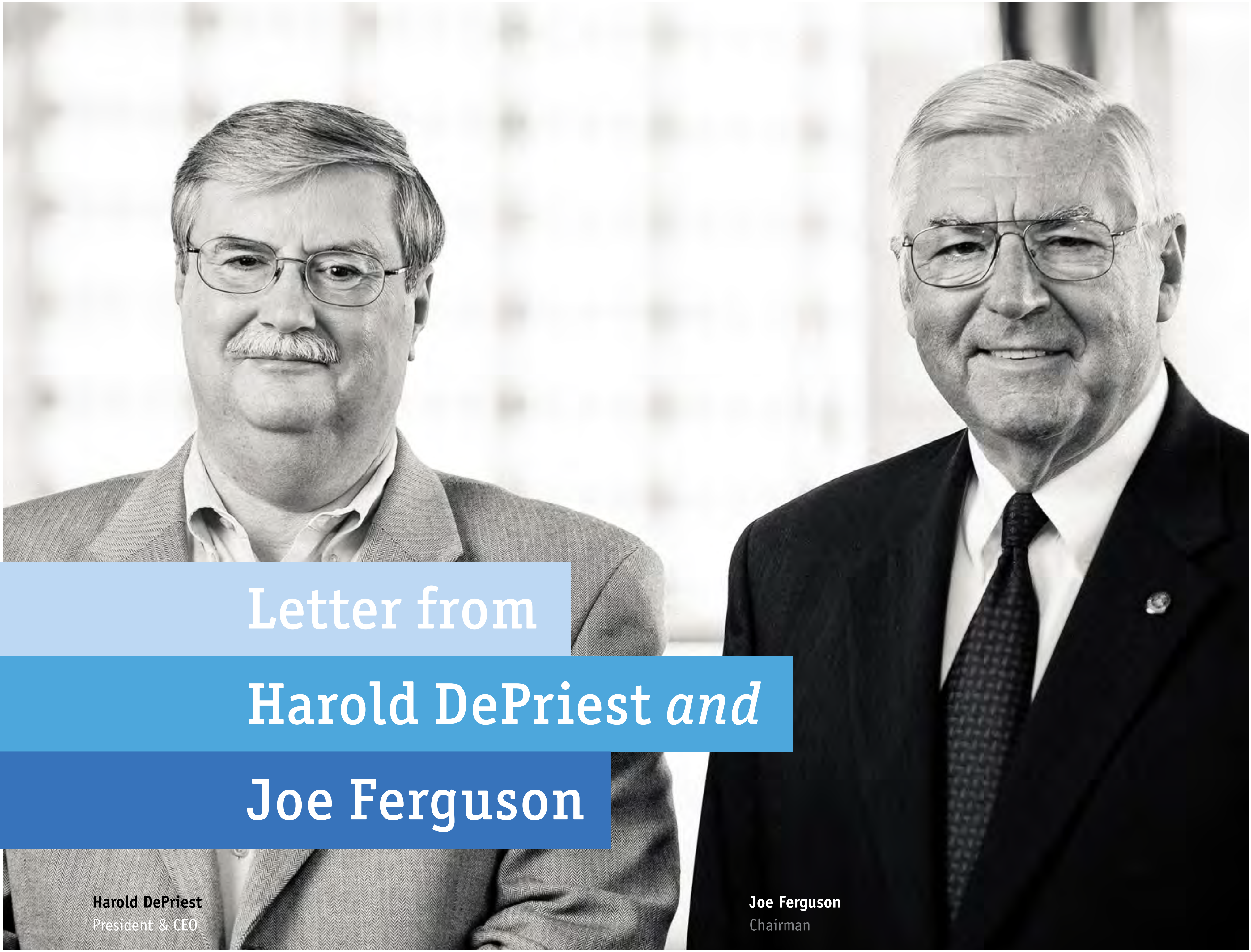
2011 Senior Management and Financial Information



Letter from Harold DePriest *and* Joe Ferguson

Harold DePriest
President & CEO

Joe Ferguson
Chairman

It's not every day – or even every year – that we see our impact in the community we serve, so clearly. That we see how the systems we build and services we provide make an extraordinary difference in the lives of people who live and work in our service area.

Because EPB is a community-owned company, we have a unique role in the life of our hometown. It is our job to find out just how much we can achieve – not for ourselves, but for the good of Chattanooga. So when we set long-term goals for our fiber network, more than a decade ago, we knew that we could change power distribution and management for the better. When we planned America's first true Smart Grid and launched the nation's fastest Internet – in a down economy – we knew that we could help recruit major employers and empower local entrepreneurs. When we rolled out EPB Fiber Optics, we knew that we could build a $30 million company, with much more room to grow.

And when disaster struck – we knew that our people could restore power to our entire service area in record time.

Last year demonstrated the strength of our team, the good sense of our business model, and our ability to bring innovative services to Chattanooga. The major milestones of Fiscal Year 2011, along with the millions of everyday moments where our services power a better life in homes and businesses, are what inspire us to keep pushing forward.

As we enter Fiscal Year 2012, we are well-positioned. Our Smart Grid build-out is ahead of schedule, and is already demonstrating value. The EPB Fiber Optics brand continues to grow in relevance, and in the numbers of homes and businesses who trust us to keep them connected to the world through Internet, video and telephone.

There are challenges ahead, but we are ready to meet them. Because we see it as more than our job to make our community a better place to live – it is our duty, and our privilege to serve the people of this great city.

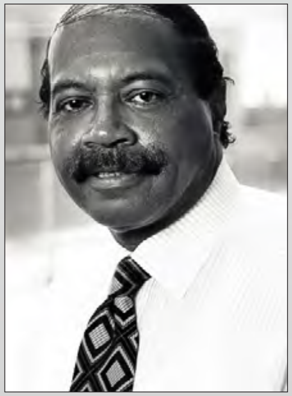
Joe Ferguson

Harold DePriest

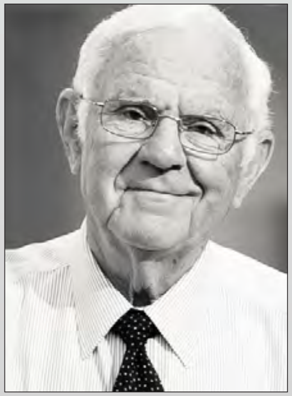
EPB

Board of Directors

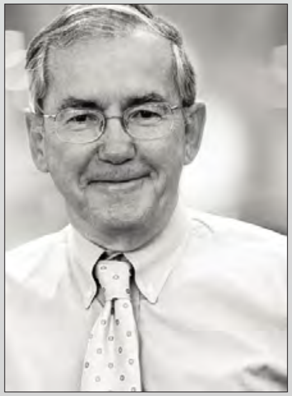
Joe Ferguson
Chairman



Warren Logan
Vice Chairman



Harold Coker
Member



John Foy
Member

Vicky Gregg
Member

EPB

Senior Management

Harold DePriest
President & CEO

David Johnson
VP IT & CIO

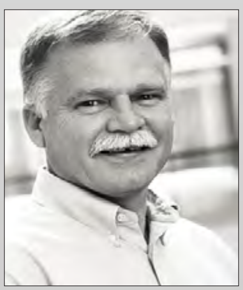
Greg Eaves
Executive VP & CFO

David Wade
Executive VP & COO

Katie Espeseth
VP Fiber Optics

Marie Webb
VP Human Resources

Jim Ingraham
VP Strategic Research



Steve Clark
VP Strategic Systems

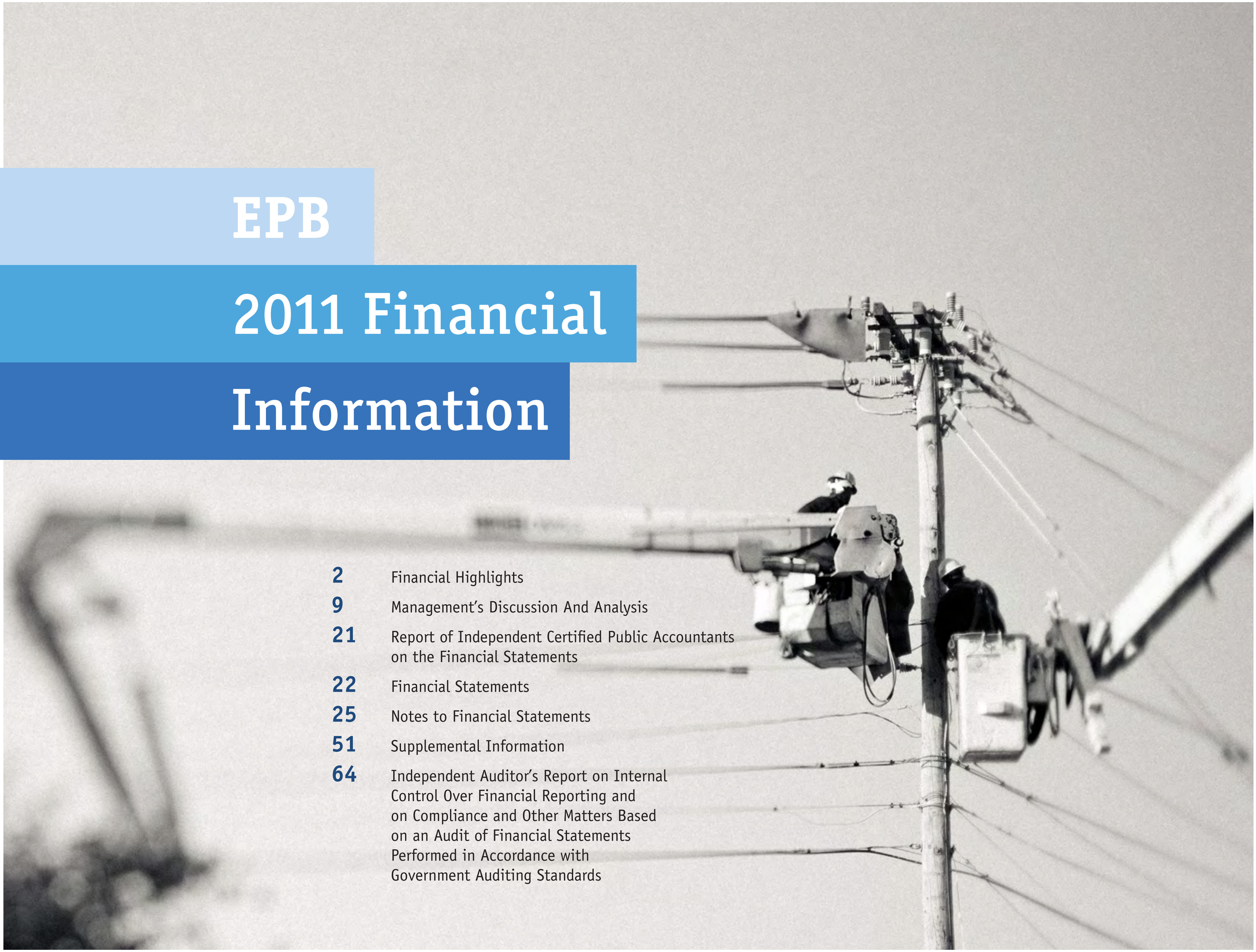
Danna Bailey
VP Corporate Communications

Diana Bullock
VP Economic Development & Government Relations

Kathy Burns
Senior VP Customer Relations

Jere Young
VP Marketing

Aaron Webb
VP Legal Services



EPB

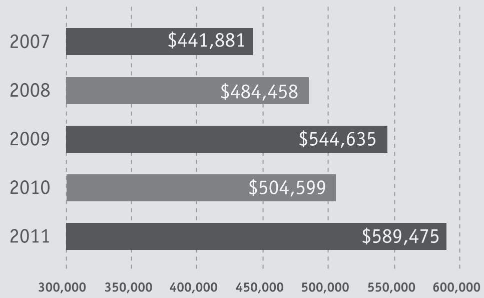
2011 Financial Information

EPB

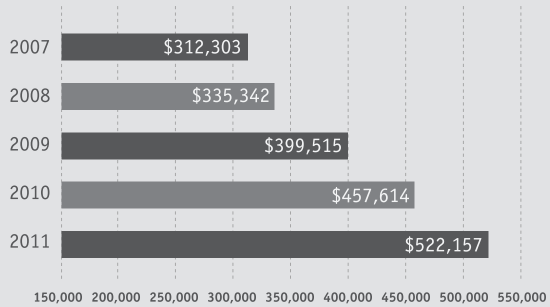
FINANCIAL HIGHLIGHTS 2011

EPB operating revenues were $589 million, an increase of 16.8 percent from the previous year. This increase was mainly due to a pass through of approximately $40 million in TVA fuel cost adjustments, a net increase of approximately $20 million in Fiber Optics residential services revenues, and the full year impact of the October, 2009 TVA rate increase. Net plant value increased to $522 million, an increase of 14.1 percent from the previous year. Areas of plant investment included electric overhead and underground line extensions, substation equipment, fiber optics communications' equipment, and Smart Grid equipment. EPB is the largest taxpayer in Chattanooga and Hamilton County. The in-lieu-of-tax accrual for tax equivalents expense and transfers to all of the cities and counties in EPB's service area totaled $15.2 million, an increase of $2.3 million over the prior year.

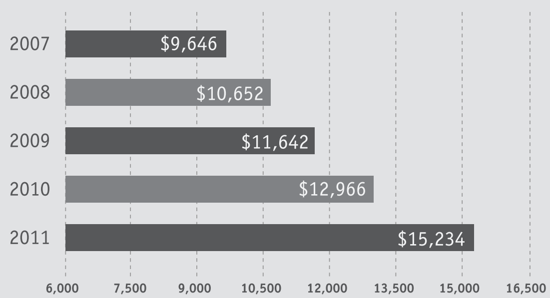
Operating Revenues
in thousands



Net Plant Value
in thousands



Tax Equivalents Expense & Transfers
in thousands

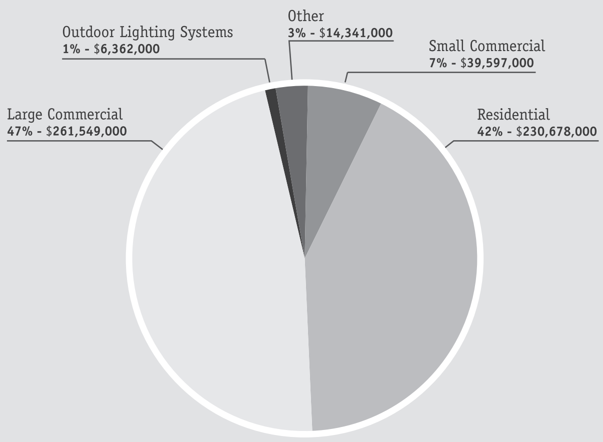


EPB – Electric System

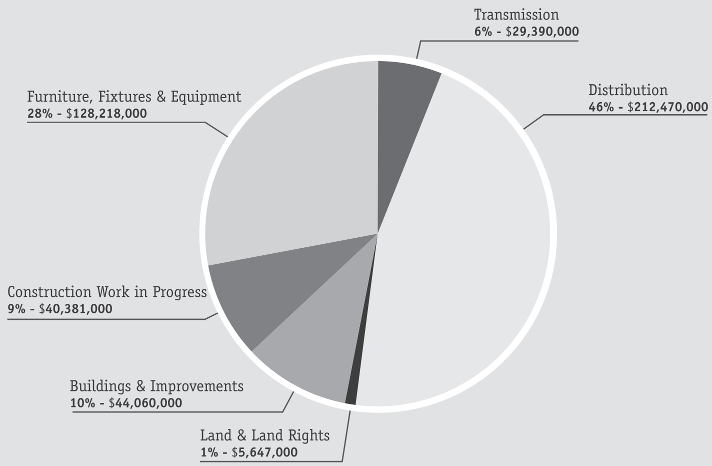
FINANCIAL HIGHLIGHTS 2011

EPB provided electric service to 171,975 customers in a 600 square mile area – a growth of 936 customers from FY 2010 - resulting in billed electric sales revenue of $538.2 million and other revenue of $14.3 million. Residential customers paid an average of 9.52 cents per kwh – 18.0% less than the national average. Net electric plant value totaled $460.2 million while electric expenses and transfers to the City of Chattanooga totaled $570.3 million.

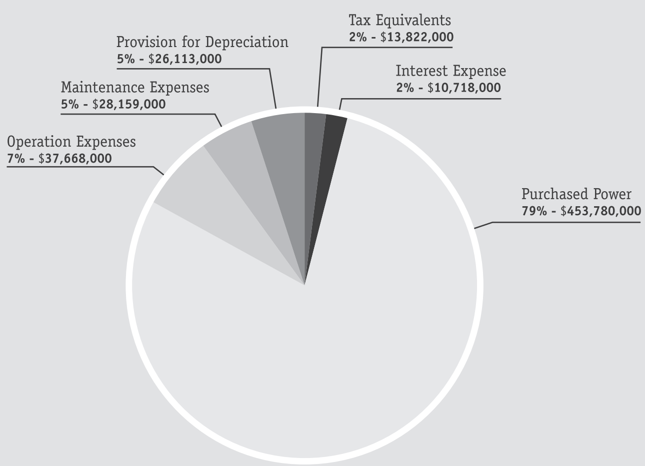
Electric Revenues



Electric Net Plant

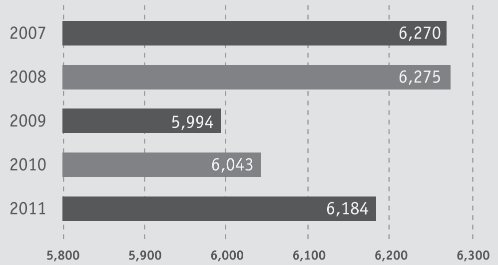


Electric Expenses and Transfers to the City of Chattanooga



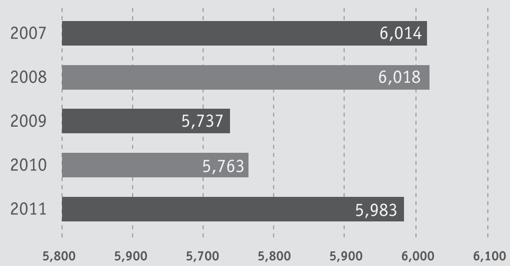
Kilowatt Hours Purchased

in millions

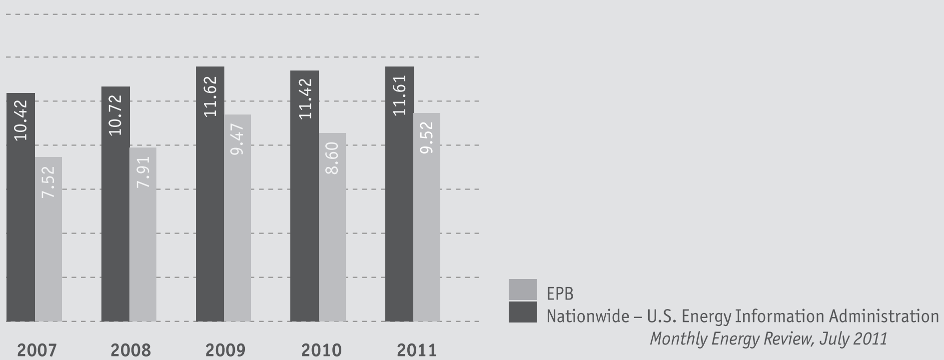


Kilowatt Hour Sales

in millions



Average Cost per KWH per Residential Customer *in cents*

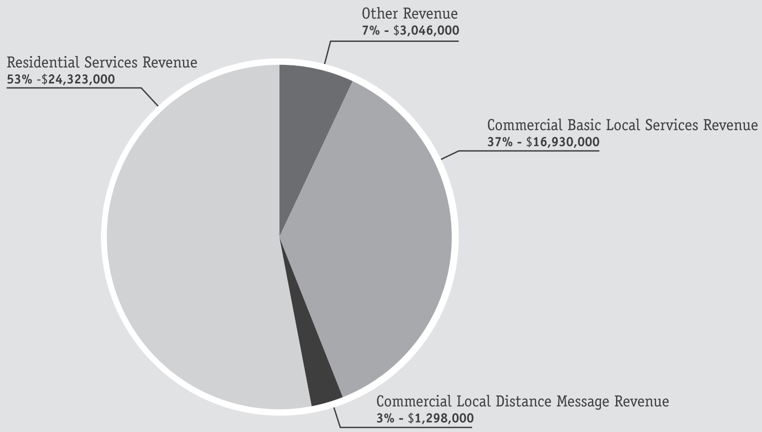


EPB – Fiber Optics System

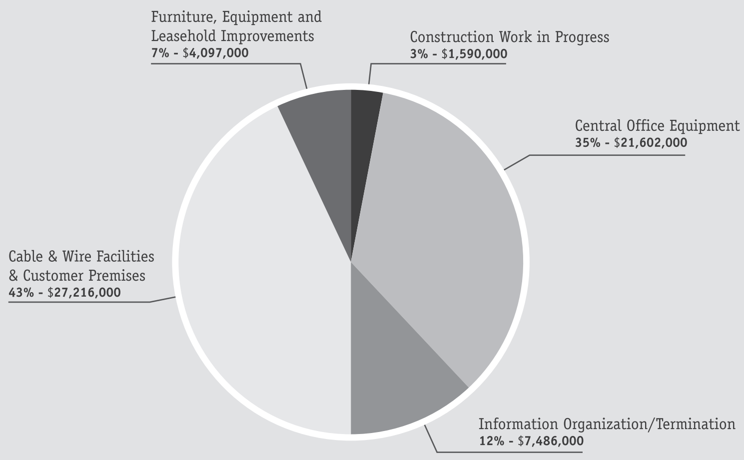
FINANCIAL HIGHLIGHTS 2011

EPB Fiber Optics System increased its revenue from $22.7 million in FY 2010 to $45.6 million in FY 2011, an increase of $22.9 million. This increase in revenues is due mainly to the growth in the number of customers for Fiber Optics residential services from 10,000 to 28,000 during FY 2011. The net plant grew from $49.1 million in FY 2010 to $62.0 million in FY 2011, an increase of over 26%. The increase in plant is due mainly to the additional plant necessary for the Fiber Optics System to provide Internet, video, and telephone services to the additional 18,000 residential customers added during FY 2011. Fiber Optics expenses and transfers to the City of Chattanooga totaled $44.4 million.

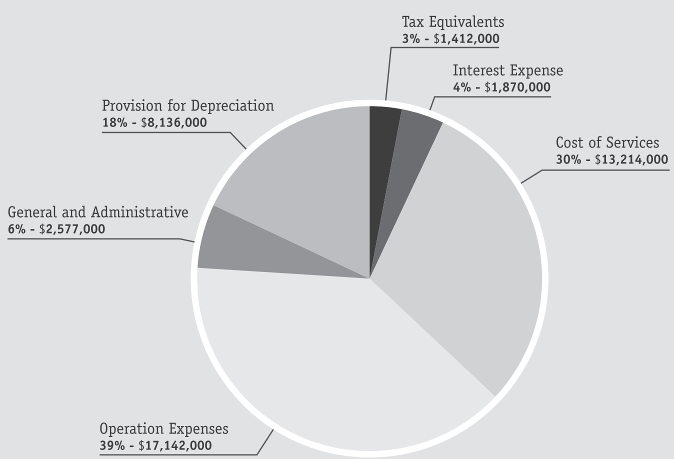
Fiber Optics Revenues



Fiber Optics Net Plant



Fiber Optics Expenses and Transfers to the City of Chattanooga



EPB Management's Discussion and Analysis

This Management's Discussion and Analysis is in accordance with Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, which EPB implemented in the fiscal year ended June 30, 2002. Our discussion and analysis of EPB's financial performance provides an overview of financial activities for the fiscal year ended June 30, 2011. Please read it in conjunction with EPB's financial statements, which follows this section.

FINANCIAL HIGHLIGHTS

- EPB's total net assets decreased $16.5 million, or 6.2%.
- During the year electric sales increased $61.8 million or 13.0%; fiber optics sales increased $19.8 million or 94.7%.
- Total operating expenses increased $91.3 million or 18.3%.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes Management's Discussion and Analysis Report, the independent accountant's report, the basic financial statements of EPB, and supplemental information about EPB. The financial statements also include notes that explain in more detail some of the information in the financial statements.

REQUIRED FINANCIAL STATEMENTS

The financial statements of EPB report information using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Balance Sheet includes all of EPB's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to EPB creditors (liabilities). It also provides the basis for evaluation of the capital structure of EPB and assessing the liquidity and financial flexibility of EPB.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of EPB's operations over the past year and can be used to determine whether EPB has successfully recovered all its costs through rates and other charges.

The final required financial statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities and provides details as to the sources of cash, the uses of cash, and the change in the cash balance during the reporting period.

FINANCIAL ANALYSIS OF EPB

The Balance Sheets and the Statements of Revenues, Expenses, and Changes in Net Assets report information about EPB's activities in a way that will highlight the change in financial condition from year to year. These two statements report the net assets of EPB and the changes in them. The difference between assets and liabilities is one way to measure financial health or financial position. Over time, increases or decreases in EPB's net assets are an indicator of whether its financial health is improving. However, other non financial factors must also be considered such as weather, economic conditions, population growth, and new or changed governmental legislation.

NET ASSETS

Our analysis begins with a summary of EPB's Balance Sheets in Table 1.

TABLE 1

Condensed Balance Sheets

Statements of Net Assets in Thousands of Dollars

	FY 2011	FY 2010	Dollar Change	Total % Change
Assets, Excluding Utility Plant	$ 215,262	$ 266,936	$ (51,674)	-19.4%
Utility Plant, net	522,157	457,614	64,543	14.1%
Total Assets	**737,419**	**724,550**	**12,869**	**1.8%***
Non-Current Bonds Outstanding	287,852	290,962	(3,110)	-1.1%
Term Loan	18,907	–	18,907	
Other Liabilities	183,078	169,519	13,559	8.0%
Total Liabilities	**489,837**	**460,481**	**29,356**	**6.4%***
Invested in Utility Plant, Net of Related Debt	302,327	288,783	13,544	4.7%
Unrestricted Net Assets	(54,745)	(24,714)	(30,031)	-121.5%
Total Net Assets	**$ 247,582**	**$ 264,069**	**$ (16,487)**	**-6.2%***

****Note*** *The totals for the percent change are not the sum of the other percentages, it is the total dollar change divided by total for prior year.*

The table above shows net assets decreased $16.5 million to $247.6 million in fiscal year (FY) 2011, down from $264.1 million in FY 2010. This decrease was caused by the loss experienced in the Electric System, which was due mainly to the $8.4 million storm losses discussed in Note 13 and higher capital spending that resulted in higher depreciation expenses and higher tax equivalents.

TABLE 2

Condensed Statements of Revenues, Expenses, and Changes in Net Assets

In Thousands of Dollars

	FY 2011	FY 2010	Dollar Change	Total % Change
OPERATING REVENUES				
Electric Sales	$ 535,582	$ 473,767	$ 61,815	13.0%
Fiber Optics Sales	40,709	20,910	19,799	94.7%
Other Operating Revenues	13,184	9,922	3,262	32.9%
Total	**589,475**	**504,599**	**84,876**	**16.8%**
OPERATING EXPENSES				
Electric	519,327	446,090	73,237	16.4%
Fiber Optics	27,558	16,094	11,464	71.2%
Provision for Depreciation	34,249	28,488	5,761	20.2%
Tax Equivalents	9,401	8,599	802	9.3%
Total	**590,535**	**499,271**	**91,264**	**18.3%**
Other Deductions	(50,661)	(37,451)	(13,210)	35.3%
Loss before Transfers and Contributions	**(51,721)**	**(32,123)**	**(19,598)**	**61.0%**
Contributions	41,067	29,575	11,492	38.9%
Tax Equivalents Transferred to City of Chattanooga	(5,833)	(4,367)	(1,466)	33.6%
Change in Net Assets	**(16,487)**	**(6,915)**	**(9,572)**	**138.4%**
Beginning Net Assets	264,069	270,984	(6,915)	-2.6%
Ending Net Assets	**$ 247,582**	**$ 264,069**	**$ (16,487)**	**-6.2%**

While the Balance Sheets show the change in financial position of net assets, the Statements of Revenues, Expenses, and Changes in Net Assets provide answers as to the nature and source of these changes. As shown in Table 2 above, the loss before transfers and contributions of $51.7 million combined with the contributions in aid of construction of $41.1 million and tax equivalents of $5.8 million accrued to the City of Chattanooga, resulted in a decrease in net assets of $16.5 million for FY 2011.

A closer examination of the sources of changes in net assets reveals electric operating expenses, excluding depreciation and tax equivalents, increased by $73.2 million in FY 2011 to $519.3 million in FY 2011 from $446.1 million in FY 2010. This was caused mainly by two storm events, one in February 2011 and one in April 2011, which cost EPB approximately $28.0 million, of which $19.6 million will be recovered through claims with the

Federal Emergency Management Agency (FEMA). Additionally, higher purchased power expense on higher sales caused an increase in electric operating expenses.

Weather has an impact on residential electric sales, and weather is reflected in degree-days as recorded by the National Weather Bureau. Degree-days measure the average daily temperature in relationship to 65 degrees: temperatures above 65 degrees are cooling degree-days; temperatures below 65 degrees are heating degree-days. In FY 2011, there were 5,591 total degree-days, an increase of 2.7% from the 5,444 degree-days in FY 2010. Additionally, KWH used by customers increased over last year by 2.3%.

During the storms of February and April of 2011, EPB sustained substantial damages and power outages from a series of tornados that hit the area. The February storm resulted in 61,600 customers losing power and 125 poles being replaced. The April storm resulted in 129,500 customers losing power, and 1,130 poles, 415 transformers, and 58 miles of electric line being replaced. EPB applied for and was granted relief from FEMA for these two storms of approximately $1.9 million for the February event and $17.7 million for the April event.

Fiber Optics operating sales increased by $19.8 million to $40.7 million in FY 2011 from $20.9 million in FY 2010, due to the continued success of the residential service offerings (Fi TV, Fi Phone, and Fi-Speed Internet). Operating expenses, excluding depreciation and tax equivalents, associated with acquiring and serving customers increased 71.2% in FY 2011. Depreciation expense increased to $34.2 million in FY 2011 from $28.5 million in FY 2010, an increase of 20.2%. This increase is the result of both Electric and Fiber Optics Systems utility plant growth.

Accruals for payments in lieu of taxes (tax equivalents expense and transfers) to municipal governments including transfers to the City of Chattanooga increased by $2.3 million to $15.2 million in FY 2011 from $12.9 million in FY 2010, an increase of 17.5%. EPB's Tennessee tax equivalents expense is based on a prescribed formula that consists of two parts. Part I is calculated using utility plant value within a taxing district, the taxing district's property tax rate, the assessment ratio, and the equalization ratio. Part II is based on the average of the last three years' Tennessee operating revenues less cost of goods sold, and a prescribed rate which is currently 4%.

BUDGETARY HIGHLIGHTS

EPB's Board of Directors approves an Operating and Capital Budget each fiscal year. The budget remains in effect the entire year and is not revised. A FY 2011 budget comparison and analysis is presented in Table 3.

TABLE 3

Actual vs. Budget

In Thousands of Dollars

	Actual FY 2011	Budget FY 2011	Dollar Change	Total % Change
OPERATING REVENUES				
Electric Sales	$ 535,582	$ 567,758	$ (32,176)	-5.7%
Other Electric Revenue	8,576	7,047	1,529	21.7%
Subtotal	544,158	574,805	(30,647)	-5.3%
Fiber Optics Sales	40,709	41,985	(1,276)	-3.0%
Other Fiber Optics Revenue	4,608	828	3,780	456.5%
Subtotal	45,317	42,813	2,504	5.8%
Total	**589,475**	**617,618**	**(28,143)**	**-4.6%**
OPERATING EXPENSES				
Electric	519,327	541,662	(22,335)	-4.1%
Fiber Optics	27,558	27,112	446	1.6%
Provision for Depreciation	34,249	33,897	352	1.0%
Tax Equivalents	9,401	10,312	(911)	-8.8%
Total	**590,535**	**612,983**	**(22,448)**	**-3.7%**
Other Deductions	(50,661)	(9,272)	(41,389)	446.4%
Loss before Transfers and Contributions	**(51,721)**	**(4,637)**	**(47,084)**	**1015.4%**
Contributions	41,067	–	41,067	
Tax Equivalents Transferred to City of Chattanooga	(5,833)	(5,490)	(343)	6.2%
Change in Net Assets	**$ (16,487)**	**$ (10,127)**	**$ (6,360)**	**62.8%**
Capital Expenditures *(net of contributions)*				
Electric	$ 78,682	$ 96,211	$ (17,529)	-18.2%
Fiber Optics	20,989	23,200	(2,211)	-9.5%
Total Capital Expenditures	**$ 99,671**	**$ 119,411**	**$ (19,740)**	**-16.5%**

The Electric System sales revenues were $32.2 million less than budget due mainly to a projected 10% TVA price increase being budgeted for October which subsequently did not occur. Electric operating expenses were less than budget due mainly to lower than budgeted purchased power expense offset by expenses related to weather events in February and April of FY 2011 as discussed in Note 13.

The Fiber Optics System's revenues, including other revenue, was above budget by $2.5 million even though fewer customers were signed up due to two major weather events in February and April of FY 2011.

As shown in Table 3, capital expenditures were $19.7 million less than budgeted. This variance is due mainly to optical fiber construction being less than budgeted and the timing of the Smart Grid and Cavalier capital projects.

UTILITY PLANT

At the end of FY 2011, EPB had $522.2 million in net utility plant as show in Table 4. This represents a broad range of infrastructure for the purpose of providing services to our customers. Examples include transformers, meters, conductors, conduit, poles and fixtures, control equipment, switching equipment, fiber optics central office switches, and vehicles.

TABLE 4
Utility Plant

In Thousands of Dollars

	FY 2011	FY 2010	Dollar Change	Total % Change
ELECTRIC				
Transmission	$ 53,811	$ 52,570	$ 1,241	2.4%
Distribution	370,344	351,943	18,401	5.2%
Land & land rights	5,647	5,634	13	0.2%
Buildings & improvements	56,490	53,641	2,849	5.3%
Furniture, fixtures & equipment	154,687	91,156	63,531	69.7%
Construction work in progress	40,381	54,283	(13,902)	-25.6%
Total	681,360	609,227	72,133	11.8%
Less: Accumulated depreciation	(221,194)	(200,751)	(20,443)	10.2%
Electric Total	**460,166**	**408,476**	**51,690**	**12.7%**
FIBER OPTICS				
Central office equipment	30,919	28,233	2,686	9.5%
Information origination/termination	15,792	15,149	643	4.2%
Cable & wire facilities	7,770	7,682	88	1.1%
Furniture, fixtures & equipment	6,354	5,710	644	11.3%
Leasehold improvements	34	34	–	0.0%
Customer premises wiring	14,352	4,190	10,162	242.5%
Customer premises equipment	10,662	4,993	5,669	113.5%
Construction work in progress	1,590	493	1,097	222.5%
Total	87,473	66,484	20,989	31.6%
Less: Accumulated depreciation	(25,482)	(17,346)	(8,136)	46.9%
Fiber Optics Total	**61,991**	**49,138**	**12,853**	**26.2%**
Net Utility Plant	**$ 522,157**	**$ 457,614**	**$ 64,543**	**14.1%**

DEBT ADMINISTRATION

As of year-end, EPB Electric System had $290.6 million in bond debt outstanding compared to $293.7 million last year. All bonds were rated AA by both Fitch and Standard & Poor's, with some issues being insured and upgraded to AAA rating.

One area that demonstrates EPB's financial strength and future borrowing capability is seen in its debt coverage ratio. The City of Chattanooga has a requirement that if this ratio should ever decrease below 1.5, EPB would be required to establish and fund a reserve fund. Debt coverage ratio as it relates to the Electric System revenue bonds is shown in Table 5. This ratio is currently 3.1. The decrease in the debt coverage ratio is due to the higher debt service related to lower capitalized interest from the 2008 series A bonds and reduced funds available for debt service which was impacted significantly by the storms discussed in Note 13. We expect this metric to stabilize since the impact of the storms is not expected in FY 2012 and additional funds available for debt service are generated through the FY 2012 electric rate increase. These increases in the funds available for debt service will be partially mitigated by the capitalized interest fund payments portion of the debt service being reduced to zero in FY 2012.

TABLE 5

Electric System Debt Coverage Analysis

in Thousands of Dollars

	FY 2011	FY 2010
REVENUES		
Electric Revenue	$ 549,533	$ 483,071
Interest Income	1,035	2,998
Other Income	1,959	5,432
Total Revenue	**552,527**	**491,501**
EXPENSES		
Purchased Power	453,780	390,597
Operating Expenses	64,948	54,896
Total Operation Expenses *(excluding depreciation and tax equivalent payments)*	**518,728**	**445,493**
Funds Available for Debt Service	**$ 33,799**	**$ 46,008**
DEBT SERVICE		
Interest Paid on Long-Term Debt	$ 13,500	$ 13,618
Less: Capitalized Interest Fund Payments	(5,382)	(10,765)
Principal Payments	2,710	2,670
Total Debt Service	**$ 10,828**	**$ 5,523**
Debt Coverage Ratio	**3.1**	**8.3**

At the end of FY 2011, the Fiber Optics System's outstanding balance on a $5.0 million line of credit was $1.8 million. The notes payable from the Fiber Optics System to the Electric System was $46.8 million at the end of FY 2011. In March of FY 2011, Fiber Optics obtained a $19.5 million secured term promissory note from a bank that was used to repay funds borrowed from the Electric System. As discussed in Note 5, the outstanding balance of this note was $18.9 million at the end of FY 2011.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

EPB's Board of Directors and Management considered many factors when setting FY 2012 budget and rates. One of those factors is the local economy and EPB's impact on local industries. EPB's budget is based upon a statistical model using seven years of historical data to estimate growth and average kilowatt-hour sales per customer within customer class. These estimates are adjusted by any known data, such as changes anticipated by a large industrial customer. EPB's Board of Directors approved a 5% rate increase for all rate classes excluding customers with greater than 5,000 KW demand effective July 1, 2011.

In FY 2012, EPB Fiber Optics plans to further its financial performance by growing its Fi TV, Fi Phone, and Fi-Speed Internet services to residential and business customers. These products became available to every residence and business in the EPB service area during FY 2011. EPB Fiber Optics had approximately 28,000 customers at the end of FY 2011 and is projected to have 45,000 by the end of FY 2012.

EPB's electric construction budget for FY 2012 includes monies to complete the installation of fiber optic cable to support the Smart Grid. Monies are also included for the automatic meter information (AMI) system and distribution automation portions of the Smart Grid. In addition, monies are included for capital improvements at a new distribution complex.

Capital investments for the Fiber Optics System in FY 2012 will focus mainly on broadband equipment to provide telephone, Internet, and video services to residential and business customers.

SMART GRID

For FY 2012, the Electric System will continue implementation of a Smart Grid and the AMI component of the system. The Smart Grid will allow EPB to instantly detect power outages with the capacity to troubleshoot and correct some electrical grid issues before they become larger problems. EPB will also continue installing AMI (smart) meters at every premise. This infrastructure will allow customers to better control energy usage. Deployment of the Smart Grid will also give EPB the ability to detect and reduce electricity theft. According to a national survey, electricity theft is estimated to be between 1.0% and 1.5% of a utility company's sales revenue. The Smart Grid was originally planned as a ten year project with the first phase, effecting approximately 75% of our customers, being funded by a portion of the $219.8 million par value bond issue that was completed in April 2008.

In FY 2010, EPB was awarded a $111.6 million Smart Grid Investment Grant from the U.S. Department of Energy. This grant will allow EPB to complete the Smart Grid Infrastructure to the remaining 25% of our customers and significantly enhance the Smart Grid infrastructure for the entire system. The terms of the grant require completion within three years.

CONTACTING EPB'S FINANCIAL MANAGER

This report is designed to provide our customers and creditors with a general overview of EPB's finances and to demonstrate EPB's accountability for the money it receives. If you have questions about this report or need additional financial information, contact EPB - Finance Division, P. O. Box 182255, Chattanooga, TN 37422-7255.

To the Board of Directors, Electric Power Board of Chattanooga
Chattanooga, Tennessee

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the **Electric Power Board of Chattanooga** ("EPB," an enterprise fund of the City of Chattanooga) and supplemental schedules for Electric, Telecom, Video and Internet, and Fiber Optics Systems as of and for the years ended June 30, 2011 and 2010, as listed in the table of contents. These financial statements and supplemental schedules are the responsibility of EPB's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1, the financial statements present only the EPB enterprise fund and do not purport to, and do not, present fairly the financial position of the City of Chattanooga as of June 30, 2011 and 2010, the changes in its financial position or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of EPB as of June 30, 2011 and 2010, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related supplemental schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2011, on our consideration of EPB's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 9 through 20 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Hazlett, Lewis & Bieter, PLLC

Chattanooga, Tennessee
September 8, 2011

EPB BALANCE SHEETS

June 30, 2011 and 2010

The accompanying Notes to Financial Statements are an integral part of these statements.

ASSETS	2011	2010
CURRENT ASSETS		
Cash and cash equivalents	$ 99,294,000	$ 142,939,000
Accounts receivable, less allowance for doubtful accounts of $1,501,000 and $1,046,000 in 2011 and 2010, respectively	22,948,000	21,961,000
Unbilled electric sales	27,648,000	35,713,000
Grants receivable	28,798,000	7,877,000
Investments, net	5,105,000	37,042,000
Materials and supplies, at average cost	12,523,000	10,727,000
Prepayments and other current assets	12,772,000	3,355,000
	209,088,000	259,614,000
NON-CURRENT ASSETS		
Utility plant -		
Utility plant	768,833,000	675,711,000
Less - accumulated provision for depreciation	(246,676,000)	(218,097,000)
Net utility plant	522,157,000	457,614,000
Other assets -		
Deferred charges and other non-current assets	3,032,000	3,466,000
Unamortized bond issue cost	2,350,000	2,481,000
TVA discounted energy units	792,000	1,375,000
	528,331,000	464,936,000
TOTAL ASSETS	$ 737,419,000	$ 724,550,000

LIABILITIES AND NET ASSETS	2011	2010
CURRENT LIABILITIES		
Accounts payable -		
Tennessee Valley Authority, for power purchased	$ 74,997,000	$ 74,707,000
Other	28,258,000	28,083,000
Customer deposits	2,601,000	2,132,000
Revenue bonds, current portion	2,750,000	2,710,000
Accrued tax equivalents	15,191,000	12,927,000
Accrued interest payable	4,538,000	4,520,000
Line of credit	1,752,000	2,433,000
Notes payable	3,662,000	--
Other current liabilities	13,250,000	11,583,000
	146,999,000	139,095,000
NON-CURRENT LIABILITIES		
Revenue bonds, net	287,852,000	290,962,000
Deferred refunding	--	(45,000)
Accrued postretirement benefit obligation	8,830,000	9,272,000
Customer deposits	18,655,000	18,036,000
Notes payable	15,245,000	--
Deferred credits	12,256,000	3,161,000
	342, 838,000	321,386,000
NET ASSETS		
Invested in utility plant, net of related debt	302,327,000	288,783,000
Unrestricted	(54,745,000)	(24,714,000)
	247,582,000	264,069,000
TOTAL LIABILITIES AND NET ASSETS	$ 737,419,000	$ 724,550,000

EPB STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

For the years ended June 30, 2011 and 2010

The accompanying Notes to Financial Statements are an integral part of these statements.

	2011	2010
OPERATING REVENUES		
Electric sales		
Residential	$ 230,678,000	$ 203,737,000
Small commercial and power	39,597,000	36,165,000
Large commercial and power	261,549,000	225,063,000
Outdoor lighting systems	6,362,000	5,803,000
Total billed electric sales	538,186,000	470,768,000
Change in unbilled electric sales	(1,832,000)	3,591,000
Less uncollectible electric sales	(772,000)	(592,000)
Total electric sales	535,582,000	473,767,000
Fiber optics sales		
Billed fiber optics revenues	42,271,000	21,288,000
Less uncollectible fiber optics revenues	(1,562,000)	(378,000)
Total fiber optics sales	40,709,000	20,910,000
Other operating revenues	13,184,000	9,922,000
Total operating revenues	589,475,000	504,599,000
OPERATING EXPENSES		
Operation		
Power purchased from Tennessee Valley Authority	453,780,000	390,597,000
Other operation expenses	37,388,000	37,468,000
Maintenance	28,159,000	18,025,000
Fiber optic operating expenses	27,558,000	16,094,000
Provision for depreciation	34,249,000	28,488,000
City, county, and state tax equivalents	9,401,000	8,599,000
Total operating expenses	590,535,000	499,271,000
Net operating income (loss)	(1,060,000)	5,328,000
OTHER REVENUES (DEDUCTIONS)		
Interest revenue on invested funds	1,035,000	2,998,000
Interest expense on debt	(10,691,000)	(10,927,000)
Other, net	62,000	53,000
Plant cost recovered through contributions in aid of construction	(41,067,000)	(29,575,000)
Total other deductions	(50,661,000)	(37,451,000)
LOSS BEFORE TRANSFERS AND CONTRIBUTIONS	(51,721,000)	(32,123,000)
TAX EQUIVALENTS TRANSFERRED TO CITY OF CHATTANOOGA	(5,833,000)	(4,367,000)
CONTRIBUTIONS IN AID OF CONSTRUCTION	41,067,000	29,575,000
CHANGE IN NET ASSETS	(16,487,000)	(6,915,000)
NET ASSETS, BEGINNING OF YEAR	264,069,000	270,984,000
NET ASSETS, END OF YEAR	$ 247,582,000	$ 264,069,000

EPB STATEMENTS OF CASH FLOWS

For the years ended June 30, 2011 and 2010

The accompanying Notes to Financial Statements are an integral part of these statements.

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 582,562,000	$ 494,870,000
Receipts from vendors	35,000	27,000
Payments to suppliers for goods and services	(517,130,000)	(417,917,000)
Payments to employees for services	(31,384,000)	(24,399,000)
Payments in lieu of taxes	(12,969,000)	(11,631,000)
Net cash provided by operating activities	21,114,000	40,950,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Additions to utility plant	(140,026,000)	(116,796,000)
Removal cost	(786,000)	(719,000)
Salvage	74,000	450,000
Contributions in aid of construction	41,067,000	29,575,000
Interest paid on debt	(203,000)	(11,000)
Change in line of credit, net	(681,000)	2,433,000
Debt issuance cost	(111,000)	--
Borrowings under long-term debt	19,500,000	--
Repayment of long-term debt	(593,000)	(586,000)
Bond principal payment	(2,710,000)	(2,670,000)
Bond interest payment	(13,500,000)	(13,618,000)
Net cash used in capital and related financing activities	(97,969,000)	(101,942,000)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	1,159,000	3,430,000
Purchase of investments	--	(49,200,000)
Sale of investments	32,051,000	121,533,000
Net cash provided by investing activities	33,210,000	75,763,000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(43,645,000)	14,771,000
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	142,939,000	128,168,000
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 99,294,000	$ 142,939,000
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net operating income (loss)	$ (1,060,000)	$ 5,328,000
Adjustments to reconcile net operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	35,128,000	29,391,000
Miscellaneous non-operating expenses, net	2,913,000	2,815,000
Tax equivalents transferred to City of Chattanooga	(5,833,000)	(4,367,000)
Changes in assets and liabilities:		
Accounts receivable, net	(987,000)	(1,493,000)
Unbilled electric sales	8,065,000	(3,592,000)
Grants receivable	(20,921,000)	(7,877,000)
Materials and supplies	(1,796,000)	(462,000)
Prepayments and other current assets	(9,655,000)	2,056,000
TVA discounted energy units	583,000	500,000
Deferred charges	540,000	(3,308,000)
Accounts payable, net	465,000	16,426,000
Customer deposits	1,088,000	1,913,000
Accrued tax equivalents	2,264,000	1,335,000
Other current liabilities	1,667,000	1,227,000
Deferred credits	9,095,000	927,000
Accrued postretirement benefit obligation	(442,000)	131,000
Net cash provided by operating activities	$ 21,114,000	$ 40,950,000

EPB
Notes to
Financial Statements

1. GENERAL

The Electric Power Board of Chattanooga is a municipal utility and an enterprise fund of the City of Chattanooga, Tennessee. In 1999, the Electric Power Board began doing business as EPB. EPB began electric operations (the "Electric System") in 1939 and provides electricity to customers in the City of Chattanooga and surrounding counties, including Northwest Georgia. The Tennessee Valley Authority is EPB's sole provider of power and acts in a regulatory capacity in setting electric rates. In 1999, EPB created the Telecom System to provide telecommunications services to businesses within the EPB electric service territory. In fiscal year (FY) 2003, EPB began providing Internet services to business customers. On September 25, 2007, the City Council of the City of Chattanooga approved and authorized EPB to provide voice, Internet, and video services to residential customers. EPB provided these services to its first residential customer in September 2009. At the end of FY 2011, EPB had over 28,000 residential customers and 1,100 business customers. Supplementary data for the Electric System, Telecom System, Video & Internet System and Fiber Optics System (combined financials of the Telecom and Video & Internet Systems) is shown in Supplemental Schedules.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The accompanying financial statements of EPB include the accounts of the Electric System and the Fiber Optics System (collectively EPB). All significant intersystem transactions and balances have been eliminated in the financial statements of EPB.

Where applicable, the Electric System's accounting records generally follow the Federal Energy Regulatory Commission's Uniform System of Accounts Prescribed for Public Utilities, and the Fiber Optics System's accounting records generally follow the Federal Communications Commission's Uniform System of Accounts for Telecommunications Companies.

Under Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, EPB has elected to apply all Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989, which are now part of FASB Accounting Standard Codifications (ASC), except for those that conflict with or contradict GASB pronouncements, to EPB's accounting and financial reporting. EPB conforms to the provisions of ASC Topic 980, *Regulated Operations*, which allows for the reduction of plant cost recovered through contributions in aid of construction as opposed to recovery of costs through future regulatory rates.

USE OF ESTIMATES

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

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, deposits in banks, and short-term, highly-liquid investments with an original maturity date of three months or less for purposes of the Statement of Cash Flows.

FINANCIAL INSTRUMENTS

Financial instruments of EPB include certificates of deposit, money market accounts, short-term investments in federal agency bonds and notes, commercial paper, investment in the State of Tennessee Local Government Investment Pool, and accounts receivable. Short-term investments in federal agency bonds and notes with a maturity of one year or less are carried at amortized cost. All other financial instruments are carried at fair value as determined by quoted market prices at June 30, 2011 and 2010.

MATERIALS AND SUPPLIES

Materials and supplies inventory is valued at the lower of cost or market using the average cost basis, which approximates actual cost.

UTILITY PLANT

Utility plant is stated at original cost. Such costs include applicable general and administrative costs and payroll-related costs such as pensions, taxes, and other benefits.

EPB provides depreciation at rates which are designed to amortize the cost of depreciable utility plant over its estimated useful life. The composite straight-line rate, expressed as a percentage of average utility plant, was 5.21% in 2011 and 4.96% in 2010.

When property subject to depreciation is retired or otherwise disposed of in the normal course of business, its original cost, together with its cost of removal less salvage, is charged to the accumulated provision for depreciation. EPB charges maintenance and repairs, including the cost of renewals of minor items of property, to maintenance expense accounts or applicable clearing accounts. Placements of property (exclusive of minor items of property) are capitalized to utility plant accounts.

ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION (AFUDC)

AFUDC represents the approximate net composite interest cost of borrowed funds used for construction. For FY 2011 and 2010, AFUDC increased the plant balance and decreased interest expense by $2,851,000 and $2,725,000, respectively. It is EPB’s policy that any single capital project with an estimated cost of $2 million or more will receive AFUDC.

REVENUES AND EXPENSES

Revenues are recognized on the accrual basis at the time utility services are provided. Operating revenues include utility sales net of bad debt expense and miscellaneous revenue related to utility operations. This miscellaneous revenue includes late payment fees, rental income, and ancillary services. Operating expenses include those expenses that result from the ongoing operations of the utility systems.

Non-operating revenues consist primarily of investment income. Non-operating expenses consist of interest expense on indebtedness and various miscellaneous expenses.

ACCOUNTS RECEIVABLE

EPB periodically reviews accounts receivable for amounts it considers as uncollectible and provides an allowance for doubtful accounts. Current earnings are charged with a provision for doubtful accounts based on a percent of gross revenue determined from historical net bad debt experience. This evaluation is inherently subjective as it requires estimates that are susceptible to revision as more information becomes available. Accounts considered uncollectible throughout the year are charged against the allowance.

ADVERTISING COST

Costs related to advertising for the Electric System and Fiber Optics System are expensed in the FY in which related advertising takes place. Advertising expense for FY 2011 and 2010 was approximately $1.9 million and $2.2 million, respectively.

RECLASSIFICATIONS

Certain reclassifications have been made to the 2010 financial statement presentation to conform to the 2011 presentation.

SUBSEQUENT EVENTS

Management performed an evaluation of subsequent events through September 8, 2011, the date these financial statements were issued.

3. DEPOSITS AND INVESTMENTS

EPB's investment policy allows for investments in certificates of deposit, repurchase agreements, money market accounts with local depository institutions, the State of Tennessee Local Government Investment Pool (LGIP), U.S. Treasury obligations, U.S. Government Agency obligations, municipal bonds, and commercial paper.

At June 30, 2011, EPB had the following investments and maturities (amounts are in thousands):

Investment	Fair Value or Carrying Amount	Maturities less than 1 Year	Maturities 1 year up to and less than 2 Years	Maturities 2 years up to and less than 3 Years
Local Government Investment Pool (LGIP)	$ 202	$ 202	$ –	$ –
Money Market Accounts	84,011	84,011	$ –	$ –
Certificates of Deposit	5,105	5,105	$ –	$ –
Total	**$ 89,318**	**$ 89,318**	**$ –**	**$ –**

At June 30, 2011, investment maturities of EPB are as follows (amounts are in thousands):

Investment	Weighted Average Maturity (Years)	Fair Value
Certificates of Deposit classified as investments	.23	$ 5,105

At June 30, 2010, EPB had the following investments and maturities (amounts are in thousands):

Investment	Fair Value or Carrying Amount	Maturities less than 1 Year	Maturities 1 year up to and less than 2 Years	Maturities 2 years up to and less than 3 Years
Local Government Investment Pool (LGIP)	$ 202	$ 202	$ –	$ –
Money Market Accounts	135,518	135,518	$ –	$ –
Certificates of Deposit	37,042	37,042	$ –	$ –
Total	**$ 172,762**	**$ 172,762**	**$ –**	**$ –**

At June 30, 2010, investment maturities of EPB are as follows (amounts are in thousands):

Investment	Weighted Average Maturity (Years)	Fair Value
Certificates of Deposit classified as investments	.30	$ 37,042

INTEREST RATE RISK

EPB's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Instead, the portfolio is structured in a manner that ensures sufficient cash is available to meet anticipated liquidity needs. Selection of investment maturities must be consistent with the cash requirements of EPB in order to avoid the forced sale of securities prior to maturity. Accordingly, EPB has an investment policy that limits the maturities on individual investments to no more than four (4) years without approval of the State Director of Local Finance or as otherwise provided by State Statute. Investments at June 30, 2011 and 2010 met investment policy restrictions.

CREDIT RISK

EPB's general investment policy is to apply the prudent-person rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and avoid speculative investments. EPB's investment policy limits investments in U.S. Government Agency obligations to the highest ratings by two nationally recognized statistical rating organizations (NRSRO).

Also, EPB's investment policy restricts investments in commercial paper to those which are rated at least A1 or equivalent by at least two nationally recognized rating services.

CUSTODIAL CREDIT RISK

At June 30, 2011 and 2010, EPB's deposits, money market accounts with local depository institutions, and investments in certificates of deposits were entirely covered by either Federal Depository Insurance Corporation insurance or insured by the State of Tennessee Collateral Pool for Public Deposits. Also, at June 30, 2011 and 2010, portions of EPB's investments were held in the State of Tennessee LGIP. The legislation providing for the establishment of the LGIP (Tennessee Code Annotated ¶9-4-701 *et seq*.) authorizes investment in the LGIP for local governments and other political subdivisions. The LGIP is sponsored by the State of Tennessee Treasury Department and is a part of the State Pooled Investment Fund. All of EPB's deposits and investments (excluding the LGIP) are insured or registered in EPB's name.

CONCENTRATION OF CREDIT RISK

EPB's investment policy requires its overall portfolio to be diversified to eliminate the risk of loss from an over concentration of assets in a specific class of security, a specific maturity, and/or a specific issuer. EPB's investment policy limits its investments to no more than five percent (5%) in any single issuer with the following exceptions:

U.S. Treasury Obligations	**100%**	**maximum**
Federal Agency	**100%**	**maximum**
Insured/Collateralized Certificates of Deposit and Accounts	**100%**	**maximum**
Tennessee LGIP	**100%**	**maximum**
Commercial Paper	**10%**	**maximum**
Repurchase Agreements Counterparty	**10%**	**maximum**

Investments by issuer and percentage of total investments at June 30, 2011 and 2010 were as follows:

Issuer	Investment Type	June 30, 2011	June 30, 2010
State of Tennessee	Local Government Investment Pool	0.23%	0.12%
First Tennessee Bank	Money Market Accounts	11.37%	5.84%
Cohutta Banking Company	Certificates of Deposits (CD's)	0%	4.05%
Sun Trust Bank	Money Market Accounts & CD's	12.54%	13.50%
CapitalMark Bank	Money Market Accounts & CD's	22.83%	2.95%
First Volunteer Bank	Money Market Accounts	0.12%	0.06%
Cornerstone Bank	Money Market Accounts & CD's	0.32%	11.73%
FSG Bank	Money Market Accounts & CD's	0.28%	3.04%
BB&T Bank	Money Market Accounts & CD's	51.75%	55.07%
Northwest Georgia Bank	Money Market Accounts	0.27%	2.33%
Regions Bank	Money Market Accounts	0.29%	1.31%

4. UTILITY PLANT

Electric utility plant assets activity for the year ended June 30, 2011 was as follows (amounts are in thousands):

Electric	June 30, 2010	Additions	Retirements and Other	June 30, 2011
Transmission	$ 52,570	$ 1,979	$ (738)	$ 53,811
Distribution	351,943	34,657	(16,256)	370,344
Land & land rights	5,634	13	–	5,647
Buildings & improvements	53,641	3,188	(339)	56,490
Furniture, fixtures & equipment	91,156	88,692	(25,161)	154,687
Construction work in progress	54,283	(8,837)	(5,065)	40,381
Electric Total	**$609,227**	**$119,692**	**$(47,559)**	**$681,360**

Fiber Optics utility plant assets activity for the year ended June 30, 2011 was as follows (amounts are in thousands):

Fiber Optics	June 30, 2010	Additions	Retirements and Other	June 30, 2011
Central office equipment	$ 28,233	$ 2,686	$ –	$ 30,919
Information origination/termination	15,149	643	–	15,792
Cable & wire facilities	7,682	145	(57)	7,770
Furniture, fixtures & equipment	5,710	644	–	6,354
Leasehold improvements	34	–	–	34
Customer premises wiring	4,190	10,162	–	14,352
Customer premises equipment	4,993	5,669	–	10,662
Construction work in progress	493	1,097	–	1,590
Fiber Optics Total	**$ 66,484**	**$ 21,046**	**$ (57)**	**$ 87,473**
Total Utility Plant	**$ 675,711**	**$ 140,738**	**$ (47,616)**	**$ 768,833**
Total Accumulated Depreciation	**$ (218,097)**	**$ (35,128)**	**$ 6,549**	**$ (246,676)**
Total Net Utility Plant	**$ 457,614**	**$ 105,610**	**$ (41,067)**	**$ 522,157**

The estimated useful lives of capital assets are as follows:

Transmission	**10-40 years**
Distribution	**10-40 years**
Buildings & improvements	**20-40 years**
Furniture, fixtures & equipment	**5-20 years**
Central office equipment	**10 years**
Information origination/termination	**5-10 years**
Cable & wire facilities	**30 years**
Leasehold improvements	**10 years**
Customer premises wiring	**10 years**
Customer premises equipment	**3.5 years**

Depreciation expense for the Electric System was approximately $26.1 million and $22.7 million for the fiscal years ended June 30, 2011 and 2010, respectively. Depreciation expense for the Fiber Optics System was approximately $8.1 million and $5.8 million for the fiscal years ended June 30, 2011 and 2010, respectively.

5. TENNESSEE VALLEY AUTHORITY PROGRAMS

EPB participates in the TVA Discounted Energy Units (DEU) program. The DEU program allows TVA distributors to prepay a portion of the price of a block of kilowatt hours yet to be supplied by TVA, each such block being a DEU, and receive a discount over a defined period of years. In 2003, EPB purchased 5.0 DEU's by paying $5 million. Under this program, EPB will recover this prepayment over a ten year period through a monthly discount of 2.50¢ per KWh on the specified monthly KWh DEU portion of firm energy purchased from TVA in that month. At June 30, 2011 and 2010, the outstanding DEU balance was approximately $0.8 million and $1.4 million, respectively.

6. DEBT

Long term debt for the year ended June 30, 2011 is as follows (amounts are in thousands):

	Balance at June 30, 2010	Repayments, Amortization or Accretion	Additions	Balance at June 30, 2011	Current Amount Due
Electric System					
Electric System Revenue Bonds, 2000 Series, bear interest at a rate of 5.00%, maturing September 2011, interest due semi-annually	$ 3,200	$ (1,600)	$ –	$ 1,600	$ 1,600
Electric System Revenue Bonds, 2006 Series A, bear interest at rates from 4.00% to 5.00%, maturing through September 2031, interest due semi-annually	38,930	(1,110)	–	37,820	1,150
Electric System Revenue Bonds, 2006 Series B, bear interest at rates from 4.00% to 4.25%, maturing September 2012 through 2025, interest due semi-annually	23,430	–	–	23,430	–
Electric System Revenue Bonds, 2008 Series A, bear interest at rates from 3.00% to 5.00%, maturing September 2013 through 2033, interest due semi-annually	219,830	–	–	219,830	–
Unamortized premium/(discount)	8,282	(360)	–	7,922	–
Total Electric System Debt	**$ 293,672**	**$ (3,070)**	**$ –**	**$ 290,602**	**$ 2,750**
Fiber Optics System					
Secured Term Promissory Note, bearing interest rate of LIBOR plus 2.25% with a 1% floor (3.25% at June 30, 2011), repayable in sixty equal monthly installments	–	(593)	19,500	18,907	3,662
Total Debt	**$ 293,672**	**$ (3,663)**	**$ 19,500**	**$ 309,509**	**$ 6,412**

EPB issues Revenue Bonds to provide funds primarily for capital improvements to the electrical system and refundings of other bonds. All bond issues are secured by a pledge and lien on the net revenues of EPB on parity with the pledge established by all bonds issued. Annual maturities on all Electric System long-term debt and related interest are as follows for each of the next five fiscal years and in five-year increments thereafter (amounts are in thousands):

Fiscal Year	Principal	Interest	Total
2012	$ 2,750	$ 13,378	$ 16,128
2013	2,965	13,255	16,220
2014	6,000	13,085	19,085
2015	7,040	12,832	19,872
2016	8,075	12,502	20,577
2017 – 2021	51,080	56,294	107,374
2022 – 2026	64,240	42,730	106,970
2027 – 2031	81,415	25,101	106,516
2032 – 2034	59,115	4,522	63,637
Total	**$282,680**	**$193,699**	**$476,379**

In August 2006, EPB issued Electric System Revenue Bonds, 2006 Series A, in order to finance the acquisition, expansion, and improvement of the Electric System and reimburse EPB for prior capital expenditures. The $40 million par value of the bonds, less underwriter discount and cost of issuance, plus original issue premium netted proceeds of approximately $39.6 million of which $20 million was reimbursed to EPB’s operating fund and the remainder deposited to a special construction account that was drawn to a zero balance over the course of fiscal 2007.

Concurrent with the 2006 Series A issue, EPB issued $23.4 million of Electric System Refunding Revenue Bonds, Series 2006 B, to refinance a portion of the 2000 Series Bonds. These proceeds were used to purchase certain governmental securities. The principal and interest of these securities, when due, will provide sufficient funds to pay all principal and interest on a portion of the 2000 Series Bonds at their respective due dates. These securities have been deposited in an irrevocable trust with an escrow agent. As a result of this advance refunding, $22.4 million of the 2000 Series Bonds has been removed from the accounts of EPB as this portion is considered defeased. In accordance with Statement No. 23 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Refunded Debt Reported by Proprietary Activities*, the difference between the new debt and the net carrying value of the old debt of approximately $1.1 million has been deferred and will be amortized to interest expense. EPB completed the advanced refunding in order to take advantage of favorable market conditions resulting in a net decrease in total debt service payments of approximately $1.9 million over the next twenty years and an economic gain of approximately $1.5 million. At June 30, 2011, the balance of the refunded bonds was $22.4 million and is due in $1.6 million annual installments from September 2012 to September 2025.

In April 2008, EPB issued Electric System Revenue Bonds, 2008 Series A, in order to finance the construction of a fiber optic broadband network for the Electric System, including reimbursement for prior expenditures, and various capital improvements to EPB's distribution system, including acquisition of new transformers and the construction of facilities to serve new customers. The $219.8 million par value of the bonds, less underwriter discount and cost of issuance, plus original issue premium netted proceeds of approximately $226.8 million which was deposited to a special construction account. At June 30, 2011, all funds in this construction account had been spent.

The City of Chattanooga has a requirement that if the EPB debt coverage ratio (funds available for servicing debt divided by debt service) associated with the revenue bonds and operations of the Electric System should be below 1.5, EPB will be required to establish and fund a reserve fund. The debt coverage ratio for the year ended June 30, 2011 was 3.1.

In March 2011, a bank loan was obtained for $19.5 million with principal and interest due in sixty equal monthly installments for the benefit of the Telecom System, guaranteed by the revenue and assets of the Telecom System. The purpose of this loan is for repayment of funds borrowed from the Electric System. The outstanding balance bears interest equal to the 30 day LIBOR (London Interbank Offered Rate) plus 2.25%, subject to a 1% floor. At June 30, 2011, the balance on this loan was $18.9 million. Annual maturities on this debt are as follows:

Fiscal Year	Principal	Interest	Total
2012	$ 3,662	$ 570	$ 4,232
2013	3,786	446	4,232
2014	3,913	319	4,232
2015	4,044	188	4,232
2016	3,502	53	3,555
Total	**$18,907**	**$1,576**	**$20,483**

During fiscal years 2011 and 2010, EPB maintained a bank line of credit with the execution of an Electric System Revenue Anticipate Note. The purpose of the note is for financing the purchase of electric power. The note is payable from and secured by a pledge of the net revenues of the electric distribution system, subject to the prior pledge of such revenues in favor of the outstanding bonds. The line of credit was increased to $15 million in 2011 from $10 million in 2010 to reflect increased volatility in purchased power cost. The unpaid principal balance shall bear interest equal to the greater of the prime rate minus 115 basis points or 3.0% per annum. As of June 30, 2011 and 2010, there was no amount outstanding on the note.

During fiscal years 2011 and 2010, a bank line of credit was maintained for $5 million for the benefit of the Telecom System. The line of credit is used for working capital needs. As of June 30, 2011, the line of credit is secured by the revenues and assets of the Telecom System. The outstanding balance shall bear interest equal to 30-day LIBOR (London Interbank Offered Rate) plus 225 basis points, subject to a 1.0% LIBOR floor. At June 30, 2011 and 2010, the outstanding balance under the line of credit was $1.8 million and $2.4 million, respectively. The line of credit was refinanced in March 2011.

7. OTHER LONG TERM LIABILITIES

Sick leave liabilities are composed of short-term and long-term portions. Short-term sick leave liability is included in current liabilities in the other current liabilities category, and long-term sick leave liability is included in long-term liabilities in the deferred credits category. In 2002, the sick leave program was terminated, but employees were permitted to retain any accumulated sick leave hours. During December of each year, employees may elect to convert any unused annual leave hours to sick leave hours on a one for one basis. Under certain conditions employees may use sick leave hours. Annually, employees may elect to be paid at their current rate of pay for up to 48 hours of sick leave at the rate of one hour of pay for two hours of sick leave and for up to an additional 16 hours of sick leave at the rate of one hour of pay for one hour of sick leave. The valuation of the hours eligible for this annual payment is considered a short-term liability. This short-term sick leave liability was $208,000 and $217,000 at June 30, 2011 and 2010, respectively. Also, employees were eligible to be paid upon retirement at the rate of 38% for accumulated sick leave hours at June 30, 2011 and 2010, at their current rate of pay. Total accumulated sick leave hours reduced by the hours eligible for annual payment is considered the hours eligible for pay upon retirement. The valuation of the hours eligible for pay upon retirement is considered a long-term liability. This long-term sick leave liability was $608,000 and $690,000 at June 30, 2011 and 2010, respectively.

8. EMPLOYEE BENEFIT PLANS

PENSION PLAN DESCRIPTION

The Electric Power Board of Chattanooga Retirement Plan (the "Plan") is a single-employer defined benefit pension plan administered by an individual designated by EPB. The Plan provides retirement benefits to plan members. Article VIII of the Plan assigns the authority to establish and amend benefit provisions to EPB. A stand-alone Financial Report is not issued for this plan.

PENSION PLAN FUNDING POLICY

The contribution requirements of plan members and EPB are established and may be amended by EPB. Plan members are not required to contribute to the Plan. EPB's contributions are calculated based on an actuarially determined rate, which is currently 9.71% of annual covered payroll.

PENSION PLAN INVESTMENT POLICY

The investment objective of the Electric Power Board of Chattanooga Retirement Plan Fund is to attain a favorable absolute return for the entire fund, consistent with preservation of capital with some emphasis on long-term growth. The table below lists the allowable asset mix of the fund.

	Equity	Bonds	Cash Equivalents	Real Estate	Hedge Strategies
Minimum	20%	20%	0%	0%	0%
Maximum	80%	80%	15%	15%	20%

ANNUAL PENSION COST AND NET PENSION OBLIGATION

EPB's annual pension cost of the Plan year was approximately $2.9 million in FY 2011 and $2.2 million in FY 2010. The Plan paid retirement benefits of approximately $6.1 million in FY 2011 and $4.0 million in FY 2010. The annual required contribution was determined as part of an actuarial valuation performed as of August 1, 2010, using the aggregate cost method. The aggregate cost method does not identify or separately amortize unfunded actuarial liabilities. For that reason, the information about the funded status and funding progress has been prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funding progress of the plan. Significant actuarial assumptions used in the valuation included (a) a rate of return on the investment of present and future assets of 7.5% per year compounded annually, (b) projected salary increases of 3.0% per year compounded annually, (c) no postretirement benefit increases, and (d) a discount rate of 7.5% for preretirement and a blend of 7.5% and 4.0% for post-retirement. The schedule of funding progress presents multi-year information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. EPB has contributed the annual required contributions as calculated by actuarial valuation. Therefore, EPB has no net pension obligation at June 30, 2011 and 2010. The projection of future benefit payments for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations. The estimated annual contribution for 2012 is $2.9 million.

Schedule of Funding Progress for the Pension Plan (Amounts are in Thousands)

Actuarial Valuation Date	1 Actuarial Value of Plan Assets	2 Actuarial Accrued Liabilitv (AAL)	3 Unfund ed AAL (UAAL) *(2-1)*	4 Funded Ratio *(1/2)*	5 Annual Covered Payroll	6 UAAL as % of Covered Payroll *(3/5)*
8/1/10	$ 30,516	$ 37,496	$ 6,980	81.4%	$ 28,267	24.7%
8/1/09	30,259	34,299	4,040	88.2%	25,629	15.8%
8/1/08	30,645	36,740	6,095	83.4%	24,276	25.1%
8/1/07	30,421	33,680	3,259	90.3%	24,234	13.5%
8/1/06	25,580	25,580	–	100.0%	22,743	0.0%

Schedule of Employer Contributions
(Amounts are in Thousands)

Actuarial Valuation Date	Annual Required Contribution	Actual Contribution	Percentage Contributed
8/1/10	$ 2,726	$ 2,726	100.0%
8/1/09	2,048	2,500	122.1%
8/1/08	2,406	2,500	103.9%
8/1/07	2,030	2,500	123.1%
8/1/06	2,500	2,500	100.0%

Estimated Future Benefit Payments
(Amounts are in Thousands)

Date	Pension Benefits
2012	$ 2,479
2013	2,825
2014	4,124
2015	5,144
2016	5,753
2017-2021	34,640

401(K) PLAN

Effective August 1, 1984, EPB implemented a 401(k) defined contribution plan, the EPB Retirement Savings Plan, which allows employees to invest up to 15.0% of their salary in a tax-deferred savings plan. EPB contributes up to 4.0% of an employee's salary after one year of employment. All employees who have completed three months of employment and have attained age 18 are eligible to participate in the 401(k) defined contribution plan. Participating employees are immediately fully vested in EPB contributions, which amounted to approximately $951,000 and $899,000 in fiscal years 2011 and 2010, respectively. Employee contributions were approximately $2.6 million and $2.3 million in fiscal years 2011 and 2010, respectively. The EPB Retirement Savings Plan is administered by an individual designated by EPB. Article XII of the EPB Retirement Savings Plan assigns the authority to establish and amend the plan to EPB.

9. POSTRETIREMENT BENEFITS

The Electric Power Board of Chattanooga Post Retirement Health and Welfare Benefit Plan ("Plan") is a single-employer defined benefit healthcare and welfare plan administered by an individual designated by EPB. The plan provides health and life insurance benefits. These benefits are subject to deductibles, co-payments provisions, and other limitations. Eligible retirees and their dependents may continue healthcare coverage through EPB, and retirees after July 1, 1994 received a death benefit from the plan. Section 3 of the plan assigns the authority to establish and amend benefit provisions to EPB. A stand-alone Financial Report is not issued for this plan.

The contribution requirements of plan members and EPB are established and may be amended by EPB. Plan members receiving benefits contribute based on retiree's age, retirement date, and years of service. Contribution rates for FY 2011 are as shown in the table below.

Category	**Retirement Before March 1, 1991**	**Retirement on or after March 1, 1991** *Years of Service/Percent of Contributions*				
Pre-Age 65-EPO		**5-9/85%**	**10-14/75%**	**15-19/55%**	**20-24/35%**	**25+/15%**
Individual	$ -	$ 340.00	$ 300.00	$ 220.00	$ 140.00	$ 60.00
Employee +1	-	680.00	600.00	440.00	280.00	120.00
Family	-	1,020.00	900.00	660.00	420.00	180.00
Pre-Age 65-PPO						
Individual	$ -	$ 272.00	$ 240.00	$ 176.00	$112.00	$ 48.00
Employee +1	-	544.00	480.00	352.00	224.00	96.00
Family	-	816.00	720.00	528.00	336.00	144.00
Category	**Retirement Before March 1, 1991**	**Retirement on or after March 1, 1991** *Years of Service/Percent of Contributions*				
Age 65 & Over		**5-9/85%**	**10-14/77.5%**	**15-19/57.5%**	**20-24/37.5%**	**25+/17.5%**
Individual	$ -	$ 129.66	$ 118.22	$ 87.71	$ 57.20	$ 26.69
Spouse	-	129.66	118.22	87.71	57.20	26.69

The required contribution is based on pay-as-you-go financing requirements. For FY 2011, EPB contributed approximately $2.2 million (approximately 88 percent of total claims). Presently, EPB has the option of prefunding a "Voluntary Employees' Beneficiary Association Trust" (VEBA) to pay postretirement benefit claims. During FY 2011, EPB had no additional funding to the VEBA for postretirement benefit claims.

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

The following table shows the components of EPB's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in EPB's net OPEB obligation to the plan (dollar amounts in thousands):

Annual required contribution	$ 1,764
Interest on net OPEB obligation	–
Adjustment to annual required contribution	–
Annual OPEB cost (expense)	1,764
Contributions made	2,206
Decrease in net OPEB obligation	(442)
Net OPEB obligation – beginning of year	9,272
Net OPEB obligation – end of year	**$ 8,830**

EPB's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for FY 2011 and the four preceding years were as follows (dollar amounts in thousands):

FY Ended	Annual OPEB Cost	% of Annual OPEB Cost Contribution	Net OPEB Obligation
6/30/11	$ 1,764	125%	$ 8,830
6/30/10	1,766	93%	9,272
6/30/09	1,864	99%	9,141
6/30/08	1,659	121%	9,121
6/30/07	1,684	114%	9,468

The funded status of the plan as of July 1, 2010, was as follows (dollar amounts are in thousands):

Actuarial accrued liability (AAL)	$ 23,128
Actuarial value of plan assets	$ 13,081
Unfunded actuarial accrued liability (UAAL)	$ 10,047
Funded ratio (actuarial value of plan assets/AAL)	57%
Covered payroll (active plan members)	$ 28,267
UAAL as a percentage of covered payroll	36%

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

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

In the July 1, 2010 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 6.5% investment rate of return, which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 7.5% initially, reduced by decrements of .25% per year to an ultimate rate of 5.5% in 2018. The actuarial value of assets was determined using techniques that spread the effect of short-term volatility in the market value of investments over a three-year period. The UAAL is being amortized as a level dollar. The remaining amortization period at July 1, 2010 was twenty years.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress for Electric Power Board of Chattanooga Postretirement Health and Welfare Benefit Plan (Dollar Amounts are in Thousands)

Actuarial Valuation Date	1 Actuarial Value of Plan Assets	2 Actuarial Accrued Liability (AAL)	3 Unfunded AAL (UAAL) *(2-1)*	4 Funded Ratio *(1/2)*	5 Annual Covered Payroll	6 UAAL as % of Covered Payroll *(3/5)*
7/1/10	$ 13,081	$ 23,128	$ 10,047	56.6%	$ 28,267	35.5%
7/1/09	13,051	24,044	10,993	54.2%	25,629	42.9%
7/1/08	14,675	26,264	11,589	55.8%	24,325	47.6%
7/1/07	14,721	24,857	10,136	59.2%	24,234	41.8%
7/1/06	12,684	28,838	16,154	44.0%	22,743	71.0%

10. COMMITMENTS AND CONTINGENCIES

EPB is party to a contract with TVA dated January 17, 1989, under which the Electric System purchases electric power and energy from TVA for resale. The contract may be terminated by either party at any time upon not less than ten years prior written notice.

EPB is presently involved in certain legal matters, the outcome of which is not presently determinable. It is the opinion of management, based in part on the advice of legal counsel, that these matters will not have a materially adverse effect on the results of operations or the financial position of EPB.

11. RISK MANAGEMENT

Risk of losses for EPB include many different facets: damage to equipment, destruction of assets, torts, theft of equipment or property, errors and omissions, medical benefits, employees' injuries, and disasters from natural causes.

Pursuant to the Tennessee Governmental Tort and Liability Act, EPB's maximum corporate liability is set at $300,000 per person for bodily injury ($700,000 per incident) and $100,000 for destruction of property for incidents occurring after July 1, 2007. EPB has elected to self insure this corporate liability. EPB's commercial property is covered for a total insured value of $119 million subject to a $100,000 deductible.

EPB's Fiber Optics Division is insured with a $2 million aggregate, $4 million umbrella, and is subject to a $2,500 deductible.

Settled claims have not exceeded this commercial coverage in fiscal years 2011 or 2010. There are no significant claims liabilities outstanding at June 30, 2011 and 2010.

EPB continues its self-insured programs for auto liability, on-the-job injuries, and health insurance.

EPB's employee health plan is self funded, subject to stop loss insurance of $150,000 per covered life with an additional $75,000 Aggregating Specific Attachment Point.

Changes in the balances of claims liabilities for these three areas during the fiscal years ended June 30, 2011 and 2010 are as follows (amounts are in thousands):

Unpaid claims, June 30, 2009	$ 2,129
Incurred claims (including IBNRs)	4,781
Claim payments	(5,232)
Unpaid claims, June 30, 2010	**$ 1,678**
Incurred claims (including IBNRs)	4,873
Claim payments	(5,247)
Unpaid claims, June 30, 2011	**$ 1,304**

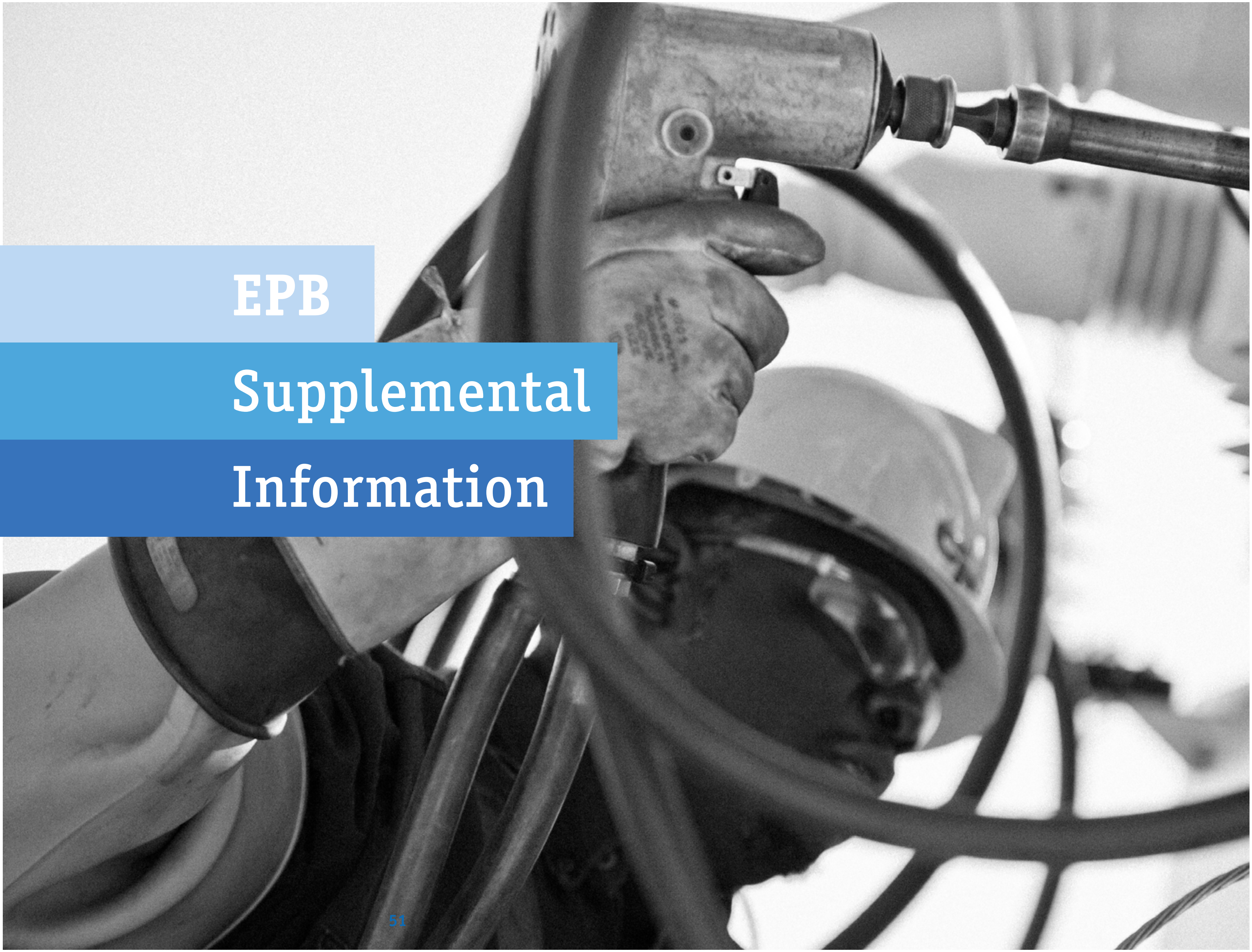
12. U.S. DEPARTMENT OF ENERGY GRANT

In FY 2010, EPB was awarded a $111.6 million Smart Grid Investment Grant from the U.S. Department of Energy. For the fiscal years ended June 30, 2011 and 2010, grant expenditures of $40.4 million and $29.0 million, respectively, were recorded in plant costs and a corresponding $40.4 million and $29.0 million, respectively, were recorded as plant costs recovered through contributions in aid of construction. In FY 2011 and 2010, EPB received $39.0 million and $21.1 million, respectively, in grant reimbursements. At June 30, 2011 and 2010, approximately $9.2 million and $7.9 million, respectively, of EPB costs that had been submitted to the U.S. Department of Energy for reimbursement were outstanding.

13. FEDERAL EMERGENCY MANAGEMENT ASSISTANCE GRANT

During February 2011 and April 2011, EPB sustained extensive power outages and equipment damage as a result of a series of tornados. EPB incurred costs of approximately $28.0 million, to restore power to approximately 191,000 customers, collectively. Due to the significance of the storms and the resulting damage, EPB applied for assistance from the Federal Emergency Management Agency (FEMA). At June 30, 2011, EPB included in grants receivable in the accompanying financial statements grants receivable from FEMA of approximately $19.6 million, which offset incurred maintenance and other operating expenses resulting from the storms.

EPB Supplemental Information



EPB ELECTRIC SYSTEM
SCHEDULE OF BALANCE SHEETS
June 30, 2011 and 2010

The accompanying Notes to Financial Statements are an integral part of these statements.

	2011	2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 98,520,000	$ 141,729,000
Accounts receivable, less allowance for doubtful accounts of $747,000 and $785,000 in 2011 and 2010, respectively	21,090,000	20,360,000
Unbilled electric sales	27,648,000	35,713,000
Grants receivable	28,798,000	7,877,000
Investments, net	5,105,000	37,042,000
Materials and supplies, at average cost	12,523,000	10,727,000
Prepayments and other current assets	13,097,000	4,845,000
	206,781,000	258,293,000
NON-CURRENT ASSETS		
Notes receivable from Fiber Optics System	46,763,000	57,000,000
Utility plant -		
Utility plant	681,360,000	609,227,000
Less - accumulated provision for depreciation	(221,194,000)	(200,751,000)
Net utility plant	460,166,000	408,476,000
Other assets -		
Deferred charges and other non-current assets	2,870,000	3,410,000
Unamortized bond issue cost	2,350,000	2,481,000
TVA discounted energy units	792,000	1,375,000
	512,941,000	472,742,000
TOTAL ASSETS	**$ 719,722,000**	**$ 731,035,000**
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable -		
Tennessee Valley Authority, for power purchased	$ 74,997,000	$ 74,707,000
Other	25,525,000	27,301,000
Customer deposits	2,601,000	2,132,000
Revenue bonds, current portion	2,750,000	2,710,000
Accrued tax equivalents	13,779,000	11,704,000
Accrued interest payable	4,480,000	4,520,000
Other current liabilities	7,869,000	7,595,000
	132,001,000	130,669,000
NON-CURRENT LIABILITIES		
Revenue bonds, net	287,852,000	290,962,000
Deferred refunding	--	(45,000)
Accrued postretirement benefit obligation	7,685,000	8,282,000
Customer deposits	18,655,000	18,036,000
Deferred credits	10,376,000	2,245,000
	324,568,000	319,480,000
NET ASSETS		
Invested in utility plant, net of related debt	240,336,000	239,645,000
Unrestricted	22,817,000	41,241,000
	263,153,000	280,886,000
TOTAL LIABILITIES AND NET ASSETS	**$ 719,722,000**	**$ 731,035,000**

EPB ELECTRIC SYSTEM
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

For the years ended June 30, 2011 and 2010

The accompanying Notes to Financial Statements are an integral part of these statements.

	2011	2010
OPERATING REVENUES		
Electric sales		
Residential	$ 230,678,000	$ 203,737,000
Small commercial	39,597,000	36,165,000
Large commercial	261,549,000	225,063,000
Outdoor lighting systems	6,362,000	5,803,000
Total billed electric sales	538,186,000	470,768,000
Change in unbilled electric sales	(1,832,000)	3,591,000
Less uncollectible electric sales	(772,000)	(592,000)
Total electric sales	535,582,000	473,767,000
Other operating revenues	13,951,000	9,304,000
Total operating revenues	549,533,000	483,071,000
OPERATING EXPENSES		
Operation		
Power purchased from Tennessee Valley Authority	453,780,000	390,597,000
Other operation expenses	37,668,000	37,775,000
Maintenance	28,159,000	18,025,000
Provision for depreciation	26,113,000	22,737,000
City, county, and state tax equivalents	8,602,000	7,867,000
Total operating expenses	554,322,000	477,001,000
Net operating income (loss)	(4,789,000)	6,070,000
OTHER REVENUES (DEDUCTIONS)		
Interest revenue on invested funds	1,035,000	2,998,000
Interest expense on long-term debt	(10,718,000)	(10,916,000)
Intercompany interest	1,897,000	2,587,000
Other, net	62,000	53,000
Plant cost recovered through contributions in aid of construction	(41,010,000)	(29,573,000)
Total other deductions	(48,734,000)	(34,851,000)
LOSS BEFORE TRANSFERS AND CONTRIBUTIONS	(53,523,000)	(28,781,000)
TAX EQUIVALENTS TRANSFERRED TO CITY OF CHATTANOOGA	(5,220,000)	(3,877,000)
CONTRIBUTIONS IN AID OF CONSTRUCTION	41,010,000	29,573,000
CHANGE IN NET ASSETS	(17,733,000)	(3,085,000)
NET ASSETS, BEGINNING OF YEAR	280,886,000	283,971,000
NET ASSETS, END OF YEAR	$ 263,153,000	$ 280,886,000

EPB ELECTRIC SYSTEM
SCHEDULE OF CASH FLOWS

For the years ended June 30, 2011 and 2010

The accompanying Notes to Financial Statements are an integral part of these statements.

		2011		2010
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	$	535,460,000	$	473,524,000
Payments to suppliers for goods and services		(493,189,000)		(406,335,000)
Payments to employees for services		(25,034,000)		(20,371,000)
Payments in lieu of taxes		(11,747,000)		(10,678,000)
Net cash provided by operating activities		5,490,000		36,140,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Additions to utility plant		(118,980,000)		(101,640,000)
Removal cost		(786,000)		(719,000)
Salvage		74,000		450,000
Contributions in aid of construction		41,010,000		29,573,000
Bond principal payment		(2,710,000)		(2,670,000)
Bond interest payment		(13,500,000)		(13,618,000)
Net cash used in capital and related financing activities		(94,892,000)		(88,624,000)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest on investments		1,159,000		3,430,000
Interest from notes to Fiber Optics System		2,746,000		1,879,000
Notes to Fiber Optics System		(13,500,000)		(14,000,000)
Principal received from notes to Fiber Optics System		23,737,000		5,000,000
Purchase of investments		--		(49,200,000)
Sale of investments		32,051,000		121,533,000
Net cash provided by investing activities		46,193,000		68,642,000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(43,209,000)		16,158,000
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		141,729,000		125,571,000
CASH AND CASH EQUIVALENTS, END OF YEAR	$	98,520,000	$	141,729,000
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Net operating income (loss)	$	(4,789,000)	$	6,070,000
Adjustments to reconcile net operating income (loss) to net cash provided by operating activities:				
Depreciation and amortization		26,992,000		23,640,000
Miscellaneous non-operating expense, net		2,620,000		2,815,000
Tax equivalents transferred to City of Chattanooga		(5,220,000)		(3,877,000)
Changes in assets and liabilities:				
Accounts receivable, net		(730,000)		(50,000)
Unbilled electric sales		8,065,000		(3,592,000)
Grants receivable		(20,921,000)		(7,877,000)
Materials and supplies		(1,796,000)		(462,000)
Prepayments and other current assets		(9,339,000)		2,254,000
TVA discounted energy units		583,000		500,000
Deferred charges		540,000		(3,308,000)
Accounts payable, net		(1,486,000)		16,802,000
Customer deposits		1,088,000		1,913,000
Accrued tax equivalents		2,075,000		1,065,000
Other current liabilities		274,000		239,000
Deferred credits		8,131,000		11,000
Accrued postretirement benefit obligation		(597,000)		(3,000)
Net cash provided by operating activities	$	5,490,000	$	36,140,000

EPB FIBER OPTICS SYSTEM
SCHEDULE OF BALANCE SHEETS

June 30, 2011 and 2010

The accompanying Notes to Financial Statements are an integral part of these statements.

	2011	2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 774,000	$ 1,210,000
Accounts receivable, less allowance for doubtful accounts of $754,000 and $261,000 in 2011 and 2010, respectively	2,457,000	2,140,000
Prepayments and other current assets	641,000	325,000
	3,872,000	3,675,000
NON-CURRENT ASSETS		
Utility plant -		
Utility plant	87,473,000	66,484,000
Less - accumulated provision for depreciation	(25,482,000)	(17,346,000)
Net utility plant	61,991,000	49,138,000
Other non-current assets	162,000	56,000
TOTAL ASSETS	$ 66,025,000	52,869,000
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 3,332,000	$ 1,321,000
Accrued tax equivalents	1,412,000	1,223,000
Accrued interest payable	1,024,000	1,815,000
Line of credit	1,752,000	2,433,000
Notes payable - other	3,662,000	--
Other current liabilities	5,381,000	3,988,000
	16,563,000	10,780,000
NON-CURRENT LIABILITIES		
Notes payable to Electric System	46,763,000	57,000,000
Notes payable - other	15,245,000	--
Accrued postretirement benefit obligation	1,145,000	990,000
Deferred credits	1,880,000	916,000
	65,033,000	58,906,000
NET ASSETS		
Invested in utility plant, net of related debt	61,991,000	49,138,000
Unrestricted	(77,562,000)	(65,955,000)
	(15,571,000)	(16,817,000)
TOTAL LIABILITIES AND NET ASSETS	$ 66,025,000	$ 52,869,000

EPB FIBER OPTICS SYSTEM SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

For the years ended June 30, 2011 and 2010

The accompanying Notes to Financial Statements are an integral part of these statements.

	2011	2010
OPERATING REVENUES		
Fiber optics sales		
Commercial basic local services revenue	$ 16,930,000	$ 16,104,000
Commercial long distance message revenue	1,298,000	1,448,000
Residential services revenue	24,323,000	4,043,000
Total billed fiber optics sales	42,551,000	21,595,000
Less uncollectible accounts	(1,562,000)	(378,000)
Total fiber optics sales	40,989,000	21,217,000
Other operating revenue	4,608,000	1,500,000
Total operating revenues	45,597,000	22,717,000
OPERATING EXPENSES		
Cost of services	13,214,000	5,203,000
Operation expenses	17,142,000	9,476,000
General and administrative	2,577,000	2,297,000
Provision for depreciation	8,136,000	5,751,000
City, county, and state tax equivalents	799,000	732,000
Total operating expenses	41,868,000	23,459,000
Net operating income (loss)	3,729,000	(742,000)
OTHER REVENUES (DEDUCTIONS)		
Interest expense on long-term debt and line of credit	(1,870,000)	(2,598,000)
Plant cost recovered through contributions in aid of construction	(57,000)	(2,000)
Total other deductions	(1,927,000)	(2,600,000)
INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS	1,802,000	(3,342,000)
TAX EQUIVALENTS TRANSFERRED TO CITY OF CHATTANOOGA	(613,000)	(490,000)
CONTRIBUTIONS IN AID OF CONSTRUCTION	57,000	2,000
CHANGE IN NET ASSETS	1,246,000	(3,830,000)
NET ASSETS, BEGINNING OF YEAR	(16,817,000)	(12,987,000)
NET ASSETS, END OF YEAR	$ (15,571,000)	$ (16,817,000)

EPB FIBER OPTICS SYSTEM
SCHEDULE OF CASH FLOWS
For the years ended June 30, 2011 and 2010

The accompanying Notes to Financial Statements are an integral part of these statements.

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 47,102,000	$ 21,346,000
Receipts from vendors	35,000	27,000
Payments to suppliers for goods and services	(23,941,000)	(11,582,000)
Payments to employees for services	(6,350,000)	(4,028,000)
Payments in lieu of taxes	(1,222,000)	(953,000)
Net cash provided by operating activities	15,624,000	4,810,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Additions to utility plant	(21,046,000)	(15,156,000)
Contributions in aid of construction	57,000	2,000
Interest paid on notes payable to Electric System	(2,746,000)	(1,879,000)
Interest paid on long-term debt	(112,000)	(11,000)
Interest paid on line of credit	(91,000)	--
Changes in line of credit, net	(681,000)	2,433,000
Debt issuance costs	(111,000)	--
Repayment of notes payable to Electric System	(23,737,000)	(5,000,000)
Borrowings under notes payable to Electric System	13,500,000	14,000,000
Borrowings under long-term debt	19,500,000	--
Repayment of long-term debt	(593,000)	(586,000)
Net cash used in capital and related financing activities	(16,060,000)	(6,197,000)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(436,000)	(1,387,000)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,210,000	2,597,000
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 774,000	$ 1,210,000
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net operating income (loss)	$ 3,729,000	$ (742,000)
Adjustments to reconcile net operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	8,136,000	5,751,000
Miscellaneous non-operating expense, net	293,000	--
Tax equivalents transferred to City of Chattanooga	(613,000)	(490,000)
Changes in assets and liabilities:		
Accounts receivable, net	(317,000)	(1,720,000)
Prepayments and other current assets	(316,000)	(198,000)
Accounts payable, net	2,011,000	(99,000)
Accrued tax equivalents	189,000	270,000
Other current liabilities	1,393,000	988,000
Deferred credits	964,000	916,000
Accrued postretirement benefit obligation	155,000	134,000
Net cash provided by operating activities	$ 15,624,000	$ 4,810,000

EPB TELECOM SYSTEM
SCHEDULE OF BALANCE SHEETS
June 30, 2011 and 2010

The accompanying Notes to Financial Statements are an integral part of these statements.

ASSETS	2011	2010
CURRENT ASSETS		
Cash and cash equivalents	$ 100,000	$ 389,000
Accounts receivable, less allowance for doubtful accounts of $54,000 and $32,000 in 2011 and 2010, respectively	726,000	533,000
Prepayments and other current assets	153,000	138,000
	979,000	1,060,000
NON-CURRENT ASSETS		
Utility plant -		
Utility plant	32,616,000	31,416,000
Less - accumulated provision for depreciation	(17,083,000)	(14,218,000)
Net utility plant	15,533,000	17,198,000
Other non-current assets	106,000	--
TOTAL ASSETS	$ 16,618,000	18,258,000

LIABILITIES AND NET ASSETS	2011	2010
CURRENT LIABILITIES		
Accounts payable	$ 925,000	$ 552,000
Accrued tax equivalents	947,000	929,000
Accrued interest payable	58,000	644,000
Line of credit	1,752,000	2,433,000
Notes payable - other	3,662,000	--
Other current liabilities	562,000	282,000
	7,906,000	4,840,000
NON-CURRENT LIABILITIES		
Notes payable to Electric System	--	23,000,000
Notes payable - other	15,245,000	--
Deferred credits	201,000	232,000
	15,446,000	23,232,000
NET ASSETS		
Invested in utility plant, net of related debt	15,533,000	17,199,000
Unrestricted	(22,267,000)	(27,013,000)
	(6,734,000)	(9,814,000)
TOTAL LIABILITIES AND NET ASSETS	$ 16,618,000	$ 18,258,000

EPB TELECOM SYSTEM
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

For the years ended June 30, 2011 and 2010

The accompanying Notes to Financial Statements are an integral part of these statements.

	2011	2010
OPERATING REVENUES		
Fiber optics sales		
Commercial basic local services revenue	$ 12,411,000	$ 12,947,000
Commercial long distance message revenue	1,298,000	1,448,000
Total billed fiber optics sales	13,709,000	14,395,000
Less uncollectible accounts	(46,000)	(48,000)
Total fiber optics sales	13,663,000	14,347,000
Other operating revenue	1,537,000	907,000
Total operating revenues	15,200,000	15,254,000
OPERATING EXPENSES		
Cost of services	3,054,000	3,035,000
Operation expenses	3,470,000	4,269,000
General and administrative	778,000	623,000
Provision for depreciation	2,865,000	3,021,000
City, county, and state tax equivalents	531,000	560,000
Total operating expenses	10,698,000	11,508,000
Net operating income	4,502,000	3,746,000
OTHER REVENUES (DEDUCTIONS)		
Interest expense on long-term debt and line of credit	(1,006,000)	(1,299,000)
Plant cost recovered through contributions in aid of construction	(57,000)	(2,000)
Total other deductions	(1,063,000)	(1,301,000)
INCOME BEFORE TRANSFERS AND CONTRIBUTIONS	3,439,000	2,445,000
TAX EQUIVALENTS TRANSFERRED TO CITY OF CHATTANOOGA	(416,000)	(369,000)
CONTRIBUTIONS IN AID OF CONSTRUCTION	57,000	2,000
CHANGE IN NET ASSETS	3,080,000	2,078,000
NET ASSETS, BEGINNING OF YEAR	(9,814,000)	(11,892,000)
NET ASSETS, END OF YEAR	$ (6,734,000)	$ (9,814,000)

EPB TELECOM SYSTEM
SCHEDULE OF CASH FLOWS

For the years ended June 30, 2011 and 2010

The accompanying Notes to Financial Statements are an integral part of these statements.

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 15,019,000	$ 14,980,000
Receipts from vendors	35,000	27,000
Payments to suppliers for goods and services	(6,742,000)	(9,499,000)
Payments in lieu of taxes	(929,000)	(946,000)
Net cash provided by operating activities	7,383,000	4,562,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Additions to utility plant	(1,257,000)	(1,284,000)
Contributions in aid of construction	57,000	2,000
Interest paid on notes payable to Electric System	(1,384,000)	(1,288,000)
Interest paid on long-term debt	(112,000)	(11,000)
Interest paid on line of credit	(91,000)	--
Changes in line of credit, net	(681,000)	2,433,000
Debt issuance costs	(111,000)	--
Repayment of notes payable to Electric System	(23,000,000)	(5,000,000)
Borrowings under long-term debt	19,500,000	--
Repayment of long-term debt	(593,000)	(586,000)
Net cash used in capital and related financing activities	(7,672,000)	(5,734,000)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(289,000)**	**(1,172,000)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	389,000	1,561,000
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 100,000	$ 389,000
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net operating income	$ 4,502,000	$ 3,746,000
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation and amortization	2,865,000	3,021,000
Tax equivalents transferred to City of Chattanooga	(416,000)	(369,000)
Changes in assets and liabilities:		
Accounts receivable, net	(193,000)	(292,000)
Prepayments and other current assets	(15,000)	(12,000)
Accounts payable, net	373,000	(1,784,000)
Accrued tax equivalents	18,000	(17,000)
Other current liabilities	280,000	36,000
Deferred credits	(31,000)	233,000
Net cash provided by operating activities	$ 7,383,000	$ 4,562,000

EPB VIDEO & INTERNET SYSTEM
SCHEDULE OF BALANCE SHEETS

June 30, 2011 and 2010

The accompanying Notes to Financial Statements are an integral part of these statements.

	2011	2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 674,000	$ 821,000
Accounts receivable, less allowance for doubtful accounts of $700,000 and $229,000 in 2011 and 2010, respectively	1,731,000	1,607,000
Prepayments and other current assets	488,000	187,000
	2,893,000	2,615,000
NON-CURRENT ASSETS		
Utility plant -		
Utility plant	54,857,000	35,068,000
Less - accumulated provision for depreciation	(8,399,000)	(3,128,000)
Net utility plant	46,458,000	31,940,000
Other non-current assets	56,000	56,000
TOTAL ASSETS	$ 49,407,000	34,611,000
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 2,407,000	$ 769,000
Accrued tax equivalents	465,000	294,000
Accrued interest payable	966,000	1,171,000
Other current liabilities	4,819,000	3,706,000
	8,657,000	5,940,000
NON-CURRENT LIABILITIES		
Notes payable to Electric System	46,763,000	34,000,000
Accrued postretirement benefit obligation	1,145,000	990,000
Deferred credits	1,679,000	684,000
	49,587,000	35,674,000
NET ASSETS		
Invested in utility plant, net of related debt	46,458,000	31,939,000
Unrestricted	(55,295,000)	(38,942,000)
	(8,837,000)	(7,003,000)
TOTAL LIABILITIES AND NET ASSETS	$ 49,407,000	$ 34,611,000

EPB VIDEO & INTERNET SYSTEM SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

For the years ended June 30, 2011 and 2010

The accompanying Notes to Financial Statements are an integral part of these statements.

	2011	2010
OPERATING REVENUES		
Fiber optics sales		
Commercial basic local services revenue	$ 4,519,000	$ 3,157,000
Residential services revenue	24,323,000	4,043,000
Total billed fiber optics sales	28,842,000	7,200,000
Less uncollectible accounts	(1,516,000)	(330,000)
Total fiber optics sales	27,326,000	6,870,000
Other operating revenue	3,071,000	593,000
Total operating revenues	30,397,000	7,463,000
OPERATING EXPENSES		
Cost of services	10,160,000	2,168,000
Operation expenses	13,672,000	5,207,000
General and administrative	1,799,000	1,674,000
Provision for depreciation	5,271,000	2,730,000
City, county, and state tax equivalents	268,000	172,000
Total operating expenses	31,170,000	11,951,000
Net operating loss	(773,000)	(4,488,000)
OTHER REVENUES (DEDUCTIONS)		
Interest expense on long-term debt	(864,000)	(1,299,000)
LOSS BEFORE TRANSFERS	(1,637,000)	(5,787,000)
TAX EQUIVALENTS TRANSFERRED TO CITY OF CHATTANOOGA	(197,000)	(121,000)
CHANGE IN NET ASSETS	(1,834,000)	(5,908,000)
NET ASSETS, BEGINNING OF YEAR	(7,003,000)	(1,095,000)
NET ASSETS, END OF YEAR	$ (8,837,000)	$ (7,003,000)

EPB VIDEO & INTERNET SYSTEM
SCHEDULE OF CASH FLOWS

For the years ended June 30, 2011 and 2010

The accompanying Notes to Financial Statements are an integral part of these statements.

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 32,083,000	$ 6,366,000
Payments to suppliers for goods and services	(17,199,000)	(2,083,000)
Payments to employees for services	(6,350,000)	(4,028,000)
Payments in lieu of taxes	(293,000)	(7,000)
Net cash provided by operating activities	8,241,000	248,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Additions to utility plant	(19,789,000)	(13,872,000)
Interest paid on notes payable to Electric System	(1,362,000)	(591,000)
Repayment of notes payable to Electric System	(737,000)	--
Borrowings under notes payable to Electric System	13,500,000	14,000,000
Net cash used in capital and related financing activities	(8,388,000)	(463,000)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(147,000)**	**(215,000)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	821,000	1,036,000
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 674,000	$ 821,000
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net operating loss	$ (773,000)	$ (4,488,000)
Adjustments to reconcile net operating loss to net cash provided by operating activities:		
Depreciation and amortization	5,271,000	2,730,000
Miscellaneous non-operating expense, net	293,000	--
Tax equivalents transferred to City of Chattanooga	(197,000)	(121,000)
Changes in assets and liabilities:		
Accounts receivable, net	(124,000)	(1,428,000)
Prepayments and other current assets	(301,000)	986,000
Accounts payable, net	1,638,000	513,000
Accrued tax equivalents	171,000	287,000
Other current liabilities	1,113,000	952,000
Deferred credits	995,000	683,000
Accrued postretirement benefit obligation	155,000	134,000
Net cash provided by operating activities	$ 8,241,000	$ 248,000

To the Board of Directors, Electric Power Board of Chattanooga
Chattanooga, Tennessee

INDEPENDENT AUDITOR'S 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

We have audited the financial statements of the Electric Power Board of Chattanooga ("EPB," an enterprise fund of the City of Chattanooga) as of and for the year ended June 30, 2011, and have issued our report thereon dated September 8, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the EPB's internal control over financial reporting as a basis for designing our auditing procedures 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 EPB's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the EPB's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, 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.

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

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Directors, audit committee, management of EPB, and federal and state awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Hazlett, Lewis & Bieter, PLLC

Chattanooga, Tennessee
September 8, 2011