>2,669,219</u>	<u>167,611</u>	<u>0</u>	<u>0</u>	<u>2,836,830</u>
Capital assets, being depreciated:					
Buildings and Improvements	6,577,041	-	-	681	6,577,722
Motor Equipment	3,992,025	125,122	(25,526)	-	4,091,621
Office Equipment	1,663,682	97,360	(18,000)	-	1,743,042
Infrastructure	10,362,824	300,003	-	-	10,662,827
Total capital assets, being depreciated	<u>22,595,572</u>	<u>522,485</u>	<u>(43,526)</u>	<u>681</u>	<u>23,075,212</u>
Less accumulated depreciation for:					
Buildings and Improvements	(2,015,242)	(183,617)	-	-	(2,198,859)
Motor Equipment	(2,723,865)	(226,116)	25,526	-	(2,924,455)
Office Equipment	(1,094,730)	(235,857)	18,000	-	(1,312,587)
Infrastructure	(4,983,260)	(276,642)	-	-	(5,259,902)
Total accumulated depreciation	<u>(10,817,097)</u>	<u>(922,232)</u>	<u>43,526</u>	<u>0</u>	<u>(11,695,803)</u>
Total capital assets, being depreciated, net	<u>11,778,475</u>	<u>(399,747)</u>	<u>0</u>	<u>681</u>	<u>11,379,409</u>
Governmental activities, Capital assets, net	<u>\$ 14,447,694</u>	<u>(232,136)</u>	<u>0</u>	<u>681</u>	<u>14,216,239</u>

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006

NOTE 6 - CAPITAL ASSETS (CONTINUED)

Primary Government (continued)

Business-Type Activities

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Adjustments</u>	<u>Ending Balance</u>
Business - Type Activities					
Capital assets, not being depreciated:					
Land	\$ 1,035,362	1,000	-	-	1,036,362
Construction in Progress	2,566,307	175,564	(463,619)	-	2,278,252
Total capital assets, not being depreciated	<u>3,601,669</u>	<u>176,564</u>	<u>(463,619)</u>	<u>0</u>	<u>3,314,614</u>
Capital assets, being depreciated:					
Buildings	23,816,885	32,647	-	-	23,849,532
Lines and Transmission	62,459,215	2,834,887	(520,483)	-	64,773,619
Plant	349,944	97,470	-	-	447,414
Motor Equipment	4,032,328	214,575	-	-	4,246,903
Office Equipment	846,406	28,170	(7,813)	-	866,763
Other	1,663,649	72,959	(13,309)	-	1,723,299
Furniture	20,699	-	-	-	20,699
Total capital assets, being depreciated	<u>93,189,126</u>	<u>3,280,708</u>	<u>(541,605)</u>	<u>0</u>	<u>95,928,229</u>
Less accumulated depreciation for:					
Buildings	(7,440,281)	(607,507)	-	-	(8,047,788)
Lines and Transmission	(23,869,492)	(1,811,299)	709,909	-	(24,970,882)
Plant	(150,995)	(76,080)	-	-	(227,075)
Motor Equipment	(3,164,560)	(207,333)	(35,500)	-	(3,407,393)
Office Equipment	(462,485)	(27,014)	7,661	-	(481,838)
Other	(1,229,059)	(53,786)	13,309	-	(1,269,536)
Furniture	(19,947)	(132)	-	-	(20,079)
Total accumulated depreciation	<u>(36,336,819)</u>	<u>(2,783,151)</u>	<u>695,379</u>	<u>0</u>	<u>(38,424,591)</u>
Total capital assets, being depreciated, net	<u>56,852,307</u>	<u>497,557</u>	<u>153,774</u>	<u>0</u>	<u>57,503,638</u>
Business - type Activities, Capital assets, net	<u>\$ 60,453,976</u>	<u>674,121</u>	<u>(309,845)</u>	<u>0</u>	<u>60,818,252</u>

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006

NOTE 6 - CAPITAL ASSETS (CONTINUED)

Primary Government (continued)

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

<b>Governmental Activities</b>	
General Government	\$ 301,860
Public Safety	171,138
Public Works - including general infrastructure assets	312,619
Health and Welfare	884
Culture and Recreation	80,318
Drug Fund	3,083
Solid Waste/Sanitation	52,330
<b>Total Depreciation Expense - Governmental Activities</b>	<b>\$ 922,232</b>
<b>Business-type Activities</b>	
Electric System	\$ 1,420,502
Water and Sewer	1,175,530
Airport	81,824
<b>Total Depreciation Expense - Business-type Activities</b>	<b>\$ 2,677,856</b>

Discretely Presented Component Units

Activity for the Municipal Golf Course and Board of Education for the year ended June 30, 2006 are as follows:

<u>Municipal Golf Course</u>	<u>Beginning</u> <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Adjustments</u>	<u>Ending</u> <u>Balance</u>
<b>Capital Assets, Being Depreciated:</b>					
Building and Building Improvements	\$ 63,098	9,236	-	-	72,334
Machinery and Equipment	494,556	5,995	-	-	500,551
Vehicles	4,500	-	-	-	4,500
Office Equipment	14,002	-	-	-	14,002
Course Improvements	1,424,926	-	-	-	1,424,926
Carts, Range and Other	5,490	-	-	-	5,490
<b>Total Capital Assets, Being Depreciated</b>	<b>2,006,572</b>	<b>15,231</b>	<b>0</b>	<b>0</b>	<b>2,021,803</b>

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006

NOTE 6 - CAPITAL ASSETS (CONTINUED)

Discretely Presented Component Units (Continued)

Municipal Golf Course (continued)

Less Accumulated Depreciation For:

Building and Building Improvements	(40,947)	(2,488)	-	-	(43,435)
Machinery and Equipment	(373,389)	(26,106)	-	-	(399,495)
Vehicles	(4,500)	-	-	-	(4,500)
Office Equipment	(12,734)	(468)	-	-	(13,202)
Course Improvements	(696,835)	(55,913)	-	-	(752,748)
Carts, Range and Other	(6,547)	(243)	-	-	(6,790)
Total Accumulated Depreciation	<u>(1,134,952)</u>	<u>(85,218)</u>	<u>0</u>	<u>0</u>	<u>(1,220,170)</u>
Total Capital Assets, Being Depreciated, Net	<u>\$ 871,620</u>	<u>(69,987)</u>	<u>0</u>	<u>0</u>	<u>801,633</u>

Board of Education

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets, Not Being Depreciated:				
Land	\$ 171,959	44,211	-	216,170
Construction in Progress	257,701	148,972	(222,077)	184,596
Total Capital Assets, Not Being Depreciated	<u>429,660</u>	<u>193,183</u>	<u>(222,077)</u>	<u>400,766</u>
Capital Assets, Being Depreciated				
Buildings	13,881,427	374,297	-	14,255,724
Equipment	700,746	52,475	-	753,221
Total Capital Assets, Being Depreciated	<u>14,582,173</u>	<u>426,772</u>	<u>0</u>	<u>15,008,945</u>
Less Accumulated Depreciation For:				
Buildings	(6,659,749)	(321,153)	-	(6,980,902)
Equipment	(493,541)	(20,006)	-	(513,547)
Total Accumulated Depreciation	<u>(7,153,290)</u>	<u>(341,159)</u>	<u>0</u>	<u>(7,494,449)</u>
Total Capital Assets, Being Depreciated, Net	<u>7,428,883</u>	<u>85,613</u>	<u>0</u>	<u>7,514,496</u>
Total Capital Assets, Net	<u>\$ 7,858,543</u>	<u>278,796</u>	<u>(222,077)</u>	<u>7,915,262</u>

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006

---

NOTE 7 - OPERATING LEASES

Component Unit

The Elizabethton Municipal Golf Course leases property to be used as a driving range. In addition to the \$1,125 monthly lease payment, the golf course is required to pay all utility bills, business taxes or fees and carry public liability insurance on the property. The golf course is also responsible for payment to the lessor one-third (1/3) of all driving range income received above \$22,500 as a lump sum annually. The lease agreement is effective for the period March 2, 2003 through March 1, 2007.

The golf course also leases golf carts from a national financing company. In addition to the \$2,168 monthly lease payment, the golf course is required to pay all related taxes and fees, any insurance and repair the carts.

Future payments required under the operating leases are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Amount</u>
2007	\$ 28,173
2008	23,977
2009	16,077
2010	<u>13,327</u>
TOTAL	\$ <u>81,554</u>

Total lease expenses during the year ended June 30, 2006 are \$14,735 for the driving range and \$21,680 for the carts.



CITY OF ELIZABETHTON, TENNESSEE  
 NOTES TO THE FINANCIAL STATEMENTS  
 June 30, 2006

NOTE 8 - CAPITAL LEASES

Component Unit

The Elizabethton Municipal Golf Course leases mowing and related turf equipment from several financing companies. The economic substance of the leases is that the Golf Course is financing the acquisition of the assets through the leases and, accordingly, the leases are recorded in the Golf Course's assets and liabilities. Capital leases reflect the transfer of risks and benefits associated with the assets to the lessee. Amortization of the leased property is included in depreciation expense.

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

Mowing Equipment and Turf Equipment	\$ 215,572
Less: Accumulated Depreciation	<u>(120,997)</u>
	<u>\$ 94,575</u>

Amortization of assets held under capital leases is included with depreciation expense.

During the year ended June 30, 2006, the following debt transactions occurred.

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Capital Lease - Turf Equipment	\$ 69,954	-	13,090	56,864	13,776
Capital Lease - Turf Equipment	25,774	-	6,745	19,029	8,736
Capital Lease - Turf Equipment	11,457	-	5,796	5,661	5,661
Capital Lease - Turf Equipment	<u>777</u>	<u>-</u>	<u>777</u>	<u>-</u>	<u>-</u>
	<u>\$ 107,962</u>	<u>0</u>	<u>26,408</u>	<u>81,554</u>	<u>28,173</u>

Future payments required under the capital leases are as follows:

Fiscal Year Ending June 30	Amount
2007	\$ 28,173
2008	23,977
2009	16,077
2010	<u>13,327</u>
Total	<u>\$ 81,554</u>

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006

NOTE 9 – SALES TYPE LEASES

Sales-type Lease

The City leases a 12,500 square foot building situated on approximately 5.60 acres of land to the State of Tennessee. This is a sales-type lease with a 12 year term. The lessee has the option to purchase the building and property at the end of the lease for \$1.00 or to purchase the above property at anytime during the lease term at a discounted purchase price in an amount commensurate with the total amount of remaining bond interest, upkeep and maintenance fees. Since this lease is recorded in the General Fund and is not a significant portion of revenues, no receivable is recorded on the statement of net assets. The following is a schedule of future minimum rentals under the lease at June 30, 2006.

<u>Year Ending June 30</u>	<u>Amount</u>
2007	78,960
2008	78,960
2009	<u>43,725</u>
	<u>\$201,645</u>

NOTE 10 - LONG TERM DEBT

During the year ended June 30, 2006 the following debt transactions occurred.

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance End of Year</u>	<u>Due Within One Year</u>
Governmental Activities:					
General Obligation Debt	\$ 2,175,000	-	470,000	1,705,000	490,000
Compensated Absences	396,000	223,962	223,366	396,596	223,367
Notes Payable	1,195,833	-	129,167	1,066,666	129,167
	<u>3,766,833</u>	<u>223,962</u>	<u>822,533</u>	<u>3,168,262</u>	<u>842,534</u>
Governmental Activities					
Long Term Liabilities	<u>3,766,833</u>	<u>223,962</u>	<u>822,533</u>	<u>3,168,262</u>	<u>842,534</u>
Business-type Activities:					
Tax Refunding and					
Improvement Bonds	11,067,414	-	420,000	10,647,414	435,000
Revenue Bonds	3,765,000	3,495,000	3,480,000	3,780,000	160,000
Total Bonds	<u>14,832,414</u>	<u>3,495,000</u>	<u>3,900,000</u>	<u>14,427,414</u>	<u>595,000</u>
Notes Payable	158,227	-	38,455	119,772	25,803
State Loans	2,378,499	-	301,740	2,076,759	312,144
Compensated Absences	813,240	285,868	270,869	828,239	275,121
Business-type Activities					
Long Term Liabilities	<u>18,182,380</u>	<u>3,780,868</u>	<u>4,511,064</u>	<u>17,452,184</u>	<u>1,208,068</u>
Total Changes in Long Term Debt	<u>\$ 21,949,213</u>	<u>4,004,830</u>	<u>5,333,597</u>	<u>20,620,446</u>	<u>2,050,602</u>

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006

NOTE 10 - LONG TERM DEBT (CONTINUED)

Governmental Activity Debt

Bonds Payable

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. The following is a summary of general obligation bonds currently outstanding from the General Fund:

<u>General Fund</u>	<u>Date Issued</u>	<u>Amount Issued</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Outstanding June 30, 2006</u>
General Obligation-Series 2001	07-02-01	1,500,000	3.0-4.05%	12-01-08	\$ 605,000
General Obligation-Series 2003	09-19-03	1,675,000	2.0-3.25%	09-01-09	<u>1,100,000</u>
					<u>\$ 1,705,000</u>

General Obligation Bonds issued 07-02-01 debt service requirements to maturity are as follows:

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 190,000	20,365	210,365
2008	200,000	12,708	212,708
2009	<u>215,000</u>	<u>4,354</u>	<u>219,354</u>
	<u>\$ 605,000</u>	<u>37,427</u>	<u>642,427</u>

General Obligation Bonds issued 09-19-03 debt service requirements to maturity are as follows:

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 300,000	25,700	325,700
2008	330,000	18,575	348,575
2009	330,000	9,500	339,500
2010	<u>140,000</u>	<u>2,275</u>	<u>142,275</u>
	<u>\$1,100,000</u>	<u>56,050</u>	<u>1,156,050</u>

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006

---

NOTE 10 - LONG TERM DEBT (CONTINUED)

Governmental Activity Debt (continued)

Bonds Payable (continued)

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

Fiscal Year Ending June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 490,000	46,065	536,065
2008	530,000	31,283	561,283
2009	545,000	13,854	558,854
2010	<u>140,000</u>	<u>2,275</u>	<u>142,275</u>
	<u>\$ 1,705,000</u>	<u>93,477</u>	<u>1,798,477</u>

Notes Payable

General Obligation Notes currently outstanding from the General Fund are as follows:

<u>General Fund</u>	<u>Date Issued</u>	<u>Amount Issued</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Outstanding June 30, 2006</u>
Capital Outlay Notes	2/28/97	250,000	5.45%	2-28-07	\$ 25,000
Capital Outlay Notes	2/12/04	1,250,000	3.95%	11-20-15	<u>1,041,666</u>
					<u>\$ 1,066,666</u>

Capital Outlay Note issued 2/28/97 debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ <u>25,000</u>	<u>1,363</u>	<u>26,363</u>
	\$ <u>25,000</u>	<u>1,363</u>	<u>26,363</u>

CITY OF ELIZABETHTON, TENNESSEE  
 NOTES TO THE FINANCIAL STATEMENTS  
 June 30, 2006

---

NOTE 10 - LONG TERM DEBT (CONTINUED)

Governmental Activity Debt (continued)

Notes Payable (continued)

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

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 104,167	39,649	143,816
2008	104,167	35,568	139,735
2009	104,167	31,305	135,472
2010	104,167	27,133	131,300
2011	104,166	22,962	127,128
2012-2016	<u>520,832</u>	<u>52,278</u>	<u>573,110</u>
	<u>\$ 1,041,666</u>	<u>208,895</u>	<u>1,250,561</u>

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

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 129,167	41,012	170,179
2008	104,167	35,568	139,735
2009	104,167	31,305	135,472
2010	104,167	27,133	131,300
2011	104,166	22,962	127,128
2012-2016	<u>520,832</u>	<u>52,278</u>	<u>573,110</u>
	<u>\$ 1,066,666</u>	<u>210,258</u>	<u>1,276,924</u>

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006

NOTE 10 - LONG TERM DEBT (CONTINUED)

Business-Type Activity Debt

Bonds Payable

The government issues bonds when the government pledges income derived from the acquired or constructed assets to pay debt service. The following is a summary of revenue bonds currently outstanding and the funds from which they will be paid:

	<u>Date Issued</u>	<u>Amount Issued</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Outstanding June 30, 2006</u>
<u>Water and Sewer Fund</u>					
Water and Sewer Revenue and Tax Refunding and Improvement - Series 2002A	06-12-02	5,500,000	3.5-4.5%	06-01-14	\$4,755,000
Water and Sewer Revenue and Tax Refunding - Series 2001	07-02-01	655,000	3.0-4.0%	12-01-07	235,000
Water and Sewer Revenue and Tax Refunding and Improvement - Series 2002B	06-12-02	5,647,414	4.9-5.61%	06-01-31	5,657,414
<u>Elizabethton Electric System Fund</u>					
Revenue Bonds	12-22-97	5,000,000	4.65-5.62%	9-01-08	285,000
Revenue Refunding Bonds	08-24-05	3,495,000	3.5-4.15%	09-01-22	<u>3,495,000</u>
					<u>\$14,427,414</u>

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

Fiscal Year	<u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007		\$ 320,000	199,670	519,670
2008		470,000	187,190	657,190
2009		710,000	168,390	878,390
2010		740,000	139,990	879,990
2011		770,000	109,650	879,650
2012-2014		<u>1,745,000</u>	<u>129,125</u>	<u>1,874,125</u>
		<u>\$4,755,000</u>	<u>934,015</u>	<u>5,689,015</u>

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006

---

NOTE 10 - LONG TERM DEBT (CONTINUED)

Business-Type Activity Debt (Continued)

Bonds Payable (continued)

Water and Sewer Revenue and Tax Refunding Bonds – Series 2001 issued 07-02-01 debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 115,000	7,014	122,014
2008	<u>120,000</u>	<u>2,400</u>	<u>122,400</u>
	<u>\$ 235,000</u>	<u>9,414</u>	<u>244,414</u>

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

Fiscal Year Ending June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ -	-	-
2008	-	-	-
2009	-	-	-
2010	-	-	-
2011	-	-	-
2012-2016	1,314,825	1,195,175	2,510,000
2017-2021	1,800,916	2,574,084	4,375,000
2022-2026	1,459,694	3,385,306	4,845,000
2027-2031	<u>1,081,979</u>	<u>3,678,021</u>	<u>4,760,000</u>
	<u>\$5,657,414</u>	<u>10,832,586</u>	<u>16,490,000</u>

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006

---

NOTE 10 - LONG TERM DEBT (CONTINUED)

Business-Type Activity Debt (Continued)

Bonds Payable (continued)

The Elizabethton Electric System issued \$3,495,000 of Series 2005 Electric System 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 System Revenue Bonds. As a result, the refunded bonds 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 refunding debt, which is the same as the life of the new debt issued in the basic financials. This advance refunding was undertaken to reduce the total debt service payments over the net seventeen years by \$188,399 and resulted in an economic gain of \$131,152.

Elizabethton Electric System Revenue Bonds issued 12-27-97 debt service requirements to maturity are as follows:

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 140,000	11,019	151,019
2008	<u>145,000</u>	<u>3,716</u>	<u>148,716</u>
	<u>\$ 285,000</u>	<u>14,735</u>	<u>299,735</u>

Revenue bonds issued 8-24-05 debt service requirement to maturity are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 20,000	147,376	167,376
2008	20,000	136,007	156,007
2009	175,000	132,595	307,595
2010	180,000	126,383	306,383
2011	185,000	119,764	304,764
2012-2016	1,035,000	483,513	1,518,513
2017-2021	1,285,000	255,853	1,540,853
2022-2023	<u>595,000</u>	<u>24,718</u>	<u>619,718</u>
	<u>\$ 3,495,000</u>	<u>1,426,209</u>	<u>4,921,209</u>



CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006

NOTE 10 - LONG TERM DEBT (CONTINUED)

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

Fiscal Year Ending June 30	Principal	Interest	Total
2007	\$ 595,000	365,079	960,079
2008	755,000	329,313	1,084,313
2009	885,000	300,985	1,185,985
2010	920,000	266,373	1,186,373
2011	955,000	229,414	1,184,414
2012-2016	4,094,825	1,807,813	5,902,638
2017-2021	3,085,916	2,829,937	5,915,853
2022-2026	2,054,694	3,410,024	5,464,721
2027-2031	1,081,979	3,678,021	4,760,000
	<u>\$ 14,427,414</u>	<u>13,216,959</u>	<u>27,644,376</u>

Notes Payable

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

	<u>Date Issued</u>	<u>Amount Issued</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Outstanding June 30, 2006</u>
<u>Elizabethton Municipal</u>					
<u>Airport</u>					
Capital Outlay Notes	January 9, 1995	125,000	Variable	12-31-09	\$ 32,221
	April 1, 1997	127,528	Variable	03-31-12	48,694
	January 15, 2004	42,077	Variable	11-15-04	<u>38,857</u>
					<u>\$ 119,772</u>

The interest rates on all airport debt are variable and amortization schedules are not available. The estimated debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2007	\$ 25,803	6,847	32,650
2008	27,611	5,038	32,649
2009	23,560	3,175	26,735
2010	16,474	1,913	18,387
2011	3,548	1,253	4,801
2012	<u>22,776</u>	<u>3,352</u>	<u>26,128</u>
	<u>\$ 119,772</u>	<u>21,578</u>	<u>141,350</u>

CITY OF ELIZABETHTON, TENNESSEE  
 NOTES TO THE FINANCIAL STATEMENTS  
 June 30, 2006

---

NOTE 10 - LONG TERM DEBT (CONTINUED)

Business-Type Activity Debt (Continued)

Notes Payable (continued)

State Loans Payable

Notes Payable for the Water and Sewer fund which are payable to the State of Tennessee for financing of State Public Health Loan Programs are as follows:

Water and Sewer Fund

State of Tennessee		
SRF 88-004	\$	326,383
DWF 99-016		<u>1,750,376</u>
	\$	<u>2,076,759</u>

Debt service requirements to maturity for SRF 88-004 are as follows:

Fiscal Year Ending June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 228,648	8,111	236,759
2008	<u>97,735</u>	<u>884</u>	<u>98,619</u>
	\$ <u>326,383</u>	<u>8,995</u>	<u>335,378</u>

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

Fiscal Year Ending June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 83,496	45,720	129,216
2008	85,752	43,464	129,216
2009	88,068	41,148	129,216
2010	90,444	38,760	129,204
2011	92,892	36,324	129,216
2012-2016	503,496	142,536	646,032
2017-2021	575,328	70,740	646,068
2022-2023	<u>230,900</u>	<u>6,216</u>	<u>237,116</u>
	\$ <u>1,750,376</u>	<u>424,908</u>	<u>2,175,284</u>

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006

---

NOTE 10 - LONG TERM DEBT (CONTINUED)

Business-Type Activity Debt (Continued)

Notes Payable (continued)

Total debt service requirements to maturity for State Loans are as follows:

Fiscal Year Ending June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 312,144	53,831	365,975
2008	183,487	44,348	227,835
2009	88,068	41,148	129,216
2010	90,444	38,760	129,204
2011	92,892	36,324	129,216
2012-2016	503,496	142,536	646,032
2017-2021	575,328	70,740	646,068
2022-2023	<u>230,900</u>	<u>6,216</u>	<u>237,116</u>
	<u>\$ 2,076,759</u>	<u>433,903</u>	<u>2,510,662</u>

Component Unit Long Term Debt

During the year ended June 30, 2006, the following debt transactions occurred for the Elizabethton Municipal Golf Course:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General Obligation Bond	\$ 124,737	-	46,718	78,019	48,253
Capital Leases	107,962	-	26,408	81,554	28,173
Note Payable	<u>178,571</u>	<u>-</u>	<u>-</u>	<u>178,571</u>	<u>-</u>
 Total Changes in LTD	 <u>\$ 411,270</u>	 <u>0</u>	 <u>73,126</u>	 <u>338,144</u>	 <u>76,426</u>

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006

NOTE 10 - LONG TERM DEBT (CONTINUED)

Component Unit Long Term Debt (continued)

Bonds Payable

	<u>Date Issued</u>	<u>Amount Issued</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Outstanding June 30, 2006</u>
<u>Golf Course Fund</u>					
General Obligation					
Refunding Series 2001	07-02-01	255,000	3.0-3.45%	12-1-08	\$ <u>78,019</u>

General Obligation Bonds issued 07-02-01 debt service requirements to maturity are as follows:

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 48,253	1,979	50,232
2008	<u>29,766</u>	<u>608</u>	<u>30,374</u>
	\$ <u>78,019</u>	<u>2,587</u>	<u>80,606</u>

Notes Payable

The Golf Course entered into a seven-year loan agreement with the City for a loan of \$250,000 on August 1, 1998. The interest rate is 5.47%. Principal payments were constant (\$35,714), with the first annual payment due on August 1, 1999. During 2001, the loan agreement was amended to require annual payments of interest only for fiscal years ending 2002-2005. The due date of the note was extended to August 1, 2009. During 2004, the Golf Course and the City agreed to another revision. Their revision postpones the first principal payment until fiscal year end 2008 and extends maturity until 2011. Requirements for repayment are as follows:

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ -	9,768	9,768
2008	19,858	9,768	29,626
2009	52,186	7,814	60,000
2010	54,139	5,861	60,000
2011	<u>52,388</u>	<u>3,907</u>	<u>56,295</u>
	\$ <u>178,571</u>	<u>37,118</u>	<u>215,689</u>

CITY OF ELIZABETHTON, TENNESSEE  
 NOTES TO THE FINANCIAL STATEMENTS  
 June 30, 2006

---

NOTE 10 - LONG TERM DEBT (CONTINUED)

Component Unit Long Term Debt (continued)

During the year ended June 30, 2006, the following debt transactions occurred for the Elizabethton Board of Education:

Board of Education

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
No-interest asbestos loans	\$ 10,394	-	4,000	6,394	4,000
Compensated Absences	<u>18,901</u>	<u>-</u>	<u>3,427</u>	<u>15,474</u>	<u>-</u>
Total Changes in LTD	\$ <u>29,295</u>	<u>0</u>	<u>7,427</u>	<u>21,868</u>	<u>4,000</u>

The government received no-interest loans from the Environmental Protection Agency for asbestos removal. The loans are to be paid in semi-annual installments of \$2,000 over a period of 20 years ending in 2011.

NOTE 11 - OTHER REQUIRED INDIVIDUAL FUND DISCLOSURES

A. Interfund receivables, payables and transfers at June 30, 2006 were as follows:

Interfund Receivables/Payables:

<u>Amount</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>
\$ 2,772	General Fund	Water/Sewer Fund
1,898	General Fund	Solid Waste/Sanitation
82	General Fund	Police Drug Enforcement
173	Police Drug Enforcement	General Fund
133,512	Elizabethton Electric System	General Fund
34,139	Elizabethton Electric System	Water/Sewer Fund

CITY OF ELIZABETHTON, TENNESSEE  
 NOTES TO THE FINANCIAL STATEMENTS  
 June 30, 2006

---

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

A. Interfund receivables, payables and transfers at June 30, 2006 were as follows (continued):

**Interfund Transfers:**

<u>Amount</u>	<u>Transfer In</u>	<u>Transfer Out</u>
\$ 425,000	Sanitation/Solid Waste	General
2,332,000	General Purpose School	General
100,000	Special Capital Projects	General
82,000	Park and Rec. Capital Projects	General
689,992	General	Elizabethton Electric System
37,350	Elizabethton Municipal Airport	General

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

**NOTE 12 - RETIREMENT COMMITMENTS**

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

***City of Elizabethton***

***Plan Description***

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

CITY OF ELIZABETHTON, TENNESSEE  
 NOTES TO THE FINANCIAL STATEMENTS  
 June 30, 2006

---

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

***City of Elizabethton (continued)***

***Plan Description (continued)***

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

***Funding Policy***

Elizabethton has adopted a noncontributory retirement plan for its employees by assuming employee contributions up to 5.0 percent of annual covered payroll.

Elizabethton is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2006 was 12.10% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Elizabethton is established and may be amended by the TCRS Board of Trustees.

***Annual Pension Cost***

For the year ending June 30, 2006, Elizabethton's annual pension cost of \$767,686 to TCRS was equal to Elizabethton's required and actual contributions. The required contribution was determined as part of the July 1, 2003 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), and (c) projected 3.5 percent annual increase in the Social Security wage base. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period. Elizabethton's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2005 was 14 years. An actuarial valuation was performed as of July 1, 2005, which established contribution rates effective July 1, 2006.

**Trend Information**

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost(APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2006	\$767,686	100.00%	\$0.00
June 30, 2005	\$690,640	100.00%	\$0.00
June 30, 2004	\$535,929	100.00%	\$0.00

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006

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

***City of Elizabethton (continued)***

***Required Supplementary Information***

**Schedule of Funding Progress for Elizabethton**

(Dollar amounts in thousands)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b) - (a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
July 01, 2005	10,448	12,002	2,154	82.91%	4,853	44.38%
July 01, 2003	11,495	13,504	2,009	85.12%	5,197	38.66%
July 01, 2001	10,448	12,602	2,154	82.91%	4,853	44.38%

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

***Description***

Employees of the Elizabethton Board of Education are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with 5 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 5 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 5 years of service, and members joining prior to July 1, 1979 were vested after 4 years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of the *Tennessee Code Annotated* (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as the Elizabethton Board of Education participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

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



CITY OF ELIZABETHTON, TENNESSEE  
 NOTES TO THE FINANCIAL STATEMENTS  
 June 30, 2006

---

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

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

***Funding Policy***

The Elizabethton Board of Education requires employees to contribute 5.0 percent of earnable compensation.

The Elizabethton Board of Education is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2006, was 7.06% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the Elizabethton Board of Education is established and may be amended by the TCRS Board of Trustees.

***Annual Pension Cost***

For the year ending June 30, 2006, the Elizabethton Board of Education's annual pension cost of \$141,446 to TCRS was equal to the Elizabethton Board of Education's required and actual contributions. The required contribution was determined as part of the July 1, 2003, actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.5 percent annual increase in the Social Security wage base, and (d) projected post retirement increases of 3.0 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period. The Elizabethton Board of Education's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2005, was 10 years. An actuarial valuation was performed as of July 1, 2005, which established contribution rates effective July 1, 2006.

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2006	\$141,446	100.00%	\$ 0.00
June 30, 2005	\$140,174	100.00%	\$ 0.00
June 30, 2004	\$ 90,136	100.00%	\$ 0.00

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006

---

NOTE 12.- RETIREMENT COMMITMENTS (CONTINUED)

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

***Defined Benefit Plan***

***Plan Description***

The Elizabethton Board of Education contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing multiple employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with 5 years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with 5 years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan on or after July 1, 1979, are vested after 5 years of service. Members joining prior to July 1, 1979 were vested after 4 years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of the *Tennessee Code Annotated* (TCA). State statutes are amended by the Tennessee General Assembly. Cost of living adjustments (COLA) are provided to retirees each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year. No COLA is granted if the CPI increased less than one-half percent. The annual COLA is capped at three percent.

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

***Funding Policy***

Most teachers are required by state statute to contribute 5 percent of salary to the plan. The employer contribution rate for the Elizabethton Board of Education is established at an actuarially determined rate. The rate for the fiscal year ending June 30, 2006 was 5.50% of annual covered payroll. The employer contribution requirement for the Elizabethton Board of Education is established and may be amended by the TCRS Board of Trustees. The employer's contributions to TCRS for the years ending June 30, 2006, 2005, and 2004 were \$424,870, \$410,381, and \$242,097, respectively, equal to the required contributions for each year.

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006

---

NOTE 12 - RETIREMENT COMMITMENTS (CONTINUED)

*Elizabethton Electric System*

***Retirement Commitments***

The system adopted a defined benefit plan through the Central Service Association Defined Benefit Plan, (an agent multiple-employer). The plan provides coverage for utility members in seven states and is subject to the provisions of the Employee Retirement Security Act of 1974 (ERISA). 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, 2005 was \$259,977. The total contributions for the plan years ended September 30, 2004 and 2003 respectfully, were \$164,371 and \$234,132. Covered employees are required to contribute one and one-half (1 ½) percent of their monthly earnings to the plan. The System 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 thirty (30) years. Any changes to the plan would need to be approved by the Board for the System.

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, 2005. The total plan liability at that date was \$15,730,648 and the actuarial value of plan assets was \$9,040,974, leaving an unfunded liability of \$6,689,674 and a funded ratio of 57.47%. The total plan liability for the 2004 plan year was \$12,048,864 and the actuarial value of assets \$9,431,664 leaving an unfunded liability of \$2,617,200 and a funded ratio of 78.28%. The annual covered payroll for the 2004 plan year, for the entire CSA plan was \$50,169,707 and the ratio of the unfunded actuarial liability to annual covered payroll was 72.11%.

The net pension benefit obligation, which is the actuarial present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and any step-rate benefits, estimated to be payable in the future as a result of employee service to date. The net pension benefit obligation is \$(318,573).

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 60<sup>th</sup> birthday, with a minimum of 30 years of service. Early retirement may be taken within ten years of the retirement date. Benefits are determined on credited service, earnings, marital status and choice of options.

On October 1, 2005 EES withdrew from the CSA Non Governmental Plan as described above 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). This plan change was substantially the same as the CSA Non-Governmental Plan, with certain exceptions, including (1) the exemption of funding rules promulgated by ERISA; (2) less governmental filings, no Pension Benefits Guaranty Corporation (PBGC) premiums and simpler withdrawal provisions; (3) a change in the assumed salary increase percentage expected in the future; (4) more flexible funding policy provisions to assist in assuring the 100% funding requirements by 2015.

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006

---

NOTE 12 - RETIREMENT COMMITMENTS (CONTINUED)

*Elizabethton Electric System (continued)*

*Retirement Commitments (continued)*

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.

*Elizabethton Municipal Airport*

The Airport manager and operations line supervisor only are covered through the Tennessee Consolidated Retirement System. Total employer contributions during the fiscal year were \$4,947 or 12.1% of covered payroll. The TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at age 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in the Title 8, Chapters 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Pension contributions are determined as part of the July 1, 2003 actuarial valuation. Since the Elizabethton Municipal Airport is considered a department of the City by TCRS, no specific pension benefit obligation can be isolated for the airport.

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006

---

NOTE 13 - LITIGATION

Workers Compensation Claims

During the fiscal year June 30, 2006, the City had some workers compensation claims which are being handled through the Tennessee Municipal League Risk Management Pool.

Lawsuits and Pending Claims

1. Several citizens are alleging Inverse Condemnation of their property located on West Elk Avenue and the new Mill Street Extension. In this action the defendants allege that the City failed to obtain a temporary construction easement and that the design and construction of Mill Street Extension prevented their direct access to the street and that they also lost approximately thirteen (13) parking spaces because of this construction design. The property in question is where the new Pizza Hut is located and the defendants alleged that their lease with Pizza Hut would be adversely affected by the design and the lack of access directly to Mill Street Extension. An Order of Non-suit was entered in this action on August 8, 2002 and these plaintiffs had until August 8, 2003 to re-file their action if they so desire. One of the plaintiffs is now deceased and the suit was re-filed on August 8, 2003. The City has filed an Answer to this suit and intends to vigorously defend it. The case is set for trial on December 21, 2006.
2. In another case, the defendant alleged he owned property which the City believes is a public right-of-way. However, in order to be able to proceed with the installation of the water line the city likewise filed suit on October 8, 2002 and paid in the sum of \$822 with the Clerk to cover any damages. The parties are still negotiating with the mediator about a potential settlement of this case. The case is not set for trial at this time.
3. There is a personal injury case filed on behalf of a child by her parents seeking damages for her injuries sustained when the top of a concrete bench fell on her foot while at the City Pool area. This suit was filed on July 7, 2004, and the City is being defended by an attorney assigned by the Tennessee Municipal League Risk Pool. The case was settled and dismissed on February 27, 2006.
4. A case was filed in the Carter County Circuit Court No. C9542 and also in the US District Court of the Eastern District of Tennessee for injuries allegedly sustained by the plaintiff upon his arrest by the Elizabethton Police Department on March 28, 2003. The U.S. District Court case was dismissed without prejudice on April 13, 2006.
5. Another personal injury case was filed for personal injuries sustained as the result of an automobile accident between a resident and an Elizabethton Police Department Officer that occurred on August 17, 2004. This case is being defended by an attorney assigned by the Tennessee Municipal League and the city should have adequate insurance to cover any damages awarded.

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006

---

NOTE 13 - LITIGATION (CONTINUED)

Lawsuits and Pending Claims (continued)

6. A case was filed on December 21, 2005, by eighteen (18) former employees of the Elizabethton Electric System seeking equitable relief regarding the City's decision to modify certain "fringe" benefits of the retirees. This case is being defended by City Legal Staff and discovery is on-going at this time.
7. An individual filed suit on May 1, 2006, against the City of Elizabethton, the Elizabethton Electric System, et al., seeking to recover for damages to his radio transmission tower on Holston Mountain. This case is being defended by an attorney assigned by the TML Risk Pool. Discovery is on-going.
8. Complaint for Declaratory Judgment was filed on September 6, 2006, in the Chancery Court of Carter County, Tennessee, seeking to determine whether the City of Elizabethton could withdraw from the Watauga River Regional Water Authority and damages for its withdrawal. The City believes it had the right to withdraw and will defend this case vigorously. It is being defended by an attorney assigned by the TML Risk Pool.

Contingencies

The Tennessee Department of Environment and Conservation is pursuing an action in regard to the closed landfill because of the presence of some waste from Mapes that was discovered uncovered at that site. This has the potential of exposure to the City of approximately \$500,000 and the City is presently negotiating with TDEC to postpone the issuance of any Commissioner's Orders on the site until after the end of this fiscal year (e.g. after June 30, 2006).

NOTE 14 - RISK MANAGEMENT

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

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006

---

NOTE 15 - CONTINGENT LIABILITIES

Environmental Violations

The City has negotiated with the State of Tennessee, Department of Conservation, Division of Superfund, an agreement concerning the Cherokee Industrial Park, which is alleged to contain inactive hazardous substance sites. An Agreed Consent Order signed on February 4, 1992, with the Tennessee Department of Conservation, details the actions to be required of the City. The City has fully cooperated with the Division of Solid Waste Management since 1982. All requested testing and clean up was completed by the City, before the new requirements imposed by the Federal Superfund Act. The following actions have been or will be initiated by the City, as set forth in the requirements of the Agreed Consent Order:

1. Within one year of the acceptance of the Agreed Consent Order, the City contracted with an approved, independent, environmental engineering firm, to develop a feasibility study work plan. This requirement was met in compliance with the February 4, 1993 deadline as stipulated in the Agreed Consent Order.
2. Within one hundred and eighty days of the above contract date, the feasibility study work plan was submitted to the State of Tennessee. On May 14, 1994, the City received a conditional approval for implementation of the Remedial Investigation/Feasibility Study Workplan by the Tennessee Department of Conservation. A Statement of Work to be completed by Eco-Tech, Inc. was approved on March 27, 1995 by the State.
3. By letter dated March 19, 1997 from the State of Tennessee Department of Environment and Conservation, the City received approval to allow light industrial development on tracts 5,8,12, and a portion of tract 7. The City has made these parcels available for purchase and development in accordance with the State's approval. Parcel 6, portions of 7 and parcels 11 and 12 (formerly public use areas), remain under investigation and review and have no active use as of June 30, 1997. The study and report were subsequently completed and forwarded to the State by September 1, 1997.
4. As of December 5, 1998, the State of Tennessee continues to review the Remedial Investigation Report. Upon completing this review, the State will select and notify the City of any appropriate, reasonable, removal alternatives necessary. The City will then be required to submit within one hundred and eighty days, a Remedial action plan to the extent necessary.

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006

---

NOTE 15 - CONTINGENT LIABILITIES (CONTINUED)

5. In a meeting held on February 4, 1999, at the Johnson City Environmental Assistance Center, Division of Superfund, City staff requested the State to review the "Remedial Investigation Report" and the "Baseline Risk Assessment" for the City of Elizabethton's Cherokee Industrial Park prepared by the City's environmental consultant. The review was received on March 3, 1999. The review was not an exhaustive analysis, but rather a review to help focus on the issues surrounding the Cherokee Industrial Park site. No remedial action was required by the City at the time since the property is proposed to be placed on the National Priority List (NPL) of superfund sites which will give oversight to the National Environmental Protection Agency (NEPA) instead of the State.
6. The United States Environmental Protection Agency (USEPA) on July 9, 1999 informed Johnson City Environmental Assistance Center, Tennessee Department of Environment and Conservation that the Federal Government has concluded its assessment of the Cherokee Industrial Park. A notice de-proposing the site will appear in the Federal Register and at that time the State of Tennessee will have full responsibility for remediation activity at the site. The de-proposal will conclude that the City and other property owners need to restrict use of the closed landfill, lagoon and flyash disposal areas. As of October 10, 2000, the City had received no communication from the Environmental Assistance Center in Johnson City stating this has been done.

The following are actual and estimated testing costs involved and fiscal years when the costs are expected to occur:

1. Testing Costs - FY 1996/97	\$ 177,058.30 (Actual)
2. Testing Costs - FY 1997/98	0.00 (Actual)
3. Testing Costs - FY 1998/99	0.00 (Actual)
4. Testing costs - FY 1999/00	6,064.84 (Actual)
5. Testing Costs - FY 2000/01	50,000.00 (Estimated)
6. Testing Costs - FY 2001/02	20,000.00 (Estimated)

The City's Director of Planning and Development established these estimates. No accurate estimate can be made as of June 30, 2006 as to any potential clean-up cost until notification by the Environmental Assistance Center that the State of Tennessee is the oversight manager. At that time the City will request a meeting with the State for further direction regarding the site.

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

The City as a member of the joint venture to operate the Carter County/Elizabethton Solid Waste Disposal System is jointly and severally liable for the closure and post closure costs.



CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006

---

NOTE 15 - CONTINGENT LIABILITIES (CONTINUED)

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

State and federal laws and regulations (specifically in accordance with the Tennessee Department of Conservation, Division of Solid Waste Management Regulation 1200-1-7.03) require the joint venture to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions for thirty years after closure. Although closure and post closure care costs will be paid only near or after the date that the landfill stops accepting waste, the joint venture reports a portion of these closure and post closure care costs as an operating expense in each period based on landfill capacity used as of the date of the statement of net assets. The \$3,325,125 reported as Landfill closure and post closure care liability at June 30, 2006 represents the cumulative amount reported to date based on the use of approximately 100 percent of the total estimated capacity of the landfill. The City and County each pay 50 percent of the monitoring costs. At June 30, 2006, the City's total was \$26,576.

These estimates are based on an engineering firm's determination of costs to perform all closure and post closure care in 1994 of closure \$568,636 and post closure of \$111,049 annually. On May 16, 1996, the Carter County Executive received approval from the State of Tennessee Division of Solid Waste Management which modified the Landfill's permit and allowed the Landfill to remain open until the remaining space was used to the level of permitted contours. On July 1, 1999, the sanitary landfill site was closed to additional deposits.

Accordingly, the 1994 engineer's estimate of closure and post closure costs have been adjusted based upon the Division of Solid Waste Management's assumed annual inflation rate of 5 percent projected to the closure date, resulting in estimated compound future value total costs of \$5,883,394 for post closure.

Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

Carter County and the City of Elizabethton have filed financial assurance with the State of Tennessee Department of Environment and Conservation in the form of Contract in Lieu of Performance Bond for total cost of its closure/post closure plan. No investments have been set aside to cover the closure and post closure costs.

In 2003, the City entered into a consent order with the Tennessee Department of Environment and Conservation for the purpose of facilitating the investigation, removal and remediation of a hazardous substance site at the Sugar Hollow dump. Oversight costs posted as of January 28, 2003 were \$87,166. The City initially paid \$16,342 and the remaining balance of oversight costs were paid in twelve monthly payments of \$5,902 beginning July 1, 2003.

CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006

---

NOTE 16 - OTHER POST-EMPLOYMENT BENEFITS

City of Elizabethton, Tennessee

The City provides post retirement health benefits, as per the requirements of a local ordinance, for certain retirees and their dependents. The City's contributions are financed on a pay-as-you-go basis.

Current retirees, or employees that qualified as of July 31, 1994, for full service retirement under guidelines of the Tennessee Consolidated Retirement System may continue to participate in the group health insurance program of the City. The City will pay 100% of the monthly premium for coverage of the retiree until age 65. Family coverage is offered at a subsidized rate, subject to change annually.

Employees that did not qualify as of July 31, 1994 for full service retirement, under the guidelines of the Tennessee Consolidated Retirement System, but retired from the City may, at their own expense, continue to participate in the health insurance program of the City.

At June 30, 2006 nineteen (19) retired employees were included on the City's Group Health Insurance Plan with an annual cost of \$57,686 to the City.

Elizabethton Electric System

In the case of voluntary early retirement, the System will pay the retired employee's and dependent(s) personal medical insurance, less a monthly amount of \$20.00 after retirement until age sixty-five. Group insurance coverage terminates upon eligibility for Medicare except those individuals who retired under the 1993 to 1999 contracts and they have a Medi-gap insurance policy for life. Retirees are allowed to keep their coverage after age 65 at their own cost. Benefits also include dental and life insurance. The System has elected to finance post employment benefits on a pay-as-you go basis. There are 20 employees receiving benefits. The estimated net cost to the system for the year ended June 30, 2006 was \$50,652.

NOTE 17 - PRIOR PERIOD ADJUSTMENT

Elizabethton Municipal Airport

During the fiscal year ending June 30, 2005, the airport experienced difficulties with their fuel provider. Following the close of the prior fiscal year, it was determined that the airport owed \$20,103 in unbilled fuel purchases. As a result, a prior period adjustment totaling \$20,103 has been made to properly reflect the accrued costs.

CITY OF ELIZABETHTON, TENNESSEE  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 June 30, 2006

	Special Revenue Funds					Total Capital Projects Funds	Permanent Fund	Nonmajor Governmental Funds
	Police Drug Enforcement Fund	Police Community Relations Fund	Police Equipment Fund	Solid Waste and Sanitation Fund	East TN Railroad Authority Fund		E. Bolling Memorial Trust Fund	
ASSETS								
Cash	\$ 75,899	8,856	18,822	-	8,078	482,941	-	594,596
Cash on Deposit	-	-	-	89,664	-	-	-	89,664
Due from Other Funds	173	-	-	-	-	-	-	173
Due from Other Governments	2,500	-	-	-	2,987	-	-	5,487
Accounts Receivable	-	-	-	24,416	-	-	-	24,416
Restricted Investments	-	-	-	-	-	11,209	-	11,209
Investments	4,860	-	-	-	-	-	27,011	31,871
<b>TOTAL ASSETS</b>	<b>83,432</b>	<b>8,856</b>	<b>18,822</b>	<b>114,080</b>	<b>11,065</b>	<b>494,150</b>	<b>27,011</b>	<b>757,416</b>
LIABILITIES AND FUND BALANCES								
Liabilities								
Accounts Payable	-	-	-	17,422	17	-	-	17,439
Due to Other Funds	82	-	-	1,898	-	-	-	1,980
Cash Overdraft	-	-	-	15,630	-	-	-	15,630
<b>TOTAL LIABILITIES</b>	<b>82</b>	<b>0</b>	<b>0</b>	<b>34,950</b>	<b>17</b>	<b>0</b>	<b>0</b>	<b>35,049</b>
FUND BALANCES								
Unreserved	83,350	8,856	18,822	79,130	11,048	494,150	27,011	722,367
<b>TOTAL FUND BALANCES</b>	<b>83,350</b>	<b>8,856</b>	<b>18,822</b>	<b>79,130</b>	<b>11,048</b>	<b>494,150</b>	<b>27,011</b>	<b>722,367</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 83,432</b>	<b>8,856</b>	<b>18,822</b>	<b>114,080</b>	<b>11,065</b>	<b>494,150</b>	<b>27,011</b>	<b>757,416</b>

See Independent Auditors' Report

CITY OF ELIZABETHTON, TENNESSEE  
 COMBINING BALANCE SHEET  
 NONMAJOR CAPITAL PROJECT FUNDS  
 June 30, 2006

	Capital Projects Funds								
	Park and Recreation Fund	Joe O'brien Field Fund	Special Projects Fund	Airport Projects Fund	Obligation Bond Proceeds Fund	Veteran's Walk of Honor Fund	Veteran's Walk of Honor Phase II Fund	Veteran's War Memorial Fund	Total Nonmajor Capital Project Funds
ASSETS									
Cash	\$ 53,032	6,812	157,515	-	193,464	43,328	20,650	8,140	482,941
Restricted Investments	-	-	-	-	11,209	-	-	-	11,209
<b>TOTAL ASSETS</b>	<b>53,032</b>	<b>6,812</b>	<b>157,515</b>	<b>0</b>	<b>204,673</b>	<b>43,328</b>	<b>20,650</b>	<b>8,140</b>	<b>494,150</b>
LIABILITIES AND FUND BALANCES									
Liabilities	-	-	-	-	-	-	-	-	-
<b>TOTAL LIABILITIES</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
FUND BALANCES									
Unreserved	53,032	6,812	157,515	0	204,673	43,328	20,650	8,140	494,150
<b>TOTAL FUND BALANCES</b>	<b>53,032</b>	<b>6,812</b>	<b>157,515</b>	<b>0</b>	<b>204,673</b>	<b>43,328</b>	<b>20,650</b>	<b>8,140</b>	<b>494,150</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 53,032</b>	<b>6,812</b>	<b>157,515</b>	<b>0</b>	<b>204,673</b>	<b>43,328</b>	<b>20,650</b>	<b>8,140</b>	<b>494,150</b>

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 For the Year Ended June 30, 2006

	Special Revenue Funds					Total Capital Projects Funds	Permanent Fund E. Bolling Memorial Trust Fund	Total Nonmajor Governmental Funds
	Police Drug Enforcement Fund	Police Community Relations Fund	Police Equipment Fund	Solid Waste and Sanitation Fund	East TN Railroad Authority Fund			
REVENUES								
Charges for Services	\$ -	-	-	509,943	-	20,600	-	530,543
Fines and Forfeitures	78,003	-	55,747	-	-	-	-	133,750
Interest Income	636	62	91	-	70	6,026	1,072	7,957
Miscellaneous	-	-	-	4,485	46,740	8,771	-	59,996
Donations	-	3,603	-	-	-	173,198	-	176,801
Grant Income	1,217	-	-	-	36,265	310,872	-	348,354
<b>TOTAL REVENUES</b>	<b>79,856</b>	<b>3,665</b>	<b>55,838</b>	<b>514,428</b>	<b>83,075</b>	<b>519,467</b>	<b>1,072</b>	<b>1,257,401</b>
EXPENDITURES								
General Government	29,671	-	-	874,672	-	-	-	904,343
Public Safety	-	932	4,724	-	-	-	-	5,656
Capital Outlay	26,060	-	14,547	-	-	167,611	-	208,218
Other Expenditures	-	-	-	-	25,559	386,165	-	411,724
<b>TOTAL EXPENDITURES</b>	<b>55,731</b>	<b>932</b>	<b>19,271</b>	<b>874,672</b>	<b>25,559</b>	<b>553,776</b>	<b>0</b>	<b>1,529,941</b>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	24,125	2,733	36,567	(360,244)	57,516	(34,309)	1,072	(272,540)
OTHER FINANCING SOURCES (USES)								
Transfer from General Fund	-	-	-	425,000	-	219,350	-	644,350
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>425,000</b>	<b>0</b>	<b>219,350</b>	<b>0</b>	<b>644,350</b>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	24,125	2,733	36,567	64,756	57,516	185,041	1,072	371,810
FUND BALANCE, JULY 1, 2005	59,225	6,123	(17,745)	14,374	(46,468)	309,109	25,939	350,557
FUND BALANCES, JUNE 30, 2006	\$ 83,350	8,856	18,822	79,130	11,048	494,150	27,011	722,367

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 NONMAJOR CAPITAL PROJECT FUNDS  
 For the Year Ended June 30, 2006

	Capital Projects Funds							Total Nonmajor Capital Projects Funds	
	Park and Recreation Fund	Joe O'brien Field Fund	Special Projects Funds	Airport Projects Fund	General Obligation Bond Proceeds Fund	Veteran's Walk of Honor Fund	Veteran's Walk of Honor Phase II Fund		Veteran's War Memorial Fund
REVENUES									
Charges for Services	\$ -	-	-	-	-	-	20,600	-	20,600
Interest Income	-	2	-	-	5,220	684	50	70	6,026
Miscellaneous	-	8,771	-	-	-	-	-	-	8,771
Contributions	-	-	-	154,000	-	19,198	-	-	173,198
Grant Income	-	-	310,872	-	-	-	-	-	310,872
<b>TOTAL REVENUES</b>	<b>0</b>	<b>8,773</b>	<b>310,872</b>	<b>154,000</b>	<b>5,220</b>	<b>19,882</b>	<b>20,650</b>	<b>70</b>	<b>519,467</b>
EXPENDITURES									
Capital Outlay	13,611	-	-	154,000	-	-	-	-	167,611
Other Expenditures	4,563	1,961	176,041	37,350	9,150	156,461	-	639	386,165
<b>TOTAL EXPENDITURES</b>	<b>18,174</b>	<b>1,961</b>	<b>176,041</b>	<b>191,350</b>	<b>9,150</b>	<b>156,461</b>	<b>-</b>	<b>639</b>	<b>553,776</b>
Excess of Revenues Over (Under) Expenditures	(18,174)	6,812	134,831	(37,350)	(3,930)	(136,579)	20,650	(569)	(34,309)
OTHER FINANCING SOURCES (USES)									
Transfer from General Fund	82,000	-	100,000	37,350	-	-	-	-	219,350
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>82,000</b>	<b>0</b>	<b>100,000</b>	<b>37,350</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>219,350</b>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	63,826	6,812	234,831	-	(3,930)	(136,579)	20,650	(569)	185,041
FUND BALANCE, JULY 1, 2005	(10,794)	-	(77,316)	0	208,603	179,907	-	8,709	309,109
<b>FUND BALANCES, JUNE 30, 2006</b>	<b>\$ 53,032</b>	<b>6,812</b>	<b>157,515</b>	<b>0</b>	<b>204,673</b>	<b>43,328</b>	<b>20,650</b>	<b>8,140</b>	<b>494,150</b>

8

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE  
POLICE DRUG ENFORCEMENT FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2006

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Task Force	\$ 43,500	51,600	8,100
Grant Income	-	1,217	1,217
Interest Earned	70	636	566
Drug Fines-Courts	22,500	26,403	3,903
Miscellaneous	5,427	-	(5,427)
TOTAL REVENUES	<u>71,497</u>	<u>79,856</u>	<u>8,359</u>
EXPENDITURES			
Special Pay	67,213	26,318	40,895
Insurance	567	559	8
Vehicle Maintenance and Fuel	2,719	2,794	(75)
Capital Outlay	-	26,060	(26,060)
Appropriation - Task Force	998	-	998
TOTAL EXPENDITURES	<u>71,497</u>	<u>55,731</u>	<u>15,766</u>
EXCESS OF REVENUES OVER EXPENDITURES	-	24,125	24,125
FUND BALANCE, JULY 1, 2005	<u>44,121</u>	<u>59,225</u>	<u>15,104</u>
FUND BALANCE, JUNE 30, 2006	<u>\$ 44,121</u>	<u>83,350</u>	<u>39,229</u>

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE  
 POLICE COMMUNITY RELATIONS FUND  
 SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
 For the Fiscal Year Ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES			
Donations	\$ -	3,603	3,603
Interest Earned	-	62	62
TOTAL REVENUES	<u>0</u>	<u>3,665</u>	<u>3,665</u>
EXPENDITURES			
Supplies and Operating Expenses	<u>5,118</u>	<u>932</u>	<u>4,186</u>
TOTAL EXPENDITURES	<u>5,118</u>	<u>932</u>	<u>4,186</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(5,118)	2,733	7,851
FUND BALANCE, JULY 1, 2005	<u>5,118</u>	<u>6,123</u>	<u>1,005</u>
FUND BALANCE, JUNE 30, 2006	<u>\$ -</u>	<u>8,856</u>	<u>8,856</u>

See Independent Auditors' Report.



CITY OF ELIZABETHTON, TENNESSEE  
POLICE EQUIPMENT FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
<b>REVENUES</b>			
Fines	\$ 62,718	55,747	(6,971)
Grant Income	147,840	-	(147,840)
Interest Earned	131	91	(40)
Donations	1,400	-	(1,400)
<b>TOTAL REVENUES</b>	<u>212,089</u>	<u>55,838</u>	<u>(156,251)</u>
<b>EXPENDITURES</b>			
Supplies and Operating Expenses	199,789	4,724	195,065
Capital Outlay	12,300	14,547	(2,247)
<b>TOTAL EXPENDITURES</b>	<u>212,089</u>	<u>19,271</u>	<u>192,818</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	-	36,567	36,567
<b>FUND BALANCE, JULY 1, 2005</b>	<u>(1,886)</u>	<u>(17,745)</u>	<u>(15,859)</u>
<b>FUND BALANCE, JUNE 30, 2006</b>	<u>\$ (1,886)</u>	<u>18,822</u>	<u>20,708</u>

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE  
SOLID WASTE/SANITATION FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2006

	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>			
Bulk Container Fees	\$ 561,500	508,199	(53,301)
Miscellaneous	118,639	4,485	(114,154)
Sale of Containers	2,600	1,744	(856)
<b>TOTAL REVENUES</b>	<b>682,739</b>	<b>514,428</b>	<b>(168,311)</b>
<b>EXPENDITURES</b>			
Salaries and Benefits	322,932	315,420	7,512
Uniforms and Employee Expenses	4,125	4,226	(101)
Containers	5,000	10,043	(5,043)
Garage Rent	500	285	215
Insurance	5,478	8,374	(2,896)
Vehicle Maintenance and Fuel	115,000	80,360	34,640
Contracted Services	20,550	26,771	(6,221)
Supplies and Operating Expenses	18,250	10,855	7,395
Landfill and Other Fees	410,178	418,338	(8,160)
Capital Outlay	145,000	-	145,000
<b>TOTAL EXPENDITURES</b>	<b>1,047,013</b>	<b>874,672</b>	<b>172,341</b>
<b>DEFICIENCY OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(364,274)</b>	<b>(360,244)</b>	<b>4,030</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfer from General	364,274	425,000	60,726
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>364,274</b>	<b>425,000</b>	<b>60,726</b>
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES</b>	<b>-</b>	<b>64,756</b>	<b>64,756</b>
<b>FUND BALANCE, JULY 1, 2005</b>	<b>8,030</b>	<b>14,374</b>	<b>6,344</b>
<b>FUND BALANCE, JUNE 30, 2006</b>	<b>\$ 8,030</b>	<b>79,130</b>	<b>71,100</b>

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE  
 EAST TENNESSEE RAILROAD AUTHORITY FUND  
 SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
 For the Fiscal Year Ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES			
Interest Earned	\$ -	70	70
Other Income	-	46,740	46,740
Grant Income	<u>65,092</u>	<u>36,265</u>	<u>(28,827)</u>
TOTAL REVENUES	<u>65,092</u>	<u>83,075</u>	<u>17,983</u>
EXPENDITURES			
Street and Railroad Improvements	<u>65,092</u>	<u>25,559</u>	<u>39,533</u>
TOTAL EXPENDITURES	<u>65,092</u>	<u>25,559</u>	<u>39,533</u>
EXCESS OF REVENUES OVER EXPENDITURES	-	57,516	57,516
FUND BALANCE, JULY 1, 2005	<u>11,194</u>	<u>(46,468)</u>	<u>(57,662)</u>
FUND BALANCE, JUNE 30, 2006	<u>\$ 11,194</u>	<u>11,048</u>	<u>(146)</u>

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE  
PARK AND RECREATION CAPITAL PROJECTS FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
TOTAL REVENUES	\$ -	0	0
EXPENDITURES			
Capital Outlay	410,000	13,611	396,389
Other Expenditures	-	4,563	(4,563)
TOTAL EXPENDITURES	410,000	18,174	391,826
DEFICIENCY OF REVENUES OVER EXPENDITURES	(410,000)	(18,174)	391,826
OTHER FINANCING SOURCES (USES)			
Transfer from General	410,000	82,000	(328,000)
TOTAL OTHER FINANCING SOURCES (USES)	410,000	82,000	(328,000)
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	-	63,826	63,826
FUND BALANCE, JULY 1, 2005	(85,787)	(10,794)	74,993
FUND BALANCE, JUNE 30, 2006	\$ (85,787)	53,032	138,819

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE  
 JOE O'BRIEN FIELD FUND  
 SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
 For the Fiscal Year Ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES			
Donations	\$ 20,000	8,771	(11,229)
Interest Earned	-	2	2
TOTAL REVENUES	<u>20,000</u>	<u>8,773</u>	<u>(11,227)</u>
EXPENDITURES			
Other Expenditures	<u>20,000</u>	<u>1,961</u>	<u>18,039</u>
TOTAL EXPENDITURES	<u>20,000</u>	<u>1,961</u>	<u>18,039</u>
EXCESS OF REVENUES OVER EXPENDITURES	-	6,812	6,812
FUND BALANCE, JULY 1, 2005	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE, JUNE 30, 2006	<u>\$ -</u>	<u>6,812</u>	<u>6,812</u>

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE  
SPECIAL CAPITAL PROJECTS FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES			
Grant Income	\$ 426,942	310,872	(116,070)
TOTAL REVENUES	<u>426,942</u>	<u>310,872</u>	<u>(116,070)</u>
EXPENDITURES			
Other Expenditures	551,942	176,041	375,901
TOTAL EXPENDITURES	<u>551,942</u>	<u>176,041</u>	<u>375,901</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(125,000)	134,831	259,831
OTHER FINANCING SOURCES			
Transfer from General Fund	125,000	100,000	(25,000)
TOTAL OTHER FINANCING SOURCES	<u>125,000</u>	<u>100,000</u>	<u>(25,000)</u>
Excess of Revenues and Other Financing Sources Over Expenditures	-	234,831	234,831
FUND BALANCE, JULY 1, 2005	<u>(55,202)</u>	<u>(77,316)</u>	<u>(22,114)</u>
FUND BALANCE, JUNE 30, 2006	<u>\$ (55,202)</u>	<u>157,515</u>	<u>212,717</u>

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE  
 AIRPORT CAPITAL PROJECTS FUND  
 SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
 For the Fiscal Year Ended June 30, 2006

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Contributions	\$ 154,000	154,000	-
TOTAL REVENUES	<u>154,000</u>	<u>154,000</u>	<u>-</u>
EXPENDITURES			
Other Expenditures	37,350	37,350	-
Capital Outlay	154,000	154,000	-
TOTAL EXPENDITURES	<u>191,350</u>	<u>191,350</u>	<u>0</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	(37,350)	(37,350)	-
OTHER FINANCING SOURCES			
Transfer from General Fund	37,350	37,350	-
TOTAL OTHER FINANCING SOURCES	<u>37,350</u>	<u>37,350</u>	<u>0</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	-	-	-
FUND BALANCE, JULY 1, 2005	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE, JUNE 30, 2006	<u>\$ -</u>	<u>0</u>	<u>0</u>

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE  
GENERAL OBLIGATION BOND PROCEEDS FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES			
Interest Earned	\$ 1,000	5,220	4,220
TOTAL REVENUES	<u>1,000</u>	<u>5,220</u>	<u>4,220</u>
EXPENDITURES			
Other Expenditures	245,976	9,150	236,826
TOTAL EXPENDITURES	<u>245,976</u>	<u>9,150</u>	<u>236,826</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(244,976)	(3,930)	241,046
FUND BALANCE, JULY 1, 2005	<u>244,976</u>	<u>208,603</u>	<u>(36,373)</u>
FUND BALANCE, JUNE 30, 2006	<u>\$ -</u>	<u>204,673</u>	<u>204,673</u>

See Independent Auditors' Report.



CITY OF ELIZABETHTON, TENNESSEE  
VETERAN'S WALK OF HONOR FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES			
Donations	\$ 200,625	19,198	(181,427)
Interest Earned	-	684	684
TOTAL REVENUES	<u>200,625</u>	<u>19,882</u>	<u>(180,743)</u>
EXPENDITURES			
Other Expenditures	<u>200,625</u>	<u>156,461</u>	<u>44,164</u>
TOTAL EXPENDITURES	<u>200,625</u>	<u>156,461</u>	<u>44,164</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	(136,579)	(136,579)
FUND BALANCE, JULY 1, 2005	<u>173,208</u>	<u>179,907</u>	<u>6,699</u>
FUND BALANCE, JUNE 30, 2006	<u>\$ 173,208</u>	<u>43,328</u>	<u>(129,880)</u>

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE  
VETERAN'S WALK OF HONOR PHASE II FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES			
Donations	\$ 20,000	20,600	600
Interest Earned	-	50	50
TOTAL REVENUES	<u>20,000</u>	<u>20,650</u>	<u>650</u>
EXPENDITURES			
Other Expenditures	<u>20,000</u>	-	<u>20,000</u>
TOTAL EXPENDITURES	<u>20,000</u>	<u>0</u>	<u>20,000</u>
EXCESS OF REVENUES OVER EXPENDITURES	-	20,650	20,650
FUND BALANCE, JULY 1, 2005	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE, JUNE 30, 2006	<u>\$ -</u>	<u>20,650</u>	<u>20,650</u>

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE  
VETERAN'S WAR MEMORIAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES			
Donations	\$ 5,000	-	(5,000)
Interest Earned	-	70	70
TOTAL REVENUES	<u>5,000</u>	<u>70</u>	<u>(4,930)</u>
EXPENDITURES			
Other Expenditures	<u>5,000</u>	<u>639</u>	<u>4,361</u>
TOTAL EXPENDITURES	<u>5,000</u>	<u>639</u>	<u>4,361</u>
EXCESS OF REVENUES (UNDER) EXPENDITURES	-	(569)	(569)
FUND BALANCE, JULY 1, 2005	<u>10,111</u>	<u>8,709</u>	<u>(1,402)</u>
FUND BALANCE, JUNE 30, 2006	<u><u>\$ 10,111</u></u>	<u><u>8,140</u></u>	<u><u>(1,971)</u></u>

See Independent Auditors' Report.

SUPPLEMENTAL  
SECTION

CITY OF ELIZABETHTON, TENNESSEE  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Fiscal Year Ended June 30, 2006

CFDA Number	Program Name/ Grant Number	Grantor Agency	Balance June 30, 2005	Cash Receipts	Expenditures	Adjustments	Balance June 30, 2006
PRIMARY GOVERNMENT							
GENERAL FUND							
16.000	Appalachian High Intensity Drug Trafficking Area	U.S. Department of Justice	\$ -	8,717	8,717	-	-
Total General Fund			0	8,717	8,717	0	0
DRUG FUND							
16.000	Appalachian High Intensity Drug Trafficking Area	U.S. Department of Justice	-	1,217	1,217	-	-
Total Drug Fund			0	1,217	1,217	0	0
CAPITAL PROJECTS FUND							
Pass-Through Tennessee Emergency Management Agency							
83.548	Hazard Mitigation Program GG00-0874800	Federal Emergency Management Agency	7,875	134,831	126,956	-	-
14.239	HOME Program	Department of Housing & Urban Development	-	176,042	176,042	-	-
Total Capital Projects Fund			7,875	310,873	302,998	0	0
WATER AND SEWER FUND							
	Appalachian Regional Commission	Appalachian Regional Commission	23,024	-	-	-	23,024
14.228	CDBG - Imminent Threat	Department of Housing & Urban Development	-	274,875	274,875	-	-
Total Water and Sewer Fund			23,024	274,875	274,875	0	23,024
Total Primary Government			\$ 30,899	595,682	587,807	0	23,024

NOTE A: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Elizabethton, Tennessee and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

M Major Program

\* Receivable

\*\* Unused Revenue

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE  
 SCHEDULE OF EXPENDITURES OF STATE AWARDS  
 For the Fiscal Year Ended June 30, 2006

State Grant Number	Program Name/ Grant Number	Grantor Agency	Balance June 30, 2005	Cash Receipts	Expenditures	Adjustments *	Balance June 30, 2006
PRIMARY GOVERNMENT							
ELIZABETHTON MUNICIPAL AIRPORT							
Z-06-028711	Airport Maintenance	TN Department of Transportation	\$ 966	6,382	10,000	-	4,584 *
Z-03-014245	Airport Improvements	TN Department of Transportation	-	52,638	52,638	-	-
Total Elizabethton Municipal Airport			<u>966</u>	<u>59,020</u>	<u>62,638</u>	<u>0</u>	<u>4,584</u>
GENERAL FUND							
STP-9103(12)	Paving	TN Department of Transportation	-	45,000	45,000	-	-
Z 06-031306	Library	TN Library and Archives	-	4,200	4,200	-	-
CMA 929 Project 10951-4257-04		TN Department of Transportation	-	66,844	108,389	-	41,545 *
Total General Fund			<u>0</u>	<u>116,044</u>	<u>157,589</u>	<u>0</u>	<u>41,545</u>
SPECIAL REVENUE FUND							
Z-05-025842	Track Rehab	TN Department of Transportation	80,466	113,744	36,265	-	2,987 *
Total Special Revenue Fund			<u>80,466</u>	<u>113,744</u>	<u>36,265</u>	<u>0</u>	<u>2,987</u>
Total Primary Government			<u>\$ 81,432</u>	<u>288,808</u>	<u>256,492</u>	<u>0</u>	<u>49,116</u>
	* Receivable	** Unused Revenue					

104

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE  
SCHEDULE OF INTERFUND TRANSFERS  
June 30, 2006

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
<u>Operating Transfers Among Funds</u>			
General	Sanitation/Solid Waste	To provide for operations	\$ 425,000
General	Special Capital Projects	To provide for operations	100,000
General	Component Unit: General Purpose School Fund	To provide for operations	2,332,000
General	Parks and Recreation Capital Projects	To provide for operations	82,000
General	Elizabethton Municipal Airport	To provide for operations	37,350
Elizabethton Electric System	General	In-Lieu of Taxes	<u>689,992</u>
Total Transfers			<u><u>\$ 3,666,342</u></u>

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE  
SCHEDULE OF CHANGES IN GENERAL BONDED DEBT AND NOTES PAYABLE -  
PRIMARY GOVERNMENT  
June 30, 2006

	Balance July 1, 2005	General Obligation Debt Additions	General Obligation Debt Retired	General Obligation Debt Adjustments	Balance June 30, 2006
<u>General Bonded Debt:</u>					
General Fund:					
General Obligation - Series 2001	\$ 785,000	-	180,000	-	605,000
General Obligation - Refunding Series 2003	1,390,000	-	290,000	-	1,100,000
Total General Bonded Debt	<u>\$ 2,175,000</u>	<u>0</u>	<u>470,000</u>	<u>0</u>	<u>1,705,000</u>
<u>Notes Payable:</u>					
General Fund:					
Capital Outlay Note - 1997	\$ 50,000	-	25,000	-	25,000
Capital Outlay Note - 2004	1,145,833	-	104,167	-	1,041,666
Total Notes Payable	<u>\$ 1,195,833</u>	<u>0</u>	<u>129,167</u>	<u>0</u>	<u>1,066,666</u>

See Independent Auditors' Report.



CITY OF ELIZABETHTON, TENNESSEE  
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS  
ALL FUNDS - PRIMARY GOVERNMENT  
June 30, 2006

<u>Fiscal Year Ending</u>	<u>Bond Requirements</u>	<u>Interest Requirements</u>	<u>Total Requirements</u>
6/30/2007	\$ 1,085,000	411,144	1,496,144
6/30/2008	1,285,000	360,596	1,645,596
6/30/2009	1,430,000	314,839	1,744,839
6/30/2010	1,060,000	268,648	1,328,648
6/30/2011	955,000	229,414	1,184,414
6/30/2012	990,000	189,658	1,179,658
6/30/2013	991,740	190,955	1,182,695
6/30/2014	784,802	396,943	1,181,745
6/30/2015	673,238	505,433	1,178,671
6/30/2016	655,045	524,824	1,179,869
6/30/2017	640,755	540,150	1,180,905
6/30/2018	627,463	554,201	1,181,664
6/30/2019	613,969	567,817	1,181,786
6/30/2020	607,050	579,236	1,186,286
6/30/2021	596,679	588,533	1,185,212
6/30/2022	592,840	595,657	1,188,497
6/30/2023	606,116	655,104	1,261,220
6/30/2024	302,525	702,475	1,005,000
6/30/2025	284,526	720,474	1,005,000
6/30/2026	268,687	736,312	1,004,999
6/30/2027	253,682	751,318	1,005,000
6/30/2028	239,471	765,529	1,005,000
6/30/2029	226,004	778,996	1,005,000
6/30/2030	213,844	791,156	1,005,000
6/30/2031	148,978	591,024	740,002
	<u>\$ 16,132,414</u>	<u>13,310,436</u>	<u>29,442,850</u>

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE  
 SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS -  
 COMPONENT UNITS  
 June 30, 2006

<u>Fiscal Year Ending</u>	<u>Bond Requirements</u>	<u>Interest Requirements</u>	<u>Total Requirements</u>
6/30/2007	\$ 48,253	1,979	50,232
6/30/2008	<u>29,766</u>	<u>608</u>	<u>30,374</u>
	<u>\$ 78,019</u>	<u>2,587</u>	<u>80,606</u>

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE  
SCHEDULE OF NOTE PRINCIPAL AND INTEREST REQUIREMENTS  
ALL FUNDS - PRIMARY GOVERNMENT  
June 30, 2006

<u>Fiscal Year Ending</u>	<u>Note Requirements</u>	<u>Interest Requirements</u>	<u>Total Requirements</u>
6/30/2007	\$ 467,114	101,690	568,804
6/30/2008	315,265	84,954	400,219
6/30/2009	215,795	75,628	291,423
6/30/2010	211,085	67,806	278,891
6/30/2011	200,607	60,539	261,146
6/30/2012	222,343	55,992	278,335
6/30/2013	202,146	45,842	247,988
6/30/2014	204,798	39,030	243,828
6/30/2015	207,510	32,135	239,645
6/30/2016	210,306	25,167	235,473
6/30/2017	109,008	20,196	129,204
6/30/2018	111,960	17,256	129,216
6/30/2019	114,984	14,232	129,216
6/30/2020	118,092	11,124	129,216
6/30/2021	121,284	7,932	129,216
6/30/2022	124,560	4,644	129,204
6/30/2023	106,340	1,572	107,912
	<u>\$ 3,263,197</u>	<u>665,739</u>	<u>3,928,936</u>

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE  
 SCHEDULE OF NOTE PRINCIPAL AND INTEREST REQUIREMENTS -  
 COMPONENT UNITS  
 June 30, 2006

<u>Fiscal Year Ending</u>	<u>Note Requirements</u>	<u>Interest Requirements</u>	<u>Total Requirements</u>
6/30/2007	\$ 4,000	9,768	13,768
6/30/2008	22,252	9,768	32,020
6/30/2009	52,186	7,814	60,000
6/30/2010	54,139	5,861	60,000
6/30/2011	<u>52,388</u>	<u>3,907</u>	<u>56,295</u>
	<u>\$ 184,965</u>	<u>37,118</u>	<u>222,083</u>

See Independent Auditors' Report.

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

	Fiscal Year			
	2003	2004	2005	2006
Governmental Activities				
Invested in Capital Assets, Net of Related Debt	\$ 8,358,220	8,155,681	10,681,542	11,444,573
Unrestricted	<u>8,168,083</u>	<u>9,215,921</u>	<u>7,031,709</u>	<u>6,789,683</u>
Total Governmental Activities Net Assets	<u><u>16,526,303</u></u>	<u><u>17,371,602</u></u>	<u><u>17,713,251</u></u>	<u><u>18,234,256</u></u>
Business-type Activities				
Invested in Capital Assets, Net of Related Debt	41,937,747	41,681,195	42,776,756	44,271,111
Restricted	-	27,728	12,072	927
Unrestricted	<u>5,605,268</u>	<u>7,007,747</u>	<u>8,099,683</u>	<u>9,248,016</u>
Total Business-type Activities Net Assets	<u><u>47,543,015</u></u>	<u><u>48,716,670</u></u>	<u><u>50,888,511</u></u>	<u><u>53,520,054</u></u>
Primary Government				
Invested in Capital Assets, Net of Related Debt	50,295,967	49,836,876	53,458,298	55,715,684
Restricted	-	27,728	12,072	927
Unrestricted	<u>13,773,351</u>	<u>16,223,668</u>	<u>15,131,392</u>	<u>16,037,699</u>
Total Primary Government Net Assets	<u><u>\$64,069,318</u></u>	<u><u>66,088,272</u></u>	<u><u>68,601,762</u></u>	<u><u>71,754,310</u></u>

**NOTE:** Comparable information was not available for prior years. The City implemented Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – For State and Local Governments, during the 2003 fiscal year.

See Independent Auditors’ Report.

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

	Fiscal Year			
	2003	2004	2005	2006
<b>EXPENSES</b>				
Governmental Activities				
General Government	\$ 2,030,392	1,134,721	1,838,201	1,964,833
Public Safety	3,427,386	3,708,331	3,819,315	4,220,050
Public Works	1,353,398	1,682,033	1,519,457	1,655,130
Health and Welfare	139,881	149,075	128,225	128,009
Building Code Enforcement	212,241	232,388	252,559	245,923
Community Development	86,594	95,519	128,953	97,378
Culture and Recreation	1,086,283	1,087,214	1,177,105	1,255,737
Other	375,257	749,080	782,368	597,845
Interest on Long-Term Debt	136,954	168,413	126,176	100,446
Total Governmental Activities Expenses	<u>8,848,386</u>	<u>9,006,774</u>	<u>9,772,359</u>	<u>10,265,351</u>
Business-type Activities				
Water and Sewer	5,240,685	5,924,594	6,101,136	6,258,684
Electric System	34,580,165	35,949,729	35,655,992	38,562,527
Airport	396,805	462,861	576,956	686,323
Total Business-type Activities Expenses	<u>40,217,655</u>	<u>42,337,184</u>	<u>42,334,084</u>	<u>45,507,534</u>
Total Primary Government Expenses	<u>49,066,041</u>	<u>51,343,958</u>	<u>52,106,443</u>	<u>55,772,885</u>
<b>PROGRAM REVENUES</b>				
Governmental Activities				
Charges for Services	1,341,974	1,225,622	1,261,861	1,645,615
Operating Grants and Contributions	155,364	233,578	77,139	137,993
Capital Grants and Contributions	56,287	350,497	255,533	334,270
Total Governmental Activities Program Revenues	<u>1,553,625</u>	<u>1,809,697</u>	<u>1,594,533</u>	<u>2,117,878</u>
Business-type Activities				
Charges for Services	41,249,758	43,380,657	44,050,045	48,187,308
Operating Grants and Contributions	291,766	-	427,175	337,513
Capital Grants and Contributions	-	-	519,040	-
Total Business-type Activities Program Revenues	<u>41,541,524</u>	<u>43,380,657</u>	<u>44,996,260</u>	<u>48,524,821</u>
Total Primary Government Program Revenues	<u>\$ 43,095,149</u>	<u>45,190,354</u>	<u>46,590,793</u>	<u>50,642,699</u>

(Continued)

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

	Fiscal Year			
	2003	2004	2005	2006
NET (EXPENSE)/REVENUE				
Governmental Activities	\$ (7,294,761)	(7,197,077)	(8,177,826)	(8,147,473)
Business-type Activities	1,323,869	1,043,473	2,662,176	3,017,287
Total Primary Government Net Expense	<u>(5,970,892)</u>	<u>(6,153,604)</u>	<u>(5,515,650)</u>	<u>(5,130,186)</u>
GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS				
Governmental Activities				
Taxes:				
Property Taxes	3,568,814	3,525,231	3,592,858	3,705,114
Sales Taxes	2,724,745	2,811,594	3,215,945	3,631,223
In-Lieu of Taxes	714,784	16,203	47,644	29,861
Business Taxes	193,140	200,805	217,419	251,306
Other Local Governments	116,946	100,885	160,733	166,627
State Aid	1,719,320	1,672,268	1,720,914	1,773,976
Federal Aid	559,217	335,135	343,080	492,029
Unrestricted Investment Earnings	133,910	104,744	111,512	241,330
Miscellaneous	-	(3,570)	42,056	56,370
Special Item - Donations of Assets	1,486,963	-	-	-
Loss on Sale of Asset	(44,287)	-	-	-
Grants and Contributions not restricted	-	1,611,081	747,906	-
Transfers	(2,372,500)	(2,332,000)	(1,680,592)	(1,679,358)
Total Governmental Activities	<u>8,801,052</u>	<u>8,042,376</u>	<u>8,519,475</u>	<u>8,668,478</u>
Business-type Activities				
Unrestricted Investment Earnings	89,701	77,409	161,073	285,842
Miscellaneous	272	52,773	-	1,159
Transfers	40,500	-	(651,408)	(652,642)
Total Business-type Activities	<u>130,473</u>	<u>130,182</u>	<u>(490,335)</u>	<u>(365,641)</u>
Total Primary Government	<u>8,931,525</u>	<u>8,172,558</u>	<u>8,029,140</u>	<u>8,302,837</u>
CHANGE IN NET ASSETS				
Governmental Activities	1,506,291	845,299	341,649	521,005
Business-type Activities	1,454,342	1,173,655	2,171,841	2,651,646
Total Primary Government	<u>\$ 2,960,633</u>	<u>2,018,954</u>	<u>2,513,490</u>	<u>3,172,651</u>

**NOTE:** Comparable information was not available for prior years. The City implemented Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – For State and Local Governments, during the 2003 fiscal year.

See Independent Auditors’ Report.

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

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
General Fund				
Designated	\$ 4,121,618	4,168,892	4,000,273	4,178,565
Unreserved	<u>3,320,969</u>	<u>3,351,326</u>	<u>2,363,630</u>	<u>1,951,297</u>
Total General Fund	<u><u>7,442,587</u></u>	<u><u>7,520,218</u></u>	<u><u>6,363,903</u></u>	<u><u>6,129,862</u></u>
All Other Governmental Funds				
Unreserved, Reported in:				
Special Revenue Funds	64,008	101,729	15,509	201,206
Capital Projects Funds	258,729	1,197,712	309,109	494,150
Permanent Fund	<u>25,143</u>	<u>25,409</u>	<u>25,939</u>	<u>27,011</u>
Total All Other Governmental Funds	<u><u>\$ 347,880</u></u>	<u><u>1,324,850</u></u>	<u><u>350,557</u></u>	<u><u>722,367</u></u>

Note: Additional years of information will be provided in future years.

See Independent Auditors' Report.



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

	2003	2004	2005	2006
<b>REVENUES</b>				
Taxes	\$ 7,234,119	6,528,005	7,066,193	7,604,318
Licenses and Permits	54,434	98,223	75,465	93,181
Intergovernmental	1,899,574	1,908,501	1,859,661	1,925,234
Charges for Services	1,861,406	1,800,276	1,874,032	2,005,518
Donations	56,287	180,895	23,210	176,801
Grant Income	81,427	253,514	253,920	348,354
Fines and Forfeitures	286,211	233,385	229,768	314,885
Miscellaneous	459,253	402,720	503,053	642,254
Interest Earned	133,909	104,744	111,514	241,377
<b>TOTAL REVENUES</b>	<b>12,066,620</b>	<b>11,510,263</b>	<b>11,996,816</b>	<b>13,351,922</b>
<b>EXPENDITURES</b>				
General Government	2,550,823	2,362,721	2,444,515	2,559,403
Public Safety	3,417,453	3,460,461	3,667,343	4,045,478
Public Works	1,127,023	1,288,844	1,148,397	1,290,099
Health and Welfare	138,991	144,000	127,125	125,157
Building Code Enforcement	207,111	221,218	252,127	245,905
Community Development	88,577	91,331	128,737	97,354
Culture and Recreation	1,005,781	975,717	1,092,553	1,175,390
Special Appropriations	220,438	224,625	280,657	225,432
Capital Outlay	261,925	362,768	2,088,323	690,096
Debt Service:				
Principal	564,856	2,090,000	589,166	599,167
Interest	142,393	137,264	123,041	105,453
Paying Agent Fees	874	33,537	3,136	1,487
Lease Payments	2,754	886	-	-
Other Operating Expenses	154,819	524,455	501,712	411,724
<b>TOTAL EXPENDITURES</b>	<b>9,883,818</b>	<b>11,917,827</b>	<b>12,446,832</b>	<b>11,572,145</b>
Excess (Deficiency) of Revenues Over/(Under) Expenditures	\$ 2,182,802	(407,564)	(450,016)	1,779,777

(Continued)

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

	2003	2004	2005	2006
<b>OTHER FINANCING SOURCES (USES)</b>				
Capital Outlay Note Proceeds	\$ -	1,250,000	-	-
Refunding Bond Proceeds	-	1,675,000	-	-
Sale of Fixed Assets	-	265,000	-	-
Transfers In	342,041	1,013,397	1,012,413	1,334,342
Transfers Out	<u>(2,714,541)</u>	<u>(2,741,232)</u>	<u>(2,693,005)</u>	<u>(2,976,350)</u>
<b>TOTAL OTHER FINANCING SOURCES (Uses)</b>	<u>(2,372,500)</u>	<u>1,462,165</u>	<u>(1,680,592)</u>	<u>(1,642,008)</u>
<b>Net Change in Fund Balances</b>	<u>\$ (189,698)</u>	<u>1,054,601</u>	<u>(2,130,608)</u>	<u>137,769</u>
 Debt Service as a Percentage of Noncapital Expenditures	 7.35%	 19.28%	 6.88%	 6.48%

Note: Additional years of information will be provided in future years.

See Independent Auditors' Report.

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

Tax Year	Taxes Receivable at July 1, 2005	Add Taxes Leined	Deduct Collections	Adjustments, Releases/ Abatements, Late Listings/Discoveries	Taxes Receivable at June 30, 2006
2006	\$ -	3,687,269	-	-	3,687,269
2005	3,541,087	-	(3,310,637)	-	230,450
2004	175,893	-	(138,801)	(4,094)	32,998
2003	37,559	-	(10,355)	(3,590)	23,614
2002	20,113	-	(8,610)	(1,035)	10,468
2001	15,574	-	(6,909)	(742)	7,923
2000	13,038	-	(5,020)	(375)	7,643
1999	2,988	-	-	-	2,988
1998	4,059	-	-	-	4,059
1997	16,574	-	-	-	16,574
1996	31,727	-	-	-	31,727
1995	4,232	-	-	(790)	3,442
<b>Total</b>	<b>\$ 3,862,844</b>	<b>3,687,269</b>	<b>(3,480,332)</b>	<b>(10,626)</b>	<b>4,059,155</b>

Uncollected Delinquent Taxes Filed in Chancery Court:

As of October 1, 2004, all of the above delinquent taxes for 1993 through 2003 have been filed by the City Attorney with the Carter County Chancery Court.

As of October 1, 2006, all of the above delinquent taxes have been filed by the City Attorney with the Carter County Chancery Court.

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE  
 ASSESSED AND ESTIMATED ACTUAL VALUE OF PROPERTY - UNAUDITED  
 LAST TEN FISCAL YEARS

Tax Year	Total		Ratio of Assessed To Actual Value	Tax Rate
	Assessed	Estimated Value		
2005	\$ 156,216,923	524,143,493	30%	2.30
2004	148,756,011	497,847,706	30%	2.30
2003	145,919,809	488,957,623	30%	2.30
2002	151,796,083	501,874,461	30%	2.30
2001	140,667,256	468,449,088	30%	2.30
2000	123,481,318	421,709,076	29%	2.61
* 1999	122,770,138	410,510,562	30%	2.61
1998	129,598,764	412,821,759	32%	2.61
1997	110,461,888	367,766,054	30%	2.81
1996	111,383,075	357,826,300	31%	2.81

\* Reappraisal Year

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE  
COMPUTATION OF LEGAL DEBT MARGIN - UNAUDITED  
June 30, 2006

---

	<u>2006</u>
Total Assessed Property	<u>\$ 156,216,923</u>
Legal Debt Limit - 10% of Assessed Value	15,621,692
General Obligation Debt	<u>(1,705,000)</u>
Margin for Additional Borrowing	<u>\$ 13,916,692</u>

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE  
RATIO OF NET GENERAL OBLIGATION BONDED DEBT TO ASSESSED VALUE  
AND NET GENERAL OBLIGATION BONDED DEBT PER CAPITA  
LAST NINE YEARS - UNAUDITED

	1998	1999	2000	2001	2002	2003	2004	2005	2006
General Bonded Debt	\$ 4,535,000	4,320,000	4,020,000	3,705,000	3,435,000	3,025,000	2,635,000	2,175,000	1,705,000
Assessed Valuation	110,461,888	129,598,764	122,770,138	123,481,318	140,667,256	151,796,083	145,919,809	148,756,011	156,216,923
Ratio of General Bonded Debt to Assessed Value	4.11%	3.33%	3.27%	3.00%	2.44%	1.99%	1.81%	1.46%	1.09%
Bonded Debt per Capita:									
Based on 1990 Census	13,087	13,087							
Based on 2000 Census			13,372	13,372					
Based on Special Census June 2002					14,017	14,017	14,017	14,017	14,017
Bonded Debt per Capita	347	330	301	277	245	216	188	155	122

Previous one year of information was not readily available.

Note: A Special Census was made on June 14, 2002 in connection with territory annexed which resulted in a population increase of 645.

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE  
 TAX RATES AND ASSESSMENTS  
 LAST TEN YEARS - UNAUDITED

Fund	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
General Fund	2.81	2.81	2.61	2.61	2.61	2.30	2.30	2.30	2.30	2.30
<u>Assessed Valuation:</u>										
*Real and Personal				122,635,437	123,369,815	140,540,336	151,671,448	145,919,809	148,756,011	156,216,923
*Public Utility				134,701	111,503	126,920	124,635	112,161	119,592	94,182
Total Assessed Valuation	111,383,075	110,461,888	129,598,764	122,770,138	123,481,318	140,667,256	151,796,083	146,031,970	148,875,603	156,311,105

\* Three years of the information was not readily available.

See Independent Auditors' Report.

CITY OF ELIZABETHTON, TENNESSEE  
 UTILITY RATES FOR WATER AND SEWER - UNAUDITED  
 For the Fiscal Year Ended June 30, 2006

	<u>Inside Corporate Limits of City</u>	<u>Outside Corporate Limits of City</u>
<u>Water Meter Rates for Residential</u>		
<u>Commercial, and Industrial:</u>		
1,000 gallons or less	Minimum \$ 6.24	Minimum 11.64
Next 9,000 gallons - cost per 1,000 gallons	2.64	5.04
Next 10,000 gallons - cost per 1,000 gallons	2.22	4.58
Next 70,000 gallons - cost per 1,000 gallons	2.06	4.22
Next 100,000 gallons - cost per 1,000 gallons	2.02	3.47
Next 300,000 gallons - cost per 1,000 gallons	1.94	3.25
Next 400,000 gallons - cost per 1,000 gallons	1.72	3.23
<u>Wholesale Rates for Water for Utility Districts:</u>		
First 100,000 gallons		Minimum 420.00
Next 100,000 gallons		3.68/m
Next 800,000 gallons		3.10/m
All over 1,000,000 gallons		3.05/m
<u>Sewer Rates for Residential, Industrial and Commercial:</u>		
Base Rate	9.47	12.54
Cost per 1,000 gallons up to 9,000 gallons	2.24	4.19
Cost per 1,000 gallons over 9,000 gallons	-	3.05
<u>Number of Customers</u>		
Water (Inside and Outside)	11,126	
Sewer (Inside and Outside)	5,357	

See Independent Auditors' Report.

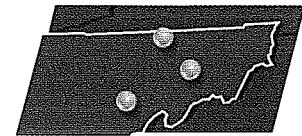


CITY OF ELIZABETHTON, TENNESSEE  
SCHEDULE OF CURRENT UTILITY RATES AND NUMBER OF CUSTOMERS (UNAUDITED)  
June 30, 2006

<u>Residential Rate Schedule</u>	<u>RS</u>	
Customer Charge -		
per delivery point per month		
(\$9.50 less \$1.71 hydro allocation credit)	\$7.25	
Energy Charge - per kWh per month	\$0.07291	
 <u>General Power Rate Schedule</u>	 <u>GSA</u>	 <u>GSB</u>
	(Demand 0-	(Demand 5,000
	5,000 kW)	to 12,000 kW)
 <i>Part 1.</i>		
Customer Charge		
Per delivery point per month	\$13.32	\$1,500.00
Energy Charge - per kWh per month	\$0.08289	
Per kWh up to 620 hours per month		\$0.03588
Per kWh all additional per month		\$0.02928
Demand Charge - per kW per month		\$13.51
Excess of billing demand over		
contract demand - per kW per month		\$13.51
 <i>Part 2.</i>		
Customer Charge		
Per delivery point per month	\$33.30	
Demand Charge - per kW per month		
First 50 kW	\$0.00	
Excess over 50kW per month	\$12.08	
Energy charge - per kWh per month		
First 15,000 kWh	\$0.08289	
Additional kWh per month	\$0.04320	
 <i>Part 3.</i>		
Customer Charge		
Per delivery point per month	\$88.73	
Demand Charge - per kW per month		
First 1,000 kW	\$11.87	
Excess over 1,000 kW	\$13.28	
Excess of higher of 2,500 kW or		
contract demand	\$0.00	
Energy Charge - per kWh per month		
First 15,000 kWh	\$0.07450	
Additional kWh	\$0.04320	
 <u>Outdoor Lighting Rate Schedule</u>	 <u>LS</u>	
Customer Charges		
Per delivery point per month	\$2.50	
Energy Charge - per kWh	\$0.05257	
 <u>Number of Customers</u>		
Residential	22,439	
General	3,230	
Street, Athletic and Outdoor Lighting	125	
Total Customers	<u>25,794</u>	

See Independent Auditors' Report.

INTERNAL CONTROL AND  
COMPLIANCE SECTION



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

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund and the aggregate remaining fund information of the City of Elizabethton, Tennessee as of and for the year ended June 30, 2006 which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 18, 2006. We did not audit the Elizabethton Municipal Airport, a blended component unit, or the Elizabethton Board of Education, a discretely presented component unit. Those entities were audited by other auditors whose reports have been furnished to us, and our opinion on the City's financial statements, insofar as it relates to the amounts included for these component units, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Elizabethton, Tennessee's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Elizabethton, Tennessee's ability to initiate, record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 06-01, 06-02, 06-03, 04-16, and 02-01.

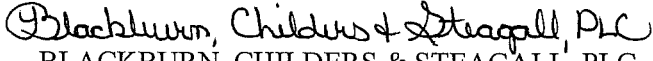
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not

necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weaknesses. We also noted other matters involving the internal control over financial reporting that we have reported to management of the City of Elizabethton, Tennessee in a separate letter dated December 18, 2006.

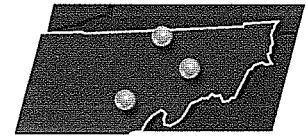
Compliance and Other Matters

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

This report is intended solely for the information and use of the City of Elizabethton, Tennessee management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

  
BLACKBURN, CHILDERS & STEAGALL, PLC

December 18, 2006



INDEPENDENT AUDITORS'  
REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of the City of Elizabethton, Tennessee (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. We did not audit the Elizabethton Municipal Airport, a blended component unit, or the Elizabethton Board of Education, a discretely presented component unit. Those entities were audited by other auditors whose reports have been furnished to us, and our opinion on the City's financial statements, insofar as it related to the amounts included for these component units, is based solely on the reports of the other auditors. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

The City of Elizabethton, Tennessee's financial statements include the operations of the Elizabethton Board of Education, a discretely presented component unit, which received \$1,668,268 in federal awards which is not included in the schedule during the year ended June 30, 2006. Our audit, described below, did not include the operations of the Elizabethton Board of Education, a discretely presented component unit because the component unit engaged other auditors to perform an audit in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the

City of Elizabethton, Tennessee's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of City of Elizabethton, Tennessee's compliance with those requirements.

In our opinion, City of Elizabethton, Tennessee complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

#### Internal Control Over Compliance

The management of the City of Elizabethton, Tennessee is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Elizabethton, Tennessee's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the City of Elizabethton, Tennessee, management, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Blackburn, Childers and Steagall, PLC*  
BLACKBURN, CHILDERS, AND STEAGALL, PLC

December 18, 2006

CITY OF ELIZABETHTON, TENNESSEE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2006

---

**Summary of Auditors' Results**

1. The auditors' report expresses an unqualified opinion on the financial statements of the City of Elizabethton, Tennessee.
2. Five reportable conditions relating to the audit of the financial statements are reported in the Schedule of Findings and Questioned Costs, none of which are considered to be material weaknesses.
3. No instances of noncompliance material to the financial statements of the City of Elizabethton, Tennessee were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award programs are reported in the Schedule of Findings and Questioned Costs.
5. The auditors' report on compliance for the major federal award programs for the City of Elizabethton, Tennessee expresses an unqualified opinion on all major federal programs.
6. No audit findings relative to the major federal award programs for the City of Elizabethton, Tennessee are reported in this Schedule.
7. The programs tested as major programs include:

<u>Program</u>	<u>CFDA Number</u>
Community Development Block Grants	14.228
Home Investment Partnerships Program	14.239

8. The threshold for distinguishing Types A and B Programs was \$300,000.
9. The City of Elizabethton was determined to be a low risk auditee.

**Findings and Questioned Costs – Major Federal Award Programs Audit**

None

CITY OF ELIZABETHTON, TENNESSEE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2006

---

Current Year Findings

06-01 Adequate Documentation for Cash Receipts – Park and Recreation Department

*Condition:* Documentation for some gate receipts for baseball and pool admissions were not always properly completed. The support for five admissions items sampled was only signed by the director/designee as there was no second signature. This was also true for one concession receipt. In three other admission receipts tested, the form was only signed by the ticket seller as there was no second signature or review notation by the director or his designee. This was also noted for two concession receipts.

*Criteria:* To increase oversight and internal controls, at least two individuals should be involved in the receipt process.

*Effect:* Although no losses were noted, without an added level of oversight, the opportunity for misappropriation is increased.

*Recommendation:* To increase the level of oversight, we suggest two individuals sign the ticket reconciliation forms. The ticket seller should sign to agree the ticket range, total sold and total collected. An employee with the Park and Recreation department should verify the same information and sign the form. For concession, we suggest the use of a count of collection form where two people count the total receipts and document and sign to substantiate the total.

*Management's Comments:* We will conduct training for our employees to ensure compliance with current policies and procedures already in place.

06-02 Developer Agreements

*Condition:* Developer agreements were not always properly maintained. In one instance, the agreement was never signed by the developer. There appears to be a lack of documentation and communication from Planning and Development and Public Works with respect to developer agreements, a policy for capitalizing lines that are constructed by developers and then donated to the city, or communication and consistent treatment for moratoriums on taps.

*Criteria:* All developer agreements should be properly authorized, signed and documented. The various departments within the City should communicate with one another to avoid potential developer conflicts.

*Effect:* The effect of this creates a deficiency with the City policy for development agreements and creates the appearance of lack of concern for following City guidelines.

*Recommendation:* Developer agreements should be maintained for each properly approved agreement. These agreements should be signed by all parties and maintained at city hall.



CITY OF ELIZABETHTON, TENNESSEE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2006

---

Current Year Findings (Continued)

*Management's Comments:* Management will develop a check list that will have the process for a Developer Agreement. Also a separate filing system will be established to ensure all paper work is maintained. Planning and Development will be responsible for the documentation.

06-03 Contracts – Elizabethton Electric System

*Condition:* In some instances, the System did not have signed contracts for services that are being performed.

*Criteria:* The System should properly bid applicable purchases in accordance with the policy of the City of Elizabethton. In addition, current signed contracts should be maintained for services rendered.

*Effect:* This situation results in the System not be compliant with sound purchasing procedures.

*Recommendation:* We recommend the System follow the purchasing policies as prescribed by the City of Elizabethton.

*Management's Comments:* During the audit period the newly appointed EES manager was in the transition process of evaluating and re-bidding several vendor contracts. The manager sought direction by the governing body as to whether the bidding process should include monthly, annual or per job bidding. The departure of the Manager further impeded the process of contract acquisition. However, it is noted that under these indeterminate circumstances, EES tried to continually follow the purchasing policy of the City of Elizabethton.

Prior Year Finding Not Implemented

04-16 Coding of Expenses – Elizabethton Electric System (6-30-04 Report, Page 126)

*Condition:* The chart of accounts lacks detail and is not compatible with budget line items.

*Criteria:* The chart of accounts should provide sufficient detail for proper tracking of expenses.

*Effect:* The Elizabethton Electric System cannot always provide an accurate picture of expenses incurred

*Recommendation:* The accounting department should create new accounts when necessary to accurately reflect the activities of the Elizabethton Electric System.

CITY OF ELIZABETHTON, TENNESSEE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2006

---

Prior Year Finding Not Implemented (Continued)

*Management's Comments:* TVA requires each utility to maintain their books and records according to a standard system (Uniform System of Accounts). This method assures a greater degree of uniformity in financial information and reporting of meaningful and pertinent financial information. EES' prevailing method of internal financial reporting emphasizes the TVA accepted format.

As expenses are incurred they are posted correctly using FERC (Federal Energy Regulatory Commission) accounting practices to the General Ledger and transferred to each appropriate budget line item. In order to easily recognize expense detail and report the financials in a further meaningful manner, a more detailed budget format is in process. A new format has also been established and presented to the board. The intent is to increase the understanding and to enhance business decisions based on a better understanding of EES business practices.

02-01 Work Orders (06-30-05 Report, Page 131, repeated from 06-30-02 Report, Page 155)

*Condition:* Work orders for various water and sewer projects were not always completed properly during the year. Overtime listed on work orders did not always agree to the time sheets.

*Criteria:* All work orders should be completed and handled in accordance with the policies and procedures adopted by the City.

*Effect:* The lack of adherence to the policy does not reduce to a relatively low level the risk that inventory could be misused, stolen or misappropriated.

*Recommendation:* Work orders should be issued before work begins and approved by the Department Head as to the materials needed to complete the job. Materials should be charged out of inventory when they are taken from the warehouse. Work orders should be completed properly and should include all overtime.

*Management's Comments:* We are continuing to give management emphasis on the completion of work orders in accordance with our work order procedure using the INCODE system. All hours and materials should match the work required and be completed in a timely manner.

CITY OF ELIZABETHTON, TENNESSEE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2006

---

Prior Year Findings Implemented

<u>Number</u>	<u>Finding</u>	<u>Page</u>
05-01	Checkwriting Authority	148
05-02	Collateralization of Bank Deposits	148
04-04	Cut-off Policy	149
04-06	Work Orders	149
04-07	Aid to Construction	150
04-09	Inventory	150
04-15	Invoices	151
04-18	Internal Controls	152
04-12	Accounting Procedures	124
03-02	Manual	152