



# **ELIZABETHTON ELECTRIC DEPARTMENT**

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

## **AUDITED FINANCIAL STATEMENTS**

**For the Fiscal Year Ending June 30, 2018**

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT**

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

**FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION**

**For the Year Ended June 30, 2018**

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT**  
**AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE**  
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**For the Year Ended June 30, 2018**

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**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT  
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## **SECTION I**

### **INTRODUCTORY SECTION**

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT  
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE  
LIST OF ELECTED AND APPOINTED OFFICIALS  
June 30, 2018**

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**Elected Officials**

Mayor	Curt Alexander
Mayor Pro-Tem	William E. "Bill" Carter
Councilman	Kim Birchfield
Councilman	Wes Frazier
Councilman	Samuel B. Shipley
Councilman	D. Richard Tester
Councilman	Jeffrey C. Treadway

**Appointed Officials**

City Manager	Daniel Estes
Director of Finance / City Clerk	Deborah B. Kessler, CMFO

**SECTION II**

**FINANCIAL SECTION**

## INDEPENDENT AUDITORS' REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the City of Elizabethton Electric Department (the Department), an enterprise fund of the City of Elizabethton, Tennessee, as of and for the year ended June 30, 2018, and the related notes to the financial statements, as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Department's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Johnson City	801B Sunset Drive, Johnson City, TN 37604	423.282.4511
Kingsport	1361 South Wilcox Drive, Kingsport, TN 37660	423.246.1725
Greeneville	550 Tusculum Boulevard, Greeneville, TN 37745	423.638.8516



### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Elizabethton Electric Department, an enterprise fund of the City of Elizabethton, Tennessee, as of June 30, 2018, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 1, the financial statements present only the City of Elizabethton Electric Department and do not purport to, and do not present fairly the financial position of the City of Elizabethton, Tennessee, as of June 30, 2018, the changes in its financial position, or where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Change in Accounting Principle***

As described in Note 11 to the financial statements, in fiscal year 2018, the City of Elizabethton Electric Department adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information on pages 5 through 9 and 45 through 53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

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

City of Elizabethton Electric Department  
Independent Auditors' Report

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

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2018, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

*Blackburn, Childers + Steagall, PLLC*

BLACKBURN, CHILDERS & STEAGALL, PLC  
Johnson City, Tennessee

November 2, 2018

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT  
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2018**

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The following is the Management's Discussion and Analysis (MD&A) of the financial statements and supporting documents for the Elizabethton Electric Department, an enterprise fund of the City of Elizabethton, Tennessee for the fiscal year ended June 30, 2018.

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

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

**Overview of the Financial Statements**

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

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

Section V includes the report on Internal Control and Compliance.

**Elizabethton Electric Department Activity Highlights**

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

	<b>2018</b>	<b>2017</b>
Residential	22,978	22,973
Small Commercial	3,010	2,982
Large Commercial/Industrial	259	257
Street and Athletic Lighting	47	50
Outdoor Lighting Only	172	180
<b>Total</b>	<b>26,466</b>	<b>26,442</b>

As indicated by the above chart, Residential increased .022% and Small Commercial increased .94% over the past year. Large Commercial and Industrial increased .78%. Street & Athletic decreased 6.00% and Outdoor Lighting decreased 4.44%. Overall customers increased .091%.

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT  
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2018**

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**Capital Assets**

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

	<b>2018</b>	<b>2017</b>
Transmission Plant	\$ 36,113,765	36,106,550
Distribution Plant	57,413,013	56,091,300
General Plant	10,638,604	10,353,459
Construction Work in Progress	15,240	466,381
	\$ 104,180,622	103,017,690

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

In 2010, the Elizabethton Electric Department received a bond, \$20,585,000, to rebuild and upgrade significant power lines and substation construction. The work was completed in 2017.

**Debt**

The Elizabethton Electric Department currently has four bond issues outstanding. One in 2007, \$15,000,000, that was issued to update and improve three of our substations that will be paid in full in 2018. The second bond, as mentioned above, was issued in 2010, \$20,585,000, to upgrade and rebuild substations and significant power lines and will be paid in full in 2035. One in 2015, \$9,280,000, refunding issue that will be paid in full in 2027. One in 2015, \$1,905,000, refunding issue that will be paid in full in 2022.

**Pensions**

Elizabethton Electric Department employees prior to January 12, 2007 participate in a non-governmental CSA pension plan. Monthly contributions are made based on annual evaluations. Last year the net pension liability was \$6,570,411 with a net position ratio of 62.97%. This year the net pension liability is \$5,163,352 with a net position ratio of 70.25%.

Employees hired after January 12, 2007 participate in a defined benefit public employee retirement plan administered by Tennessee Consolidated Retirement System. The Elizabethton Electric Department's share of the net pension liability is \$600,342 in the current year and \$627,433 in the prior year.

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT  
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2018**

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**Summary of Changes in Net Position**

	<u>2018</u>	<u>2017</u>
Operating Revenues	\$ 57,170,355	54,698,977
Operating Expenses	<u>49,366,598</u>	<u>48,382,647</u>
Operating Income Before Depreciation	7,803,757	6,316,330
Less: Depreciation	<u>(3,207,158)</u>	<u>(3,139,093)</u>
Operating Income	4,596,599	3,177,237
Non-operating Revenues (Expenses)	(928,479)	(1,036,058)
Transfers	<u>(1,424,279)</u>	<u>(1,434,189)</u>
Change in Net Position	<u>\$ 2,243,841</u>	<u>706,990</u>

**Operating and Non-operating Revenue Highlights**

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

**Operating Revenues**

	<u>2018</u>	<u>2017</u>
Electric Sales Revenue	\$ 55,465,299	53,285,812
Revenue from Late Payments	368,033	355,099
Miscellaneous Service Revenues	541,646	290,060
Rent from Electric Property	<u>795,377</u>	<u>768,006</u>
Total Operating Revenues	<u>57,170,355</u>	<u>54,698,977</u>
Other Income	<u>149,594</u>	<u>46,267</u>
Total Revenues	<u>\$ 57,319,949</u>	<u>54,745,244</u>

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

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT  
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2018**

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- Electric sales revenue increased by 4.09% from the prior year.
- Revenue from late payments increased by 3.64% from the prior year.
- Rent from electric property due to billing of pole attachment fees increased by 3.56% from the prior year.

**Operating and Maintenance Expense**

	<u>2018</u>	<u>2017</u>
Operations		
Purchased Power	\$ 42,514,286	41,327,976
Transmission Expense	3,408	6,949
Distribution Expense	995,956	1,029,125
Customer Accounts Expense	1,288,134	1,229,271
Sales Expense	31,832	16,708
Administrative & General Expense	<u>1,894,603</u>	<u>1,953,304</u>
	<u>46,728,219</u>	<u>45,563,333</u>
Maintenance		
Transmission Expense	158,298	227,423
Distribution Expense	1,787,459	1,881,085
Administrative & General Expense	<u>52,726</u>	<u>67,212</u>
	<u>1,998,483</u>	<u>2,175,720</u>
Other		
Depreciation and Taxes	3,788,054	3,723,130
Contribution to OPEB Trust	59,000	59,557
Interest and Amortization Expense	<u>1,078,073</u>	<u>1,082,325</u>
	<u>4,925,127</u>	<u>4,865,012</u>
Total Expenses	<u>53,651,829</u>	<u>52,604,065</u>
Transfers	<u>(1,424,279)</u>	<u>(1,434,189)</u>
Change in Net Position	<u>\$ 2,243,841</u>	<u>706,990</u>

- Operation Expense increased by 2.56% over the prior year.
- Maintenance Expense decreased 8.15%.
- Other Expense increased by 1.24% over the prior year.

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT  
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2018**

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**Financial Position Summary**

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

Financial Position Summary	<u>2018</u>	<u>2017</u>
Current Assets	\$ 24,741,340	23,569,084
Restricted Assets	2,643,733	2,600,178
Capital Assets (net)	72,925,953	73,878,199
Other Assets	<u>1,373,418</u>	<u>1,892,898</u>
<b>Total Assets</b>	<b><u>\$ 101,684,444</u></b>	<b><u>101,940,359</u></b>
Deferred Loss on Bond Refunding Costs	\$ 488,874	540,767
Deferred Outflows Related to OPEB	38,170	-
Deferred Outflows Related to Pensions	<u>1,682,683</u>	<u>1,918,222</u>
<b>Total Deferred Outflow of Resources</b>	<b><u>\$ 2,209,727</u></b>	<b><u>2,458,989</u></b>
Current Liabilities	\$ 11,227,109	11,516,701
Non-Current Liabilities	<u>36,777,687</u>	<u>39,829,084</u>
<b>Total Liabilities</b>	<b><u>\$ 48,004,796</u></b>	<b><u>51,345,785</u></b>
Deferred Inflows Related to OPEB	129,520	-
Deferred Inflows Related to Pensions	<u>771,678</u>	<u>85,089</u>
<b>Total Deferred Outflow of Resources</b>	<b><u>\$ 901,198</u></b>	<b><u>85,089</u></b>
Net Investment in Capital Assets	42,208,438	41,933,751
Restricted for Other Purposes	459,987	693,345
Unrestricted Net Position	<u>12,319,752</u>	<u>10,341,378</u>
<b>Total Net Position</b>	<b><u>\$ 54,988,177</u></b>	<b><u>52,968,474</u></b>

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

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT**  
**AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE**  
**STATEMENT OF NET POSITION**  
**June 30, 2018**

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<b>ASSETS</b>	
Current Assets	
Cash on Hand	\$ 13,687
Cash in Bank	11,131,370
Investments	6,213,469
Accounts Receivable	
Customer Service	2,310,958
Interest, Rents and Other	4,388,658
Allowance for Uncollectible Amounts	(252,150)
Inventories	935,348
Total Current Assets	<u>24,741,340</u>
Non-Current Assets	
Capital Assets	
Capital Assets, Not Depreciated	617,934
Capital Assets, Depreciated	103,562,688
Accumulated Depreciation	<u>(31,254,669)</u>
Net Capital Assets	<u>72,925,953</u>
Other Assets	
Restricted Cash in Bank - Customer Deposits	2,643,733
Accounts Receivable - Customers - Energy Right	886,005
CSA Stockholder Loan	27,426
Net OPEB Asset	<u>459,987</u>
Total Other Assets	<u>4,017,151</u>
Total Non-Current Assets	<u>76,943,104</u>
<b>TOTAL ASSETS</b>	<u><b>101,684,444</b></u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows Related to Pensions	1,682,683
Deferred Outflows Related to OPEB	38,170
Deferred Loss on Bond Refunding Costs	<u>488,874</u>
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u><b>2,209,727</b></u>

(Continued)



**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT**  
**AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE**  
**STATEMENT OF NET POSITION**  
**June 30, 2018**

<b>LIABILITIES</b>	
Current Liabilities	
Accounts Payable	6,534,301
Accrued Interest	476,346
Bonds Payable	1,290,000
Compensated Absences	126,141
Due to Other Funds	95,371
Customer Deposits Payable from Restricted Cash	2,640,839
Other Current and Accrued Liabilities	<u>64,111</u>
Total Current Liabilities	<u>11,227,109</u>
Non-Current Liabilities	
Compensated Absences	202,248
Bonds Payable (Including Bond Premium)	29,916,389
Net Pension Liability	5,763,694
Advance from TVA - Energy Right	<u>895,356</u>
Total Non-Current Liabilities	<u>36,777,687</u>
<b>TOTAL LIABILITIES</b>	<u><u>48,004,796</u></u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred Inflows Related to Pensions	771,678
Deferred Inflows Related to OPEB	<u>129,520</u>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>901,198</u>
<b>NET POSITION</b>	
Net Investment in Capital Assets	42,208,438
Restricted for Other Purposes	459,987
Unrestricted	<u>12,319,752</u>
<b>TOTAL NET POSITION</b>	<u><u>\$ 54,988,177</u></u>

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

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT**  
**AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**For the Year Ended June 30, 2018**

<b>OPERATING REVENUES</b>	
Sales of Electric Energy	
Residential	\$ 35,705,268
Small Lighting and Power	4,835,675
Large Commercial and Industrial	14,295,177
Street and Outdoor Lighting	990,482
Other Operating Revenues	<u>1,343,753</u>
Total Operating Revenues	<u>57,170,355</u>
<b>OPERATING EXPENSES</b>	
Operation	
Power Purchased from Tennessee Valley Authority	42,514,286
Other Operating Expenses	4,213,933
Maintenance	1,998,483
Contribution to OPEB Trust	59,000
Provision for Depreciation	3,207,158
Tax and Tax Equivalents	<u>580,896</u>
Total Operating Expenses	<u>52,573,756</u>
Operating Income (Loss)	<u>4,596,599</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Interest on Invested Funds	149,594
Amortization Expense	(28,066)
Interest Expense	<u>(1,050,007)</u>
Total Nonoperating Revenues (Expenses)	<u>(928,479)</u>
Income (Loss) Before Transfers	3,668,120
Transfers Out	<u>(1,424,279)</u>
Change in Net Position	<u>2,243,841</u>
BEGINNING NET POSITION, JULY 1, 2017	52,968,474
Prior Period Restatement	<u>(224,138)</u>
BEGINNING NET POSITION, JULY 1, 2017, RESTATED	<u>52,744,336</u>
ENDING NET POSITION, JUNE 30, 2018	<u><u>\$ 54,988,177</u></u>

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

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT**  
**AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended June 30, 2018**

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<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash Received from Electric Sales	\$ 54,183,770
Cash Received from City of Elizabethton, Tennessee	1,072,207
Cash Received from Rentals and Other Sales	1,049,359
Cash Payments to Suppliers for Goods and Services	(49,058,942)
Cash Payments for Employee Services and Benefits	(644,403)
Cash Payments for Tax Equivalents	(419,365)
Net Cash Provided by (Used for) Operating Activities	<u>6,182,626</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Transfers to Other Fund	<u>(1,424,279)</u>
Net Cash Provided by (Used for) Noncapital Financing Activities	<u>(1,424,279)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition and Construction of Capital Assets	(2,304,634)
Principal Paid on Revenue Bonds	(1,255,000)
Interest Paid on Revenue Bonds	(1,064,338)
Net Cash Provided by (Used for) Capital and Related Financing Activities	<u>(4,623,972)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on Certificates of Deposit	149,594
Purchase of Certificates of Deposit and Investments	<u>(92,662)</u>
Net Cash Provided by (Used for) Investing Activities	<u>56,932</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>191,307</b>
<b>CASH, BEGINNING OF YEAR</b>	<u><b>13,597,483</b></u>
<b>CASH, END OF YEAR</b>	<u><u><b>\$ 13,788,790</b></u></u>

(Continued)

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT**  
**AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended June 30, 2018**

Reconciliation of Operating Income (Loss) to  
Net Cash Provided by (Used for) Operating Activities:

Operating Income (Loss)	\$ 4,596,599
Adjustments	
Depreciation	3,256,880
Change in Net Pension Liability	(1,434,150)
Change in Deferred Outflows Related to Pensions	235,539
Change in Deferred Inflows Related to Pensions	686,589
Change in Net OPEB Liability	9,220
Change in Deferred Outflows Related to OPEB	(38,170)
Change in Deferred Inflows Related to OPEB	129,520
(Increase) Decrease in Assets	
Net Accounts Receivable - Customer Service	(323,941)
Accounts Receivable - Interest, Rents and Other	(579,702)
Inventories	(28,199)
Accounts Receivable - Customers - Energy Right	285,308
CSA Stockholder Loan	814
Increase (Decrease) in Liabilities	
Accounts Payable	(326,793)
Other Current and Accrued Liabilities	(318,005)
Compensated Absences	(12,438)
Customer Deposits Payable from Restricted Cash	43,555
	\$ 6,182,626

Reconciliation of Cash to Statement of Net Position

Cash on Hand	\$ 13,687
Cash in Bank	11,131,370
Restricted Cash in Bank - Customer Deposits	2,643,733
	\$ 13,788,790

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

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

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

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

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

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

**Measurement Focus and Basis of Accounting**

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

**Use of Estimates**

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

**Operating Revenues and Expenses**

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

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Restricted Assets**

The Department's restricted assets consist of cash on deposit in the amount of \$2,643,733, which is restricted for the payment of customer deposits.

**Deposits and Investments**

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

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

DEPOSITS – State statutes require all deposits with financial institutions must be collateralized in an amount equal to 105% of the market value of uninsured deposits.

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

Securities purchased under a repurchase agreement must be obligations of the U.S. Government or obligations guaranteed by the U.S. Government or any of its agencies. When repurchase agreements are executed, the purchase of the securities must be priced at least 2% below the market value of the securities on the day of purchase. No repurchase agreements existed as of June 30, 2018.

The carrying amount of the Department's deposits with financial institutions was \$13,866,112 and the Department's book balance was \$13,775,103. Carrying amounts differ from the financial institution balances primarily due to outstanding checks and deposits in transit.

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

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Investments**

The Department invests funds in LGIP and with an investment advisor. The LGIP was established under *Tennessee Code Annotated* (TCA) Title 9, Chapter 4, Part 7. This investment pool is established for the use of idle funds of local governments located within the State of Tennessee. These funds are placed by the participating entity into accounts that are held and invested by the State Treasurer. The LGIP invests in time deposits, such as Certificates of Deposit (CDs), commercial paper, United States of America agency securities, repurchase agreements, and United States of America treasuries. The Department's interest in the investment pool is recorded at amortized cost which approximates fair value and at June 30, 2018 was \$2,155,150. The total investment with the investment firm is recorded at fair value and is \$4,058,319 at June 30, 2018.

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

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

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

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

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

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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

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

As of June 30, 2018, the Department had the following investments.

	Carrying Amount	Fair Value or Amortized Cost
Local Government Investment Pool	\$ 2,155,150	2,155,150
Fixed Certificates of Deposit	3,231,356	3,231,356
Treasury Securities	826,963	826,963
<b>Total Investments</b>	<b>\$ 6,213,469</b>	<b>6,213,469</b>

The Department's investments other than LGIP and fixed certificates of deposit had the following credit risk structure as of June 30, 2018:

<u>Investment Type</u>	Moody's Credit Rating	Fair Value	Percent of Total
Total Treasury Securities	AAA	\$ 826,963	100%

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

<u>Investment Type</u>	Fair Value or Cost	Investment Maturities (in Years)			
		Less than 1	1 - 5	6 - 10	More Than 10
Local Government Investment Pool	\$ 2,155,150	2,155,150	-	-	-
Fixed Certificates of Deposit	3,231,356	1,542,686	1,688,670	-	-
Treasury Securities	826,963	399,728	427,235	-	-
<b>Total Investments by Investment Maturities</b>	<b>\$ 6,213,469</b>	<b>4,097,564</b>	<b>2,115,905</b>	<b>0</b>	<b>0</b>

LGIP investments have weighted average maturity of 3 to 120 days.



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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

Investments at fair value are as follows:

<u>Investment Type</u>	<u>6/30/2018</u>	<u>Fair Value Measurements Using:</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Treasury Securities	\$ 826,963	826,963	-	-
Fixed Certificates of Deposit	3,231,356	-	3,231,356	-
Total Investments by Fair Value	<u>\$ 4,058,319</u>	<u>826,963</u>	<u>3,231,356</u>	<u>0</u>

**Inventories**

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

**Capital Assets**

Land, buildings, machinery and equipment, and electrical distribution systems are stated at historical cost. Expenses for maintenance and repairs, which do not improve or extend the life of the asset, are charged to expense as incurred. Interest incurred during the construction of large projects is reflected in the capitalized value of the project. Capital assets are defined by the Department as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. The assets are being depreciated on the straight-line method over the useful lives per guidelines of the TVA. When property is retired or otherwise disposed of, its average cost, together with its cost of removal less salvage, is charged to accumulated depreciation; no gain or loss is recognized as per federal energy regulations. The depreciation expense for the year ended June 30, 2018 was \$3,207,158 with an additional \$49,722 charged to transportation expense.

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

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

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Compensated Absences**

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

A liability for compensated absences and related fringe benefits is reflected on the Statement of Net Position at June 30, 2018, in the amount of \$328,389. The portion of this liability expected to be paid within one year is classified as a current liability and the remainder as a long-term liability.

**Net Position**

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

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

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

**Power Contract**

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

**Budgets**

The Department is not required to demonstrate statutory compliance with budgets. Accordingly, budgetary data is not included in the financial statements.

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

**Transfer**

The Department transferred \$1,424,279 to the City's general fund for a payment in lieu of taxes.

**Pensions**

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

**Deferred Outflows / Inflows of Resources**

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Department has two items that qualify for reporting in this category which are the deferred loss on bond refunding costs and the deferred outflows related to pensions and OPEB. Deferred bond refunding costs result from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. See Note 6 and Note 7 for further details on the deferred outflows related to pensions and OPEB.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Department has two items that qualifies for reporting in this category. See Note 6 and Note 7 for further details on the deferred inflows related to pensions and OPEB.

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**NOTE 2 - LITIGATION**

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

**NOTE 3 - RISK COVERAGE**

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

**NOTE 4 - ACCOUNTS RECEIVABLE**

Accounts Receivable at year end were as follows:

Customer Service	\$	2,310,958
Rent		307,308
Unbilled Revenue		3,349,301
Miscellaneous Billing		732,049
		6,699,616
Less: Allowance for Uncollectible Amounts		(252,150)
		\$ 6,447,466

The allowance for uncollectible amounts is an estimate established by a review of account history and knowledge of the industry. Accounts are directly written off once all methods of collection have been exhausted. The Department has a program whereby qualifying homeowners may obtain interest-bearing loans to pay for energy conservation measures in their homes. The customer repays the loan over a period of up to ten years at a stated interest rate of 9.25%. Payments are made with the customers' regular monthly bills. Loans are secured by the related real property. The balance of the energy conservation loans as of June 30, 2018 was \$886,005.

**NOTE 5 - POST-RETIREMENT BENEFITS OTHER THAN PENSIONS**

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

**Plan Types**

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

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

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

The City of Elizabethton, Tennessee, offers post-employment health care benefits to certain eligible employees, which includes employees of the Department. Full service eligible retirees under the TCRS/Electric System Legacy Plan age 60 or older with continuous service of at least 20 years, but less than 30 years have a maximum of 60 months subsidized coverage. Employees under the TCRS Hybrid Plan with 30 or more years of service have no age requirement but have a maximum subsidy period of 120 months. Full-time employees who retire after attaining eligibility for either full service or retirement are eligible to receive retirement benefits referred to as a retirement bonus and retirement gift. The amount of the retirement bonus is equal to \$1,000 for 10 years of service, \$1,500 for 15 years of service, \$2,500 for 20 years of service, \$3,000 for 25 years of service and \$3,500 for 30 or more years of service. An additional retirement gift of \$25 per year of continuous full-time City service shall be paid at the time of retirement to any employee who meets retirement eligibility.

*Employees Covered by Benefit Terms.* At of the June 30, 2018 measurement date, the following employees were covered by benefit terms:

Active Full-Time	41
Retirees	7
Total	48

**Funding Policy**

The City of Elizabethton, of which the Department is an enterprise fund, maintains an irrevocable Trust (Trust) in order to prefund the OPEB obligations. A separately issued audit report of the Trust is not available as the financial statements of the Trust are reflected within the audit report of the City of Elizabethton, Tennessee. The Department's other post-employment benefit (OPEB) cost (expense) is calculated based on the actuarially determined contribution which is equal to the service cost plus a 30 year level dollar amortization of the Net OPEB Asset as of the beginning of the year and is calculated in accordance with the parameters of GASB Statement 75. The actuary report included a separate calculation for the Department based upon census data. Annually, during the budget process, City Council budgets an amount to be paid into the Trust. As noted above, the City will pay up to the level of the single premium paid for full-time City employees until the retiree reaches age 65. Any changes in such terms would be approved by the City Council. In addition, the OPEB Trust Board has the sole and exclusive responsibility of the employer to determine the level of contributions the employer will make to the trust for the purpose of financing the post-employment benefits.

**Net OPEB Liability (Asset)**

The Department's net OPEB liability (asset) of \$459,987 was measured based on an actuarial valuation performed as of July 1, 2017, with a roll forward to June 30, 2018 and a measurement date of June 30, 2018.

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

**Net OPEB Liability (Asset) (Continued)**

*Actuarial assumptions and other inputs*

The Net OPEB Liability (Asset) in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

*Cost Method*

Entry Age Normal

*Investment Rate of Return*

Plan investments were expected to earn a return of 4.0%.

The long-term expected rate of return on OPEB plan investments is based upon the adopted investment policy of the City and OPEB Board which states the portfolio should obtain a comparable rate of return during a market/economic environment of stable interest rates. The projection of cash flows used to determine the rate assumed contributions will be made at rates equal to the actuarially determined contributions rates.

<u>Asset Category</u>	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
Cash	0%	5%	10%
Corporates	0%	25%	40%
Taxable Munis	0%	40%	50%
Agencies/MBS Pass Thru	0%	30%	40%

*Discount Assumption*

A discount rate of 4.0% was used, and is based upon the plan's current liability (asset) allocation which consists mostly of corporate and municipal bonds.

*Healthcare Trend Assumption*

Medical pre-65 costs were assumed to increase by 8.0% for FY 2019 decreasing linearly to an ultimate trend rate of 5.5% after 8 years. The prior year's valuation used a trend rate of 7.5% for FY 2019 trending to an ultimate rate of 5.5%.

*Mortality*

RP-2014 Adjusted to 2016 Total Dataset Headcount-weighted Mortality with scale MP-2017 and based on the most recent study from the Society of Actuaries.

*Disability, Retirement and Turnover*

Rates of termination of employment for reasons other than retirement and death are rates for Political Subdivisions from the TCRS Annual Report.

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

**Net OPEB Liability (Asset) (Continued)**

*Per Capita Benefit Costs*

Claims were developed by adjusting the underlying medical premiums for the ages of retirees compared to the underlying active populations. The adjustment was done using 2.5% morbidity adjustments annually.

*Retirement Age*

Retirement rates are based on the TCRS Annual Report.

*Core Inflation Assumption*

Inflation rates were expected to increase at a rate of 3.0%.

*Salary Increases*

Future salaries were expected to increase at an annual rate of 3.0%.

*Family Coverage*

The valuation assumes all retirees will have single coverage based on the fact all active employees have single coverage.

**Changes in the Net OPEB Liability (Asset)**

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Asset)
Balance at 6/30/2017	\$ 1,403,165	1,179,027	224,138
Changes for the Year:			
Service Cost	19,078	-	19,078
Interest	54,643	-	54,643
Differences Between Expected and Actual Experience	(69,512)	-	(69,512)
Plan Changes	(498,983)	-	(498,983)
Assumption Changes	(76,198)	-	(76,198)
Contributions - Employer	-	123,789	(123,789)
Contributions - Employees	-	-	-
Net Investment Income	-	(654)	654
Benefit Payments, Including Refunds of Employee Contributions	(74,890)	(74,890)	-
Administrative Expense	-	(9,982)	9,982
Net Changes	<u>(645,862)</u>	<u>38,263</u>	<u>(684,125)</u>
Balance at 6/30/2018	<u>\$ 757,303</u>	<u>1,217,290</u>	<u>(459,987)</u>

OPEB Plan's Fiduciary Net Position as a percentage of Net OPEB Liability (Asset): 161%

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

**Changes in the Net OPEB Liability (Asset)**

*Sensitivity of the Net OPEB Liability (Asset) to changes in the discount rate*

The following presents the Net OPEB Liability (Asset) of the Department as well as what the Department's Net OPEB Liability (Asset) would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	1.00% Decrease (3%)	Current Discount Rate (4%)	1.00% Increase (5%)
Net OPEB Liability (Asset)	\$ (394,940)	(459,987)	(518,686)

*Sensitivity of the Net OPEB Liability (Asset) to changes in the healthcare cost trend rates*

The following presents the Net OPEB Liability (Asset) of the Department as well as what the Developments' Net OPEB Liability (Asset) would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (7% to 4%) or 1-percentage-point higher (9% to 6%) than the current healthcare cost trend rates:

	1.00% Decrease (7% to 4.0%)	Current Discount Rate (8% to 5.0%)	1.00% Increase (9% to 6.0%)
Net OPEB Liability (Asset)	\$ (524,997)	(459,987)	(385,050)

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

For the year ended June 30, 2018, the Department recognized negative OPEB expense of (\$469,859).

*Deferred Outflows of Resources and Deferred Inflows of Resources*

For the year ended June 30, 2018, the Department reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:



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

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)**

	Outflows of Resources	Inflows of Resources
Differences Between Expected and Actual Experience	\$ -	61,788
Net Difference Between Projected and Actual Earnings on OPEB Plan Investments	38,170	-
Changes in Actuarial Assumptions	-	67,732
	\$ 38,170	129,520

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

Year Ended June 30:		
2019	\$	(6,647)
2020		(6,647)
2021		(6,647)
2022		(6,649)
2023		(16,190)
Thereafter		(48,570)

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

**NOTE 6 - RETIREMENT COMMITMENTS**

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

**General Information about the Pension Plan**

*Plan Description*

Employees of the City, including employees of the Department, are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the TCRS. The allocation to the Department is approximately 17 percent based upon contribution data. The TCRS was created by state statute under TCA Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at [www.treasury.state.tn.us/tcrs](http://www.treasury.state.tn.us/tcrs).

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**NOTE 6 - RETIREMENT COMMITMENTS (CONTINUED)**

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

**General Information about the Pension Plan (Continued)**

*Benefits Provided*

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

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

*Employees Covered by Benefit Terms*

At the measurement date of June 30, 2017, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	143
Inactive employees entitled to but not yet receiving benefits	162
Active employees	207
	<u>512</u>

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

*Contributions*

Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Beginning in year 2011, the employee non-contributory status was reversed; therefore as of year 2011, employees contribute 5 percent of salary. The Department makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2018, the employer contributions are based on a rate of 14.49 percent of covered payroll. The allocation portion to the Department was \$214,884 based upon the previously disclosed allocation percentage. By law, employer contributions are required to be paid. The TCRS may intercept the City of Elizabethton's state shared taxes if required employer contributions are not remitted.

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**NOTE 6 - RETIREMENT COMMITMENTS (CONTINUED)**

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

**General Information about the Pension Plan (Continued)**

*Contributions (Continued)*

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

**Net Pension Liability**

The Department's net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate net pension liability was determined by an actuarial valuation as of that date.

*Actuarial Assumptions*

The total pension liability as of June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Salary Increases	Graded salary ranges from 8.75 to 3.45 percent based on age, including inflation, averaging 4.00 percent
Investment Rate of Return	7.25 percent, net of pension plan investment expenses, including inflation

Mortality rates were based on actual including an adjustment for some anticipated improvement.

The actuarial assumptions used in the June 30, 2017 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012 through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expensed future experience.

*Changes of Assumptions*

In 2017, the following assumptions were changed: decreased inflation rate from 3.00 percent to 2.50 percent; decreased the investment rate of return from 7.50 percent to 7.25 percent; decreased the cost-of-living adjustment from 2.50 percent to 2.25 percent; decreased salary growth graded ranges from an average of 4.25 percent to an average of 4.00 percent; and modified mortality assumptions.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2016 actuarial experience study. A blend of future capital market projections and historical market returns was used in a building-block method in which a best-estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class.

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**NOTE 6 - RETIREMENT COMMITMENTS (CONTINUED)**

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

**Net Pension Liability (Continued)**

*Change of Assumptions (Continued)*

These best-estimates are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.5 percent. The best estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation</u>
U.S. Equity	5.69%	31.00%
Developed Market International Equity	5.29%	14.00%
Emerging Market International Equity	6.36%	4.00%
Private Equity and Strategic Lending	5.79%	20.00%
U.S. Fixed Income	2.01%	20.00%
Real Estate	4.32%	10.00%
Short-Term Securities	0.00%	1.00%
		<u>100.00%</u>

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.25 percent based on a blending of the factors described above.

*Discount Rate*

The discount rate used to measure the total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the Department will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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**NOTE 6 - RETIREMENT COMMITMENTS (CONTINUED)**

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

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

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 6/30/2016	\$ 3,928,801	3,301,368	627,433
Changes for the Year:			
Service Cost	102,575	-	102,575
Interest	338,064	-	338,064
Differences Between Expected and Actual Experience	20,990	-	20,990
Changes in Assumptions	186,820	-	186,820
Contributions - Employer	-	225,087	(225,087)
Contributions - Employees	-	21,019	(21,019)
Net Investment Income	-	431,297	(431,297)
Benefit Payments, Including Refunds of Employee Contributions	(250,171)	(250,171)	-
Administrative Expense	-	(1,863)	1,863
Net Changes	<u>398,278</u>	<u>425,369</u>	<u>(27,091)</u>
Balance at 6/30/2017	<u>\$ 4,327,079</u>	<u>3,726,737</u>	<u>600,342</u>

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

The following presents the net pension liability of the Department calculated using the discount rate of 7.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1.00% Decrease (6.25%)	Current Discount Rate (7.25%)	1.00% Increase (8.25%)
Net Pension Liability	\$ 694,667	600,342	169,686

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**NOTE 6 - RETIREMENT COMMITMENTS (CONTINUED)**

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

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

*Pension Expense.* For the year ended June 30, 2018, the Department recognized pension expense of \$137,562.

*Deferred Outflows of Resources and Deferred Inflows of Resources*

For the year ended June 30, 2018, the Department reported their proportional share, based upon contribution data, of deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 17,991	69,339
Changes in Assumptions	162,650	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	1,363
Contributions Subsequent to the Measurement Date of June 30, 2017	214,884	-
	\$ 395,525	70,702

The amount shown above for “Contributions Subsequent to the Measurement Date of June 30, 2017,” will be recognized as a reduction to net pension liability in the following measurement period.

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

Year Ended June 30:		
2019	\$	(4,707)
2020		52,364
2021		20,257
2022		(12,390)
2023		22,272
Thereafter		32,143

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

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**NOTE 6 - RETIREMENT COMMITMENTS (CONTINUED)**

**B. CENTRAL SERVICE ASSOCIATION (CSA)**

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

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

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

The plan covers all employees over 21 years of age with six months of service. At the measurement date of October 1, 2017, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	58
Inactive employees entitled to but not yet receiving benefits	14
Active employees	22
	94
	94

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

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

Monthly contributions are made based on an annual evaluation for the following plan year. The most recently completed Actuarial Report was for the plan year beginning October 1, 2017.

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**NOTE 6 - RETIREMENT COMMITMENTS (CONTINUED)**

**B. CENTRAL SERVICE ASSOCIATION (CSA) (CONTINUED)**

**Actuarial Assumptions**

The total pension liability as of October 1, 2017 valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Measurement Date	October 1, 2017
Discount Rate	7.00%
Cost Method	Individual Entry Age Normal
Mortality	RP-2000 Fully Generational with Scale AA
Incidence of Disability	None
Termination	Males: Termination Table T-5 from the Actuary's Handbook Females: Termination Table T-5 from the Actuary's Handbook with a five year setback
Salary Scale	3.00%
Overtime	It is assumed that overtime will continue to be earned at 60% of the prior year's level.
Assumed Retirement Age	Earlier of age 57 with 30 years, or age 65 with 5 years service
Marriage	It is assumed that 80% of participants are married and that a male is 3 years older than his female spouse.
Cost of Living Increase	Not Applicable
Date of Participation Freeze	January 12, 2007
Actuarial Cost Method	Entry age normal, frozen initial liability level percentage of pay
Remaining Amortization Period	14 years
Asset Valuation	5-year smoothed within a 10% corridor to market value
Inflation	1.50%



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**NOTE 6 - RETIREMENT COMMITMENTS (CONTINUED)**

**B. CENTRAL SERVICE ASSOCIATION (CSA) (CONTINUED)**

**Actuarial Assumptions (Continued)**

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	50.00%	2.54% - 2.89%
Large Cap	20.00%	6.93% - 10.31%
Mid Cap	10.00%	7.84% - 12.52%
Small Cap	8.00%	8.90% - 15.38%
Real Estate	2.00%	7.61% - 12.69%
International Equity	10.00%	6.92% - 11.35%
	<u>100.00%</u>	

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**NOTE 6 - RETIREMENT COMMITMENTS (CONTINUED)**

**B. CENTRAL SERVICE ASSOCIATION (CSA) (CONTINUED)**

**Changes in the Net Pension Liability**

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 10/1/2016	\$ 17,744,092	11,173,681	6,570,411
Changes for the Year:			
Service Cost	118,496	-	118,496
Interest	1,211,032	-	1,211,032
Differences Between Expected and Actual Experience	(714,714)	-	(714,714)
Contributions - Employer	-	975,103	(975,103)
Contributions - Employees	-	25,835	(25,835)
Net Investment Income	-	1,139,421	(1,139,421)
Benefit Payments, Including Refunds of Employee Contributions	(1,124,265)	(1,124,265)	-
Other Charges*	118,486	-	118,486
Net Changes	(390,965)	1,016,094	(1,407,059)
Balance at 10/1/2017	\$ 17,353,127	12,189,775	5,163,352

\*The projection of overtime year to year has been changed from assuming that overtime will continue to be earned at 40% of the prior year's level to 60%.

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

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

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Net Pension Liability	\$ 6,969,814	5,163,352	3,526,818

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**NOTE 6 - RETIREMENT COMMITMENTS (CONTINUED)**

**B. CENTRAL SERVICE ASSOCIATION (CSA) (CONTINUED)**

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

**Pension Expense.** For the year ended June 30, 2018, the Department recognized pension expense of \$555,500.

**Deferred Outflows of Resources and Deferred Inflows of Resources**

For the year ended June 30, 2018, the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 461,042	573,542
Change of Assumptions	94,789	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	127,434
Contributions Subsequent to the Measurement Date of October 1, 2017	731,327	-
	\$ 1,287,158	700,976

The amount shown above for “Contributions Subsequent to the Measurement Date of October 1, 2017,” will be recognized as a reduction to net pension liability in the following measurement period.

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

Year Ended June 30:	
2019	\$ (21,575)
2020	(16,577)
2021	(145,242)
2022	(115,076)
2023	76,486
Thereafter	76,839

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**NOTE 7 - CAPITAL ASSETS AND DEPRECIATION**

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 602,694	-	-	602,694
Construction in Progress	466,381	1,738,796	(2,189,937)	15,240
Total capital assets, not being depreciated	<u>1,069,075</u>	<u>1,738,796</u>	<u>(2,189,937)</u>	<u>617,934</u>
Capital assets, being depreciated:				
Buildings	2,369,741	-	-	2,369,741
Office Equipment	2,084,733	20,379	-	2,105,112
Transportation Equipment	3,258,584	374,791	(289,687)	3,343,688
Other Machinery and Equipment	2,275,829	184,768	(5,104)	2,455,493
Transmission and Power Distribution System	<u>91,959,728</u>	<u>1,739,720</u>	<u>(410,794)</u>	<u>93,288,654</u>
Total capital assets, being depreciated	<u>101,948,615</u>	<u>2,319,658</u>	<u>(705,585)</u>	<u>103,562,688</u>
Less accumulated depreciation for:				
Buildings	(1,268,552)	(47,395)	-	(1,315,947)
Office Equipment	(647,036)	(104,372)	-	(751,408)
Transportation Equipment	(1,010,059)	(126,154)	289,687	(846,526)
Other Machinery and Equipment	(1,288,864)	(195,855)	-	(1,484,719)
Transmission and Power Distribution System	<u>(24,924,980)</u>	<u>(2,783,104)</u>	<u>852,015</u>	<u>(26,856,069)</u>
Total accumulated depreciation	<u>(29,139,491)</u>	<u>(3,256,880)</u>	<u>1,141,702</u>	<u>(31,254,669)</u>
Net Capital Assets, being depreciated	<u>72,809,124</u>	<u>(937,222)</u>	<u>436,117</u>	<u>72,308,019</u>
Net Capital Assets	<u>\$ 73,878,199</u>	<u>801,574</u>	<u>(1,753,820)</u>	<u>72,925,953</u>

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT**  
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**NOTE 8 - LONG-TERM DEBT**

During the June 30, 2008 year, there was a bond issue in the amount of \$15,000,000 for improvements to the Department's electric distribution system. The Series 2007 Bonds were issued on December 27, 2007 for twenty years with an interest rate ranging from 4.0% to 5.0%. The bonds were issued at a premium. The premium is amortized over the life of the bonds on the straight-line method. As described below, during the refinancing for June 30, 2015 year, bonds maturing on September 1, 2015 through September 1, 2018 will remain in place and were not advance refunded.

During the June 30, 2010 year, bonds were issued in the amount of \$20,585,000 for additional improvements to the electric distribution and transmission system. The bonds, which are taxable Build America Bonds, mature September 2035 and carry an interest rate ranging from 1.75% to 6.25%. The bonds provide for a 35% federal subsidy on the total interest requirements which is paid semiannually corresponding with the interest payment dates to the bondholders. The interest requirements for this bond in the schedule of maturities are shown at the gross amount. The remaining federal subsidy totals \$5,327,813 through the term of the bonds. The bonds were issued at a premium, which is being amortized over the life of the bonds on the straight-line method.

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

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**NOTE 8 - LONG-TERM DEBT (CONTINUED)**

The total interest incurred for the year ended June 30, 2018 was \$1,064,340. Of this amount, \$6,667 was capitalized as a component of the cost of capital assets constructed during the fiscal year and \$1,050,007 was charged to expense.

The following is a summary of revenue bonds currently outstanding:

<u>Electric Department Fund</u>	<u>Date Issued</u>	<u>Amount Issued</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Outstanding June 30, 2018</u>
Revenue Bonds	12/27/2007	\$ 15,000,000	4.00-5.00%	9/1/2018	\$ 770,000
Revenue Bonds	4/20/2010	20,585,000	1.75-6.25%	9/1/2035	19,735,000
Revenue Refunding Bonds	3/19/2015	9,280,000	2.00-2.50%	9/1/2027	8,965,000
Revenue Refunding Bonds	3/19/2015	1,905,000	2.00-3.00%	9/1/2022	1,380,000
					<u>\$ 30,850,000</u>

Long-term liability activity for the year ended June 30, 2018 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Revenue Bonds Payable - 2007	\$ 1,510,000	-	(740,000)	770,000	770,000
Revenue Bonds Payable - 2010	19,890,000	-	(155,000)	19,735,000	155,000
Revenue Bonds Payable - 2015A	9,070,000	-	(105,000)	8,965,000	105,000
Revenue Bonds Payable - 2015B	1,635,000	-	(255,000)	1,380,000	260,000
Add Deferred Amounts for Issuance Premium	<u>380,215</u>	<u>-</u>	<u>(23,826)</u>	<u>356,389</u>	<u>-</u>
Total Bonds Payable	32,485,215	0	(1,278,826)	31,206,389	1,290,000
Compensated Absences	<u>340,827</u>	<u>113,755</u>	<u>(126,193)</u>	<u>328,389</u>	<u>126,141</u>
Total Long-Term Liabilities	<u>\$ 32,826,042</u>	<u>113,755</u>	<u>(1,405,019)</u>	<u>31,534,778</u>	<u>1,416,141</u>

Changes in the Deferred Loss on Bond Refunding for the year ended June 30, 2018 are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Deferred Loss on Bond Refunding	\$ 540,767	-	(51,893)	488,874
	<u>\$ 540,767</u>	<u>0</u>	<u>(51,893)</u>	<u>488,874</u>

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**NOTE 8 - LONG-TERM DEBT (CONTINUED)**

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

Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 770,000	15,400	785,400
	<u>\$ 770,000</u>	<u>15,400</u>	<u>785,400</u>

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

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

Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 155,000	1,156,694	1,311,694
2020	160,000	1,149,800	1,309,800
2021	160,000	1,142,500	1,302,500
2022	165,000	1,134,675	1,299,675
2023	180,000	1,126,050	1,306,050
2024-2028	2,645,000	5,267,806	7,912,806
2029-2033	9,565,000	3,552,513	13,117,513
2034-2036	6,705,000	639,844	7,344,844
	<u>\$ 19,735,000</u>	<u>15,169,882</u>	<u>34,904,882</u>

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

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT  
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2018**

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**NOTE 8 - LONG-TERM DEBT (CONTINUED)**

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

Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 105,000	201,100	306,100
2020	900,000	191,050	1,091,050
2021	920,000	171,700	1,091,700
2022	940,000	150,775	1,090,775
2023	960,000	129,400	1,089,400
2024-2028	5,140,000	317,674	5,457,674
	<u>\$ 8,965,000</u>	<u>1,161,699</u>	<u>10,126,699</u>

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

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

Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 260,000	33,500	293,500
2020	270,000	28,200	298,200
2021	275,000	21,375	296,375
2022	285,000	12,975	297,975
2023	290,000	4,350	294,350
	<u>\$ 1,380,000</u>	<u>100,400</u>	<u>1,480,400</u>

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



**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT  
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2018**

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**NOTE 8 - LONG-TERM DEBT (CONTINUED)**

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

Year Ending June 30	Principal	Interest	Total
2019	\$ 1,290,000	1,406,694	2,696,694
2020	1,330,000	1,369,050	2,699,050
2021	1,355,000	1,335,575	2,690,575
2022	1,390,000	1,298,425	2,688,425
2023	1,430,000	1,259,800	2,689,800
2024-2028	7,785,000	5,585,480	13,370,480
2029-2033	9,565,000	3,552,513	13,117,513
2034-2036	6,705,000	639,844	7,344,844
	<u>\$ 30,850,000</u>	<u>16,447,381</u>	<u>47,297,381</u>

**NOTE 9 - INTERFUND ACTIVITY**

As described in Note 1, the Department is a self-supporting fund of the City of Elizabethton, Tennessee (the City). In the normal course of operations, the Department provides electrical service to the City at standard electric rates which generated revenues of approximately \$1,072,207 in year 2018. As of June 30, 2018, \$0 was receivable from the City for electrical services. Payment is due within approximately 30 days of the billing. These transactions were consummated on terms equivalent to those that prevail in arm's length transactions.

The Department has outstanding payables totaling \$95,371 at year end due to other funds of the City.

The Department made tax equivalent payments to the City of \$1,424,279 in year 2018. These payments are based on the Department's property, plant and equipment, along with average operating revenues less power costs.

The Department made a contribution to the City's OPEB trust in the amount of \$59,000 in year 2018. This contribution to the OPEB trust was to cover the cost of this benefit for future periods.

**NOTE 10 - OTHER MATTERS**

The Department is a member of a cooperative, Central Service Association (CSA), consisting of several utilities in seven states. Instead of paying each member their allocation (patronage), CSA issued a loan payable to each member. The loan amounts were derived from CSA's allocation of its annual excess collections over the past 20+ years. The Department's share is \$27,426.

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT**  
**AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2018**

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**NOTE 11 - ACCOUNTING CHANGES**

Provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and GASB Statement No. 85, *Omnibus 2017* were implemented for the fiscal year ended June 30, 2018. GASB 75 establishes methods for measuring and recognizing other post-employment benefits (OPEB) liabilities, deferred outflows of resources, deferred inflows of resources and expenses. The net position has been restated to reflect the change in accounting principle. The impact of this restatement is a decrease to beginning net position of \$224,138 for the net effect of recording the beginning total OPEB liability and removing the prior net OPEB obligation. GASB 85 addresses issues related to reporting postemployment benefits.

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

	2014	2015	2016	2017
TOTAL PENSION LIABILITY				
Service Cost	\$ 80,156	83,311	90,596	102,575
Interest	267,498	286,064	318,345	338,064
Changes in Benefit Terms	-	-	-	-
Differences Between Actual and Expected Experience	(20,629)	(34,431)	(50,311)	20,990
Change of Assumptions	-	-	-	186,820
Benefit Payments, Including Refunds of Employee Contributions	<u>(212,607)</u>	<u>(228,163)</u>	<u>(243,813)</u>	<u>(250,171)</u>
NET CHANGE IN TOTAL PENSION LIABILITY	114,418	106,781	114,817	398,278
TOTAL PENSION LIABILITY - BEGINNING	<u>3,592,785</u>	<u>3,707,203</u>	<u>3,813,984</u>	<u>3,928,801</u>
TOTAL PENSION LIABILITY - ENDING (a)	<u>\$ 3,707,203</u>	<u>3,813,984</u>	<u>3,928,801</u>	<u>4,327,079</u>
PLAN FIDUCIARY NET POSITION				
Contributions - Employer	\$ 175,747	187,359	210,981	225,087
Contributions - Employees	9,960	13,786	19,358	21,019
Net Investment Income	450,055	100,195	95,618	431,297
Benefit Payments, Including Refunds of Employee Contributions	(212,607)	(228,163)	(243,813)	(250,171)
Administrative Expense	<u>(1,284)</u>	<u>(1,752)</u>	<u>(2,830)</u>	<u>(1,863)</u>
NET CHANGE IN PLAN FIDUCIARY NET POSITION	421,871	71,425	79,314	425,369
PLAN FIDUCIARY NET POSITION - BEGINNING	<u>2,728,758</u>	<u>3,150,629</u>	<u>3,222,054</u>	<u>3,301,368</u>
PLAN FIDUCIARY NET POSITION - ENDING (b)	<u>\$ 3,150,629</u>	<u>3,222,054</u>	<u>3,301,368</u>	<u>3,726,737</u>
NET PENSION LIABILITY - ENDING (a) - (b)	<u>\$ 556,574</u>	<u>591,930</u>	<u>627,433</u>	<u>600,342</u>
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF TOTAL PENSION LIABILITY	84.99%	84.48%	84.03%	86.13%
COVERED PAYROLL	\$ 1,202,926	1,293,023	1,345,818	1,517,826
NET PENSION LIABILITY AS A PERCENTAGE OF COVERED PAYROLL	46.27%	45.78%	46.62%	39.55%

*Changes of assumptions.* In 2017, amounts reported as changes of assumptions resulted from changes to the inflation rate, investment rate of return, cost-of-living adjustment, salary growth and mortality improvements.

GASB 68 requires a 10-year schedule for this data to be presented starting with the implementation of GASB 68. The information in this schedule is not required to be presented retroactively prior to the implementation date.

See Independent Auditors' Report.

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

	2014	2015	2016	2017	2018
Actuarially Determined Contribution	\$ 175,747	187,359	210,981	225,087	214,884
Contributions in Relation to the Actuarially Determined Contribution	175,747	187,359	210,981	225,087	214,884
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Covered Payroll	\$ 1,202,926	1,293,023	1,345,818	1,517,826	1,482,981
Contributions as a Percentage of Covered Payroll	14.61%	14.49%	15.68%	14.83%	14.49%

GASB 68 requires a 10-year schedule for this data to be presented starting with the implementation of GASB 68. The information in this schedule is not required to be presented retroactively prior to the implementation date.

See Independent Auditors' Report.

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT  
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE  
REQUIRED SUPPLEMENTARY INFORMATION  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION – TCRS  
June 30, 2018**

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**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**

*Valuation date* : Actuarially determined contribution rates for 2018 were calculated based on the June 30, 2017 actuarial valuation.

*Methods and assumptions used to determine contribution rates:*

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

See Independent Auditors' Report.

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

	2014	2015	2016	2017
TOTAL PENSION LIABILITY				
Service Cost	\$ 107,733	109,369	112,462	118,496
Interest	1,131,940	1,135,069	1,190,812	1,211,032
Changes in Benefit Terms	-	-	-	-
Differences Between Actual and Expected Experience	(3,191)	691,565	77,893	(714,714)
Change of Assumptions	-	-	24,551	118,486
Benefit Payments, Including Refunds of Employee Contributions	<u>(1,222,850)</u>	<u>(1,163,998)</u>	<u>(1,121,529)</u>	<u>(1,124,265)</u>
NET CHANGE IN TOTAL PENSION LIABILITY	13,632	772,005	284,189	(390,965)
TOTAL PENSION LIABILITY - BEGINNING	<u>16,674,266</u>	<u>16,687,898</u>	<u>17,459,903</u>	<u>17,744,092</u>
TOTAL PENSION LIABILITY - ENDING (a)	<u>\$ 16,687,898</u>	<u>17,459,903</u>	<u>17,744,092</u>	<u>17,353,127</u>
PLAN FIDUCIARY NET POSITION				
Contributions - Employer	\$ 905,956	936,965	951,698	975,103
Contributions - Employees	25,691	25,393	26,125	25,835
Net Investment Income	723,358	88,399	876,654	1,139,421
Benefit Payments, Including Refunds of Employee Contributions	(1,222,850)	(1,163,998)	(1,121,529)	(1,124,265)
Administrative Expense	<u>(846)</u>	<u>(46)</u>	<u>-</u>	<u>-</u>
NET CHANGE IN PLAN FIDUCIARY NET POSITION	431,309	(113,287)	732,948	1,016,094
PLAN FIDUCIARY NET POSITION - BEGINNING	<u>10,122,711</u>	<u>10,554,020</u>	<u>10,440,733</u>	<u>11,173,681</u>
PLAN FIDUCIARY NET POSITION - ENDING (b)	<u>\$ 10,554,020</u>	<u>10,440,733</u>	<u>11,173,681</u>	<u>12,189,775</u>
NET PENSION LIABILITY - ENDING (a) - (b)	<u>\$ 6,133,878</u>	<u>7,019,170</u>	<u>6,570,411</u>	<u>5,163,352</u>
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF TOTAL PENSION LIABILITY	63.24%	59.80%	62.97%	70.25%
COVERED PAYROLL	\$ 1,705,262	1,673,538	1,781,006	1,520,733
NET PENSION LIABILITY AS A PERCENTAGE OF COVERED PAYROLL	359.70%	419.42%	368.92%	339.53%

In 2017, amounts reported as changes of assumptions resulted from a change in the continuation of overtime from 40% to 60%.

GASB 68 requires a 10-year schedule for this data to be presented starting with the implementation of GASB 68. The information in this schedule is not required to be presented retroactively prior to the implementation date.

See Independent Auditors' Report.

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

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	2014	2015	2016	2017
Actuarially Determined Contribution	\$ 850,409	844,232	886,457	886,457
Contributions in Relation to the Actuarially Determined Contribution	905,956	936,965	951,698	975,103
Contribution Deficiency (Excess)	\$ (55,547)	(92,733)	(65,241)	(88,646)
Covered Payroll	\$ 1,705,262	1,673,538	1,781,006	1,520,733
Contributions as a Percentage of Covered Payroll	53.13%	55.99%	53.44%	64.12%

GASB 68 requires a 10-year schedule for this data to be presented starting with the implementation of GASB 68. The information in this schedule is not required to be presented retroactively prior to the implementation date.

See Independent Auditors' Report.

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT  
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE  
REQUIRED SUPPLEMENTARY INFORMATION  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION – GOVERNMENTAL  
EMPLOYEES PENSION PLAN OF CSA  
June 30, 2018**

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**CENTRAL SERVICE ASSOCIATION (CSA)**

*Valuation date: Actuarially determined contribution rates for 2018 were calculated based on the October 1, 2017 actuarial valuation.*

*Methods and assumptions used to determine contribution rates:*

Actuarial Cost Method	Entry age normal, frozen initial liability level percentage of pay
Amortization Method	Level dollar, closed
Remaining Amortization Period	14 years
Salary Increases	3.00%
Discount Rate	7.00%
Retirement Age	Earlier of age 57 with 30 years or age 65 with 5 years of service
Mortality	RP-2000 Fully Generational with Scale AA
Incidence of Disability	None
Termination	Males: Termination Table T-5 from the Actuary's Handbook Females: Termination Table T-5 from the Actuary's Handbook with a five year setback
Overtime	It is assumed that overtime will continue to be earned at 60% of the prior year's level.
Cost of Living Adjustments	N/A
Date of Participation Freeze	January 12, 2007
Inflation	1.50%
Asset Valuation	5-year smoothed within a 10% corridor to market value

See Independent Auditors' Report.



**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT  
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CHANGES IN NET OPEB LIABILITY (ASSET) AND RELATED RATIOS  
Last Fiscal Year Ending June 30**

	2018
TOTAL OPEB LIABILITY	
Service Cost	\$ 19,078
Interest	54,643
Differences Between Actual and Expected Experience	(69,512)
Plan Changes	(498,983)
Assumption Changes	(76,198)
Benefit Payments, Including Refunds of Employee Contributions	(74,890)
NET CHANGE IN TOTAL OPEB LIABILITY	(645,862)
TOTAL OPEB LIABILITY - BEGINNING	1,403,165
TOTAL OPEB LIABILITY - ENDING (a)	\$ 757,303
PLAN FIDUCIARY NET POSITION	
Contributions - Employer	\$ 123,789
Net Investment Income	(654)
Benefit Payments, Including Refunds of Employee Contributions	(74,890)
Administrative Expense	(9,982)
NET CHANGE IN PLAN FIDUCIARY NET POSITION	38,263
PLAN FIDUCIARY NET POSITION - BEGINNING	1,179,027
PLAN FIDUCIARY NET POSITION - ENDING (b)	\$ 1,217,290
NET OPEB LIABILITY (ASSET) - ENDING (a) - (b)	\$ (459,987)
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF TOTAL OPEB LIABILITY	161%
COVERED PAYROLL	\$ 2,346,885
NET OPEB LIABILITY (ASSET) AS A PERCENTAGE OF COVERED PAYROLL	-19.60%

GASB 75 requires a 10-year schedule for this data to be presented starting with the implementation of GASB 75. The information in this schedule is not required to be presented retroactively prior to the implementation date.

Plan Assets. Assets are accumulated in a trust that meets all of the necessary criteria of GASB 75, paragraph 4 to pay benefits.

See Independent Auditors' Report.

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT  
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF OPEB CONTRIBUTIONS  
Last Fiscal Year Ending June 30**

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	2018
Actuarially Determined Contribution	\$ 31,541
Contributions in Relation to the Actuarially Determined Contribution	59,000
Contribution Deficiency (Excess)	\$ (27,459)
 Covered Payroll	 \$ 2,346,885
Contributions as a Percentage of Covered Payroll	1.34%

GASB 75 requires a 10-year schedule for this data to be presented starting with the implementation of GASB 75. The information in this schedule is not required to be presented retroactively prior to the implementation date.

See Independent Auditors' Report.

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT  
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE  
REQUIRED SUPPLEMENTARY INFORMATION  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION – OPEB Plan  
June 30, 2018**

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**Notes to Schedule**

Actuarial Cost Method	Entry Age Normal
Investment Return	4%
Measurement Date	June 30, 2018
Actuarial Valuation Date	July 1, 2017
Discount Rate	4% and is based upon the plan's current asset allocation which consists mostly of corporate and municipal bonds.
Mortality	RPH-2014 Adjusted to 2016 Total Dataset Headcount-weighted Mortality with scale MP-2017. The mortality assumption is based on the most recent study from the Society of Actuaries.
Turnover	Rates of termination of employment for reasons other than retirement and death are rates for Political Subdivisions from the TCRS Annual
Valuation of Assets	Assets are valued at market value
Trend Rates	Medical pre-65 costs were assumed to increase by 8% for FY 2019 decreasing linearly to an ultimate trend rate of 5.5% after 8 years. The prior year's valuation used a trend rate of 7.5% for FY 2019 trending to an ultimate rate of 5.5%.
Salary Scale	3%
Core Inflation Assumption	3%
Retirement Age	Retirement rates are based on the TCRS Annual Report.
Utilization	100%

See Independent Auditors' Report.

**SECTION III**

**SUPPLEMENTAL SECTION**

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT  
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE  
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS  
SERIES 2010A  
June 30, 2018**

<u>Year Ending</u>	<u>Bond Requirements</u>	<u>Interest Requirements</u>	<u>Total Requirements</u>
6/30/2019	\$ 155,000	1,156,694	1,311,694
6/30/2020	160,000	1,149,800	1,309,800
6/30/2021	160,000	1,142,500	1,302,500
6/30/2022	165,000	1,134,675	1,299,675
6/30/2023	180,000	1,126,050	1,306,050
6/30/2024	495,000	1,108,866	1,603,866
6/30/2025	510,000	1,082,793	1,592,793
6/30/2026	530,000	1,055,163	1,585,163
6/30/2027	545,000	1,025,931	1,570,931
6/30/2028	565,000	995,053	1,560,053
6/30/2029	1,770,000	928,275	2,698,275
6/30/2030	1,840,000	824,487	2,664,487
6/30/2031	1,910,000	716,676	2,626,676
6/30/2032	1,985,000	602,212	2,587,212
6/30/2033	2,060,000	480,863	2,540,863
6/30/2034	2,145,000	352,031	2,497,031
6/30/2035	2,235,000	215,156	2,450,156
6/30/2036	2,325,000	72,657	2,397,657
	<u>\$ 19,735,000</u>	<u>15,169,882</u>	<u>34,904,882</u>

See Independent Auditors' Report.

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT  
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE  
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS  
SERIES 2015A  
June 30, 2018**

<u>Year Ending</u>	<u>Bond Requirements</u>	<u>Interest Requirements</u>	<u>Total Requirements</u>
6/30/2019	\$ 105,000	201,100	306,100
6/30/2020	900,000	191,050	1,091,050
6/30/2021	920,000	171,700	1,091,700
6/30/2022	940,000	150,775	1,090,775
6/30/2023	960,000	129,400	1,089,400
6/30/2024	980,000	108,800	1,088,800
6/30/2025	1,000,000	89,000	1,089,000
6/30/2026	1,025,000	66,187	1,091,187
6/30/2027	1,055,000	40,187	1,095,187
6/30/2028	1,080,000	13,500	1,093,500
	<u>\$ 8,965,000</u>	<u>1,161,699</u>	<u>10,126,699</u>

See Independent Auditors' Report.

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT**  
**AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE**  
**SCHEDULE OF ALL BOND PRINCIPAL AND INTEREST REQUIREMENTS**  
**June 30, 2018**

<u>Year</u> <u>Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Requirements</u>
6/30/2019	\$ 1,290,000	1,406,694	2,696,694
6/30/2020	1,330,000	1,369,050	2,699,050
6/30/2021	1,355,000	1,335,575	2,690,575
6/30/2022	1,390,000	1,298,425	2,688,425
6/30/2023	1,430,000	1,259,800	2,689,800
6/30/2024	1,475,000	1,217,666	2,692,666
6/30/2025	1,510,000	1,171,793	2,681,793
6/30/2026	1,555,000	1,121,350	2,676,350
6/30/2027	1,600,000	1,066,118	2,666,118
6/30/2028	1,645,000	1,008,553	2,653,553
6/30/2029	1,770,000	928,275	2,698,275
6/30/2030	1,840,000	824,487	2,664,487
6/30/2031	1,910,000	716,676	2,626,676
6/30/2032	1,985,000	602,212	2,587,212
6/30/2033	2,060,000	480,863	2,540,863
6/30/2034	2,145,000	352,031	2,497,031
6/30/2035	2,235,000	215,156	2,450,156
6/30/2036	2,325,000	72,657	2,397,657
	<u>\$ 30,850,000</u>	<u>16,447,381</u>	<u>47,297,381</u>

See Independent Auditors' Report.

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

	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Net Investment in Capital Assets	\$ 30,596,682	18,154,567	25,881,750	30,952,626	37,032,893	40,266,730	40,620,805	41,032,307	41,933,751	42,208,438
Restricted for Other Purposes	-	-	-	-	-	-	-	640,866	693,345	459,987
Unrestricted	9,643,451	22,146,475	16,697,845	15,044,541	16,304,721	16,794,076	11,062,092	10,588,311	10,341,378	12,319,752
<b>Total Net Position</b>	<b>\$ 40,240,133</b>	<b>40,301,042</b>	<b>42,579,595</b>	<b>45,997,167</b>	<b>53,337,614</b>	<b>57,060,806</b>	<b>51,682,897</b>	<b>52,261,484</b>	<b>52,968,474</b>	<b>54,988,177</b>

See Independent Auditors' Report.



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

Fiscal Year	Operating Revenues	Operating Expenses	Operating Income	Total Nonoperating Revenues (Expenses)	Income before Transfers	Transfer Out	Change in Net Position
2009	\$ 52,304,639	\$ 50,351,085	\$ 1,953,554	\$ (384,558)	\$ 1,568,996	\$ (565,788)	\$ 1,003,208
2010	49,208,207	47,728,135	1,480,072	(813,667)	666,405	(605,496)	60,909
2011	57,456,596	54,094,513	3,362,083	(995,369)	2,366,714	(616,286)	1,750,428
2012	52,843,264	47,942,183	4,901,081	(780,219)	4,120,862	(703,290)	3,417,572
2013	56,216,675	50,123,954	6,092,721	(689,659)	5,403,062	(752,416)	4,650,646
2014	56,875,926	51,348,480	5,527,446	(954,128)	4,573,318	(850,126)	3,723,192
2015	56,261,166	52,161,737	4,099,429	(1,429,132)	2,670,297	(1,487,838)	1,182,459
2016	52,956,419	49,788,895	3,167,524	(1,114,031)	2,053,493	(1,474,906)	578,587
2017	54,698,977	51,521,740	3,177,237	(1,036,058)	2,141,179	(1,434,189)	706,990
2018	57,170,355	52,573,756	4,596,599	(928,479)	3,668,120	(1,424,279)	2,243,841

See Independent Auditors' Report.

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

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Fiscal Year	Residential	Large Commercial and Industrial	Small Lighting and Power	Street and Outdoor Lighting	Other Operating Revenues	Total
2009	\$ 32,419,144	\$ 13,605,402	\$ 4,672,946	\$ 961,708	\$ 645,439	\$ 52,304,639
2010	29,833,411	12,261,591	4,412,045	857,402	1,843,758	49,208,207
2011	36,389,623	13,570,064	4,933,634	1,168,494	1,394,781	57,456,596
2012	32,126,180	13,890,364	4,582,639	925,580	1,318,501	52,843,264
2013	35,036,868	13,996,894	4,749,789	979,627	1,453,497	56,216,675
2014	35,905,223	13,668,097	4,829,017	1,039,480	1,434,109	56,875,926
2015	35,503,735	13,800,643	4,685,257	963,044	1,308,487	56,261,166
2016	32,483,458	13,640,661	4,514,507	954,553	1,363,240	52,956,419
2017	33,351,430	14,215,649	4,717,848	1,000,885	1,413,165	54,698,977
2018	35,705,268	14,295,177	4,835,675	990,482	1,343,753	57,170,355

See Independent Auditors' Report.

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

Fiscal Year	Power Purchased from TVA	Maintenance	Other Operating Expenses	Subtotal, Expenses before Tax, Depreciation and OPEB Contribution	Tax and Tax Equivalents	Provision for Depreciation	Contribution to OPEB Trust	Total Operating Expenses
2009	\$ 42,343,783	\$ 2,121,113	\$ 3,915,170	\$ 48,380,066	\$ 389,379	\$ 1,581,640	-	\$ 50,351,085
2010	37,956,861	3,374,706	4,288,329	45,619,896	454,772	1,653,467	-	47,728,135
2011	45,453,172	2,324,997	4,232,685	52,010,854	365,797	1,717,862	-	54,094,513
2012	40,140,811	550,010	5,064,933	45,755,754	434,533	1,751,896	-	47,942,183
2013	41,510,181	1,245,065	4,937,384	47,692,630	625,778	1,805,546	-	50,123,954
2014	42,174,807	2,120,899	4,430,168	48,725,874	608,721	2,013,885	-	51,348,480
2015	42,676,758	1,963,828	3,942,943	48,583,529	628,629	2,949,579	-	52,161,737
2016	39,430,246	2,232,281	3,325,591	44,988,118	599,925	3,073,480	1,127,372	49,788,895
2017	41,327,976	2,175,720	4,235,357	47,739,053	584,037	3,139,093	59,557	51,521,740
2018	42,514,286	1,998,483	4,213,933	48,726,702	580,896	3,207,158	59,000	52,573,756

See Independent Auditors' Report.

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

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Fiscal Year	Interest on Invested Funds	Interest Expense	Amortization Expense	Total Nonoperating Revenues and Expenses
2009	\$ 465,089	\$ (831,566)	\$ (18,081)	\$ (384,558)
2010	108,062	(877,369)	(44,360)	(813,667)
2011	37,346	(995,600)	(37,115)	(995,369)
2012	68,188	(811,292)	(37,115)	(780,219)
2013	38,012	(727,671)	-	(689,659)
2014	37,067	(991,195)	-	(954,128)
2015	44,231	(1,254,884)	(218,479)	(1,429,132)
2016	31,675	(1,124,701)	(21,005)	(1,114,031)
2017	46,267	(1,090,411)	8,086	(1,036,058)
2018	149,594	(1,050,007)	(28,066)	(928,479)

See Independent Auditors' Report.

**SECTION IV**  
**OTHER SUPPLEMENTAL SECTION**  
**(UNAUDITED)**

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

Fiscal Year	Revenue Bonds *	Advance from TVA	Total		
			Amount	Population	Per Capita
2009	\$ 18,280,000	\$ 1,429,484	\$ 19,709,484	14,017	\$ 1,406
2010	38,160,000	1,592,086	39,752,086	14,017	2,836
2011	37,425,000	1,569,857	38,994,857	14,176	2,751
2012	36,665,000	1,472,725	38,137,725	14,176	2,690
2013	35,740,000	1,356,291	37,096,291	14,176	2,617
2014	34,780,000	1,398,023	36,178,023	14,176	2,552
2015	34,485,000	1,322,517	35,807,517	14,176	2,526
2016	33,310,000	1,325,997	34,635,997	14,176	2,443
2017	32,105,000	1,186,391	33,291,391	14,176	2,348
2018	30,850,000	895,356	31,745,356	14,176	2,239

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

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

See Independent Auditors' Report.

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT**  
**AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE**  
**CURRENT UTILITY RATES AND NUMBER OF CUSTOMERS**  
**June 30, 2018**

<u>Residential Rate Schedule</u>	<u>RS</u>
Customer Charge -	
per delivery point per month	\$13.29
Energy Charge - per kWh per month	\$0.09973
 <u>General Power Rate Schedule</u>	 <u>GSA</u>
	(Demand 0-
	5,000 kW)
<i>Part 1.</i>	
Customer Charge	
Per delivery point per month (Demand 0 - 5,000kW)	\$14.46
Per delivery point per month (Demand 5,000 - 12,000kW)	\$1,500.00
Energy Charge - per kWh per month	\$0.10903
Per kWh up to 620 hours per month	\$0.00
Per kWh all additional per month	\$0.00
Demand Charge - per kW per month	
Excess of billing demand over	
contract demand - per kW per month	\$0.00
 <i>Part 2.</i>	
Customer Charge	
Per delivery point per month	\$55.00
Demand Charge - per kW per month	
First 50 kW	\$0.00
Excess over 50kW per month	\$13.81
Energy charge - per kWh per month	
First 15,000 kWh	\$0.10886
Additional kWh per month	\$0.64250
 <i>Part 3.</i>	
Customer Charge	
Per delivery point per month	\$150.00
Demand Charge - per kW per month	
First 1,000 kW	\$14.64
Excess over 1,000 kW	\$16.17
Excess of higher of 2,500 kW or contract demand	\$0.06421
 <u>Outdoor Lighting Rate Schedule</u>	 <u>LS</u>
Customer Charges	
Per delivery point per month	\$3.70
Energy Charge - per kWh	\$0.06665
 <u>Number of Customers</u>	
Residential	22,978
General	3,269
Street, Athletic and Outdoor Lighting	219
Total Customers	<u>26,466</u>

See Independent Auditors' Report.

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

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Fiscal Year	Residential	General *	Street and Outdoor Lighting	Total Customers
2009	22,552	3,290	154	25,996
2010	22,605	3,263	154	26,022
2011	22,717	3,098	172	25,987
2012	22,811	3,287	172	26,270
2013	22,734	3,255	42	26,031
2014	22,896	3,121	44	26,061
2015	22,856	3,137	233	26,226
2016	22,990	3,168	233	26,391
2017	22,973	3,239	230	26,442
2018	22,978	3,269	219	26,466

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

See Independent Auditors' Report.



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

	Fiscal Year										
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	
<b>Residential Rate</b>											
Customer Charge -											
per delivery point per month	\$ 7.87	7.87	11.18	13.29	13.29	13.29	13.29	13.29	13.29	13.29	13.29
Energy Charge - per kWh per month	0.07726	0.08329	0.92620	0.09625	0.09614	0.10044	0.09691	0.09598	0.09960	0.09973	
<b>General Power Rate</b>											
<i>Part 1.</i>											
Customer Charge											
Per delivery point per month											
(Demand 0-5,000 kW)	\$ 13.46	13.46	14.46	14.46	14.46	14.46	14.46	14.46	14.46	14.46	14.46
(Demand 5,000 to 12,000 kW)	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
Energy Charge - per kWh per month	0.08782	0.09464	0.10324	0.10494	0.10504	0.10936	0.10596	0.10517	0.10882	0.10903	
Per kWh up to 620 hours per month	0.04592	0.04132	0.94830	0.04983	0.04972	0.00000	0.00	0.00	0.00	0.00	
Per kWh all additional per month	0.00000	0.03372	0.02771	0.04983	0.04972	0.00000	0.00	0.00	0.00	0.00	
Demand Charge - per kW per month	13.46	15.40	21.03	21.63	21.63	-	0.00	0.00	0.00	0.00	
Excess of billing demand over											
contract demand - per kW per month	14.21	14.89	18.90	21.63	21.63	-	0.00	0.00	0.00	0.00	
<i>Part 2.</i>											
Customer Charge											
Per delivery point per month	\$ 33.64	33.64	55.00	55.00	55.00	55.00	55.00	55.00	55.00	55.00	
Demand Charge - per kW per month											
First 50 kW	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Excess over 50kW per month	12.77	13.70	12.14	12.14	12.44	12.70	12.97	13.29	13.55	13.81	
Energy charge - per kWh per month											
First 15,000 kWh	0.08782	0.09464	0.10302	0.10494	0.10483	0.10916	0.10577	0.10498	0.10864	0.10886	
Additional kWh per month	0.04592	0.04975	0.06367	0.06464	0.06452	0.06798	0.06382	0.06205	0.06483	0.06425	
<i>Part 3.</i>											
Customer Charge											
Per delivery point per month	\$ 89.63	89.63	150.00	150.00	150.00	150.00	150.00	150.00	150.00	150.00	
Demand Charge - per kW per month											
First 1,000 kW	12.59	13.57	12.73	13.07	13.07	13.37	13.67	14.04	14.34	14.64	
Excess over 1,000 kW	14.12	15.27	13.97	14.36	14.36	14.71	15.06	15.49	15.83	16.17	
Excess of higher of 2,500 kW or											
contract demand	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.06480	0.06241	
Energy Charge - per kWh per month											
First 15,000 kWh	0.08592	0.08137	0.06367	0.06463	0.06451	0.06796	0.06379	0.06000	0.06480	0.06241	
Additional kWh	0.05430	0.04975	0.06367	0.06463	0.06451	0.06796	0.06379	0.06000	0.06480	0.06421	
<b>Outdoor Lighting Rate Schedule</b>											
Customer Charges											
Per delivery point per month	\$ 3.75	3.75	3.70	3.70	3.70	3.70	3.70	3.70	3.70	3.70	
Energy Charge - per kWh	0.05493	0.05889	0.06700	0.06782	0.06771	0.07112	0.06668	0.06467	0.06740	0.06665	

See Independent Auditors' Report.

**SECTION V**

**INTERNAL CONTROL AND COMPLIANCE SECTION**

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the City of Elizabethton Electric Department (the Department), an enterprise fund of the City of Elizabethton, Tennessee, as of and for the year ended June 30, 2018, and the related notes to the financial statements, and have issued our report thereon dated November 2, 2018.

**Internal Control over Financial Reporting**

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

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

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

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

*Blackburn, Childers & Steagall, P.C.*

BLACKBURN, CHILDERS & STEAGALL, PLC  
Johnson City, Tennessee

November 2, 2018

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT  
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE  
SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES  
For the Year Ended June 30, 2018**

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**Financial Statement Findings**

<u>Prior Year Finding Number</u>	<u>Finding Title</u>	<u>Status / Current Year Finding Number</u>
2017-001	Alleged Theft of Electric Services	Corrected

**CITY OF ELIZABETHTON ELECTRIC DEPARTMENT  
AN ENTERPRISE FUND OF THE CITY OF ELIZABETHTON, TENNESSEE  
SCHEDULE OF FINDINGS AND RESPONSES  
June 30, 2018**

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**CURRENT YEAR FINDINGS**

None Reported.