2016

FINANCIAL REPORT

LETTER FROM

JOE FERGUSON AND HAROLD DEPRIEST

August 31, 2016

At EPB, we are proud to present a strong financial report for Fiscal Year 2016 and to highlight some of our most recent achievements in our annual report. We are even prouder to share the stories of the people who have made it all possible. They are our hardworking and dedicated employees, the customers we are honored to serve, and the community at large that inspires us in everything we do.

At the center of our stories are the employees who work to deliver the best products, provide world-class customer service, and make sure our power system is performing to the highest standards. They helped launch our community-wide 10 gigabit Internet service and earned accolades from our customers. They also helped us become the first major utility to earn the PEER energy certification and kept our city powered. Each story in our annual report reflects the accomplishments of our employees and those who have helped make our work matter.

The same can be said about the story of EPB and the services we provide. Whether it is by connecting our schools to new technologies or helping to bring more economic opportunities to our city, critical communication and energy infrastructure is a story worth telling because of what people in our community have been able to achieve with it. These are the people who make our work truly remarkable.

Joe Ferguson ***Harold DePriest***

JOE FERGUSON
Chairman

WARREN LOGAN
Vice Chairman

JON KINSEY
Member

JOHN FOY
Member

VICKY GREGG
Member

HAROLD DEPRIEST
President & CEO

DAVID WADE
Executive VP & COO

GREG EAVES
Executive VP & CFO

KATIE ESPESETH
VP New Products

JIM INGRAHAM
VP Strategic Research

MARIE WEBB
VP Human Resources

DIANA BULLOCK
VP Economic Development & Government Relations

STEVE CLARK
Senior VP Strategic Systems

DANNA BAILEY
VP Corporate Communications

DAVID JOHNSON
VP IT & CIO

KATHY BURNS
Senior VP Customer Relations

J. ED MARSTON
VP Marketing

RYAN KEEL
VP Technical Operations

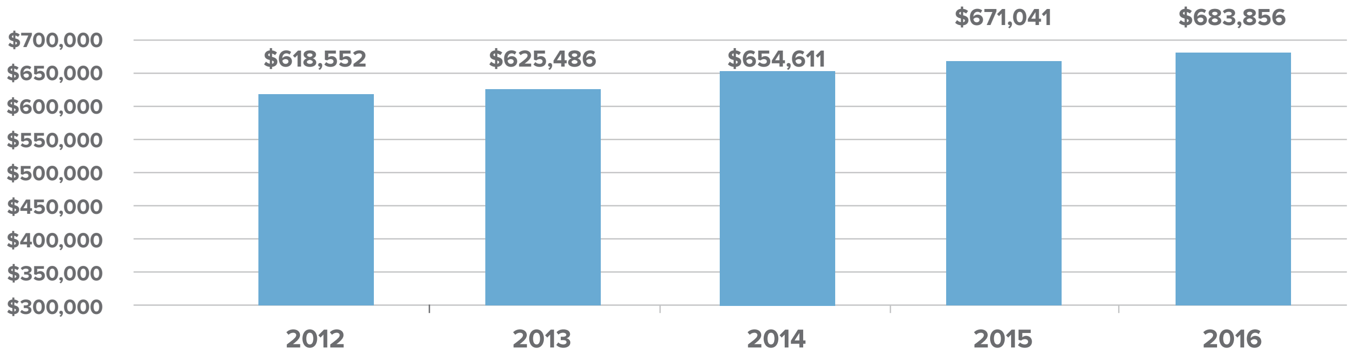
KADE ABED
VP Field Operations

2016

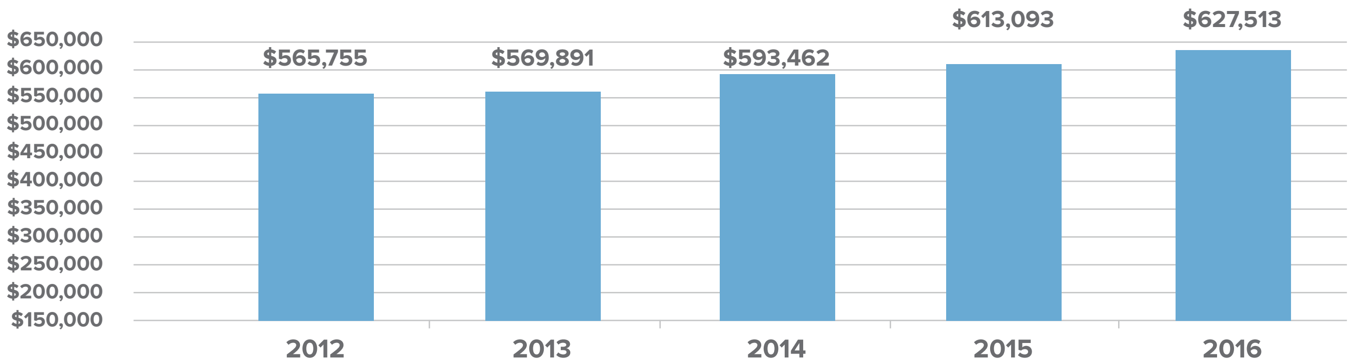
FINANCIAL HIGHLIGHTS

EPB operating revenues were $683.9 million, an increase of 1.9 percent from the previous year. This increase was mainly due to a net increase of approximately $15.8 million in Fiber Optics sales revenues. Net plant value increased to $627.5 million, an increase of 2.4 percent from the previous year. Areas of plant investment included electric overhead and underground line extensions, optical fiber, fiber optics communications equipment, and Smart Grid equipment. EPB is the largest taxpayer in Chattanooga and Hamilton County. The tax equivalents expense and transfers to the cities and counties in EPB's service area totaled $19.4 million, a decrease of 0.2 percent over the prior year and an increase of 15.5 percent in the last five years. These increases are due mainly to the Electric System's capital expenditures on the Smart Grid and the Fiber Optics System's expenditures on communications equipment.

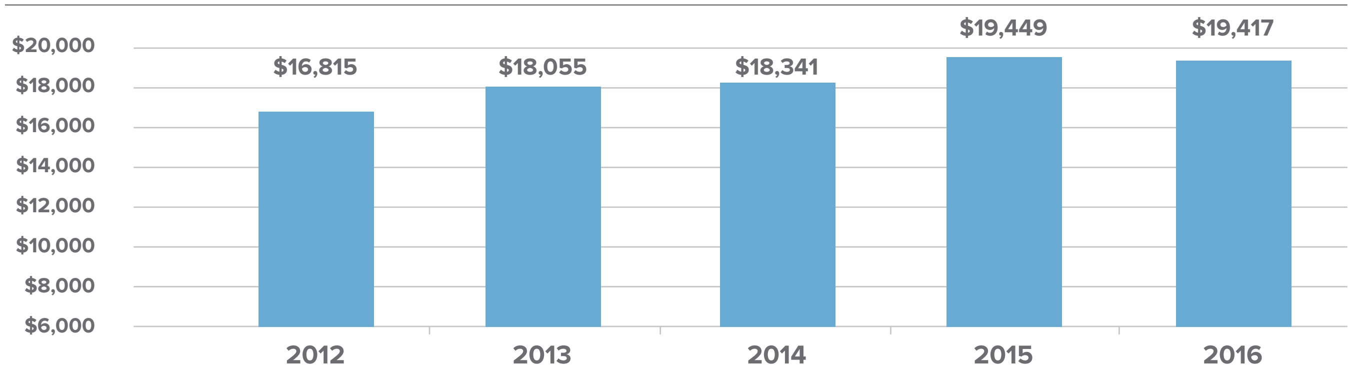
OPERATING REVENUES (In Thousands)



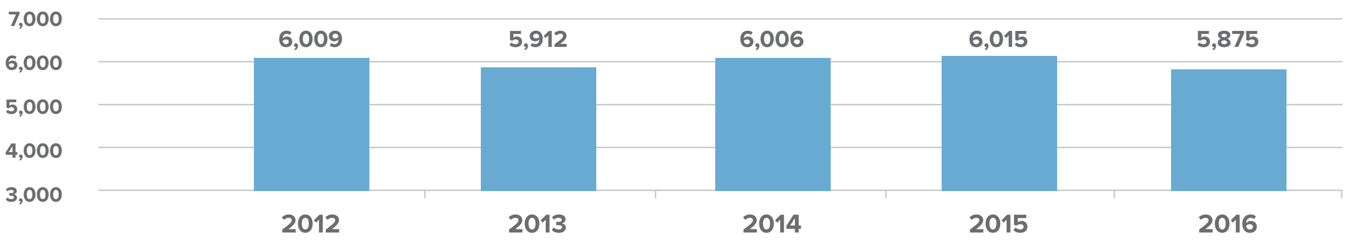
NET PLANT VALUE (In Thousands)



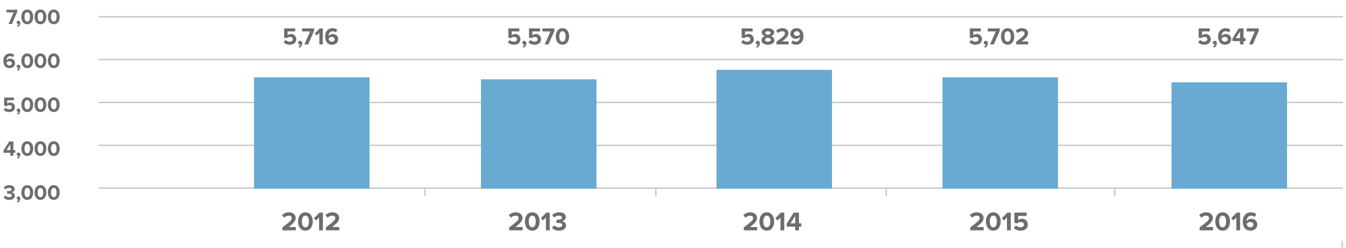
TAX EQUIVALENTS EXPENSE AND TRANSFERS (In Thousands)



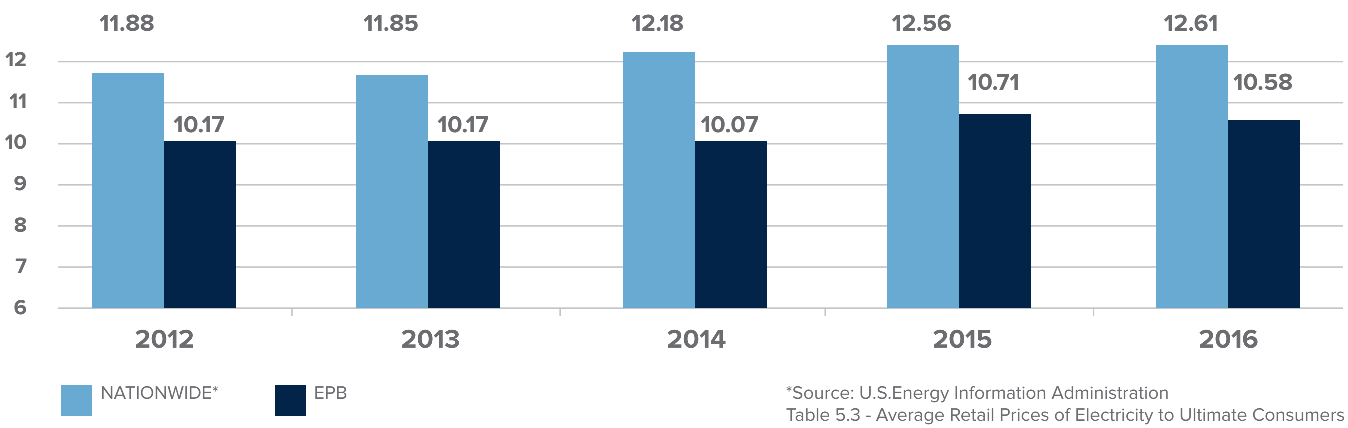
KILOWATT HOURS PURCHASED (In Millions)



KILOWATT HOURS SALES (In Millions)



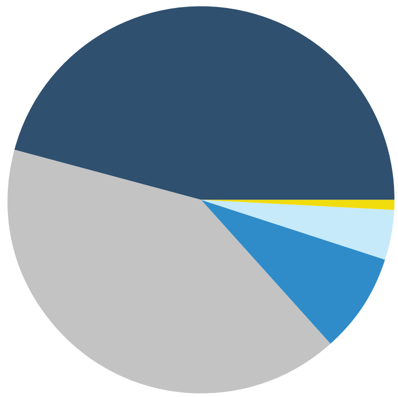
AVERAGE COST PER KWH PER RESIDENTIAL CUSTOMER (In Cents)



*Source: U.S.Energy Information Administration
Table 5.3 - Average Retail Prices of Electricity to Ultimate Consumers

EPB provided electric service to 180,262 customers in a 600 square mile area – an increase of 1,973 customers from FY 2015. Billed electric sales revenue for these customers resulted in $541.1 million and other revenue of $23.2 million. Residential customers paid an average of 10.58 cents per kwh – 16.1 percent less than the national average. Net electric plant value totaled $547.7 million while transfers to the City of Chattanooga and electric expenses totaled $555.8 million.

ELECTRIC REVENUES



Large Commercial
$257,812,000 **46%**

Residential
$229,934,000 **41%**

Small Commercial
$47,309,000 **8%**

Other
$23,168,000 **4%**

Outdoor Lighting Systems
$6,057,000 **1%**

ELECTRIC NET PLANT

Distribution
$417,966,000 **76%**

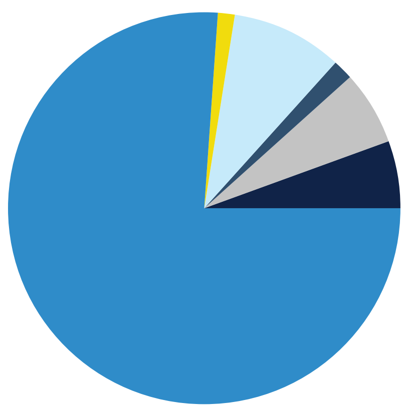
Buildings & Improvements
$51,111,000 **9%**

Transmission
$29,996,000 **6%**

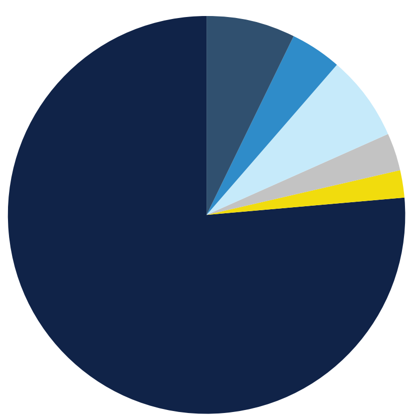
Furniture, Fixtures & Equipment
$33,387,000 **6%**

Construction Work in Progress
$8,705,000 **2%**

Other
$6,550,000 **1%**



ELECTRIC EXPENSES AND TRANSFERS TO THE CITY OF CHATTANOOGA



Purchased Power
$424,355,000 **76%**

Operation Expenses
$40,953,000 **8%**

Provision for Depreciation
$38,281,000 **7%**

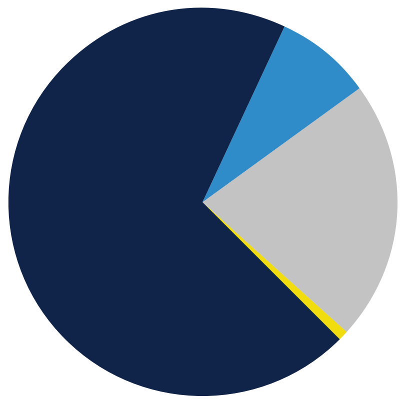
Maintenance Expenses
$22,922,000 **4%**

Tax Equivalents
$17,823,000 **3%**

Interest Expense
$11,444,000 **2%**

EPB Fiber Optics System increased its revenue from $118.2 million in FY 2015 to $135.0 million in FY 2016 an increase of $16.7 million or 12.4 percent. This increase in revenues is due mainly to the growth in the number of customers for Fiber Optics residential services from 67,000 to 77,000 during FY 2016. The net plant grew from $77.3 million in FY 2015 to $ 79.8 million in FY 2016, an increase of 3.2 percent. 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 additional residential and commercial customers added during FY 2016. Fiber Optics expenses and transfers to the City of Chattanooga totaled $111.4 million.

FIBER OPTICS REVENUES



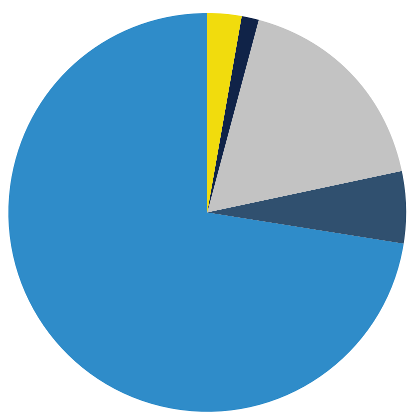
Residential Services Revenue
$93,748,000 **69%**

Commercial Basic Local Services Revenue
$29,489,000 **22%**

Other Revenue
$10,871,000 **8%**

Commercial Long Distance Message Revenue
$865,000 **1%**

FIBER OPTICS NET PLANT



Cable & Wire Facilities & Customer Premises
$57,809,000 **72%**

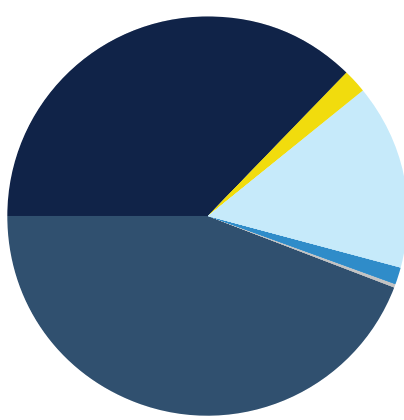
Central Office Equipment
$13,997,000 **18%**

Information Origination/Termination
$4,516,000 **6%**

Furniture, Equipment and Leasehold Improvements
$2,383,000 **3%**

Construction Work in Progress
$1,093,000 **1%**

FIBER OPTICS EXPENSES AND TRANSFERS TO THE CITY OF CHATTANOOGA



Cost of Services
$49,090,000 **44%**

Operation Expenses
$41,484,000 **37%**

Provision for Depreciation
$16,595,000 **14%**

General and Administrative
$2,339,000 **2%**

Tax Equivalents
$1,594,000 **2%**

Interest Expense
$291,000 **1%**

MAULDIN & JENKINS

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

Report 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, Tennessee), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise EPB's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of EPB as of June 30, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior Period Financial Statement

The financial statements of EPB as of, and for the year ended, June 30, 2015, were audited by other auditors whose report dated September 11, 2015, expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, Schedule of EPB Contributions to Pension Plan, Schedule of Changes in Net Pension Liability and Related Parties, and Schedule of Funding Progress for Post-Employee Health and Welfare Benefit Plan on pages 15-22, 47 and 48, respectively be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise EPB's basic financial statements. The Supplemental Schedules for Electric, Telecom, Video and Internet, and Fiber Optics Systems, Schedule of Expenditures of Federal Awards, Schedule of Bonds Payable, Letter from Joe Ferguson and Harold Depriest, Board of Directors, EPB Senior Management, and EPB Financial Highlights are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Supplemental Schedules for Electric, Telecom, Video and Internet, and Fiber Optics Systems, Schedule of Expenditures of Federal Awards, and Schedule of Bonds Payable are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Schedules for Electric, Telecom, Video and Internet, and Fiber Optics Systems, Schedule of Expenditures of Federal Awards, and Schedule of Bonds Payable, are fairly stated in all material respects, in relation to the basic financial statements as a whole.

The Letter from Joe Ferguson and Harold Depriest, Board of Directors, EPB Senior Management, and EPB Financial Highlights have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Emphasis of Matter

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2016 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering EPB's internal control over financial reporting and compliance.

Mauldin & Jenkins, LLC

Chattanooga, Tennessee
September 22, 2016

MANAGEMENT'S DISCUSSION & 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*. Our discussion and analysis of EPB's financial performance provides an overview of financial activities for the Fiscal Year (FY) ended June 30, 2016. Please read it in conjunction with EPB's financial statements, which follows this section.

FINANCIAL HIGHLIGHTS

- EPB's total net position was $334.2 million, an increase of 10.6%
- During the year electric sales were $539.9 million, a decrease of 0.7%; fiber optics sales were $122.7 million, an increase of 14.8%.
- Total operating expenses were $633.7 million, an increase of approximately $200 thousand.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes Management's Discussion and Analysis Report, the independent auditor'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 Statement of Net Position includes all of EPB's assets, liabilities, and deferred outflows and inflows and provides information about the nature and amounts of investments in resources (assets and deferred outflows) and the obligations to EPB creditors (liabilities and deferred inflows). It also provides the basis for evaluation of the capital structure of EPB and assessing the liquidity and financial flexibility of EPB.

The Statement of Revenues, Expenses, and Changes in Net Position account for all of the current year's revenues and expenses. 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 Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position 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 various components of the changes in net position of EPB. 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 position 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 POSITION

Our analysis begins with a summary of EPB's Statements of Net Position in Table 1.

Table 1
Condensed Statements of Net Position (in thousands of dollars)

	FY 2016	FY 2015	DOLLAR CHANGE	TOTAL PERCENT CHANGE
Assets and Deferred Outflows, Excluding Utility Plant	$ 215,136	$ 176,987	$ 38,149	21.6%
Utility Plant, net	627,513	613,093	14,420	2.4%
Total Assets and Deferred Outflows	842,649	790,080	52,569	6.7%
Bonds Outstanding	307,337	270,393	36,944	13.7%
Other Debt	19,230	36,725	(17,495)	-47.6%
Other Liabilities and Deferred Inflows	181,844	180,806	1,038	0.6%
Total Liabilities and Deferred Inflows	508,411	487,924	20,487	4.2%
Invested in Utility Plant, Net of Related Debt	334,762	342,700	(22,524)	-6.6%
Unrestricted Net Position	(524)	(40,544)	54,606	134.7%
Total Net Position	$ 334,238	$ 302,156	$ 32,082	10.6%

The table above shows net position increased $32.1 million to $334.2 million in FY 2016, up from $302.2 million in FY 2015. The largest changes in net position were due to an increase in Cash of $22.7 million, $14.4 million in Utility Plant, $14.6 million in Deferred Bond Defeasance, and a reduction of Fiber Optics Debt of $17.5 million, offset by an increase in Electric bond liabilities of $36.9 million. Other changes represented a net decrease in position of $0.2 million.

Table 2
Condensed Statements of Revenues, Expenses, and Changes in Net Position (in thousands of dollars)

	FY 2016	FY 2015	DOLLAR CHANGE	TOTAL PERCENT CHANGE
Operating Revenues:				
Electric Sales	$ 539,908	$ 543,843	$ (3,935)	-0.7%
Fiber Optic Sales	122,695	106,849	15,846	14.8%
Other Operating Revenues	21,253	20,349	904	4.4%
Total	683,856	671,041	12,815	1.9%
Operating Expenses:				
Electric	487,692	500,962	(13,270)	-2.6%
Fiber Optics	78,530	69,177	9,353	13.5%
Tax Equivalents	12,580	12,540	40	0.3%
Provision for Depreciation	54,876	50,766	4,110	8.1%
Total	633,678	633,445	233	0.1%
Other Deductions	(12,124)	(14,292)	2,168	-15.2%
Income before Transfers and Contributions	38,054	23,304	14,750	63.3%
Tax Equivalents Transferred to the City of Chattanooga	(6,837)	(6,909)	72	-1.0%
Contributions	865	738	127	17.2%
Change in Net Position	32,082	17,133	14,949	87.3%
Beginning Net Position	302,156	285,023	17,133	6.0%
Ending Net Position	$ 334,238	$ 302,156	$ 32,082	10.6%

While the Statements of Net Position show the change in net position, the Statements of Revenues, Expenses, and Changes in Net Position provide answers as to the nature and source of these changes. As shown in Table 2 above, the income before transfers and contributions of $38.0 million combined with the contributions in aid of construction of $0.9 million and tax equivalents of $6.8 million accrued to the City of Chattanooga, resulted in an increase in net position of $32.1 million for FY 2016.

A closer examination of the sources of changes in net position reveals electric sales decreased $3.9 million. Additionally, electric operating expenses, excluding depreciation and tax equivalents, decreased by $13.3 million in FY 2016 to $487.7 million from $501.0 million in FY 2015.

Fiber Optics operating sales increased by $15.8 million to $122.7 million in FY 2016 from $106.8 million in FY 2015 due to the continued success of the commercial and 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 $9.4 million, a 13.5% increase in FY 2016 due mainly to increased expense allocations from the Electric System for shared resources and access to the fiber network of $2.1 million, as well as an increase of $6.2 million in cost of goods sold, related to the increase of over 10,000 new customers during the year.

Depreciation expense increased to $54.9 million in FY 2016 from $50.8 million in FY 2015, an increase of 8.1%. This increase is the result of both Electric and Fiber Optics Systems utility plant growth.

Expenses for tax equivalents and transfers to municipal governments including transfers to the City of Chattanooga remained at $19.4 million in FY 2016 and FY 2015. 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 2016 budget comparison and analysis is presented in Table 3. Intercompany activity was eliminated from the budget figures for proper comparison to the actual consolidated balances.

Table 3
Actual vs. Budget (in thousands of dollars)

	ACTUAL FY 2016	BUDGET FY 2016	DOLLAR CHANGE	TOTAL PERCENT CHANGE
Operating Revenues:				
Electric Sales	$ 539,908	$ 563,961	$ (24,053)	-4.3%
Other Electrical Revenue	9,513	9,159	354	3.9%
Subtotal	549,421	573,120	(23,699)	-4.1%
Fiber Optics Sales	122,695	120,959	1,736	1.4%
Other Fiber Optics Revenue	11,740	10,143	1,597	15.7%
Subtotal	134,435	131,102	3,333	2.5%
Total	**683,856**	**704,222**	**(20,366)**	**-2.9%**
Operating Expenses:				
Electric	487,692	507,258	(19,566)	-3.9%
Fiber Optics	78,530	80,787	(2,257)	-2.8%
Provision for Depreciation	54,876	54,201	675	1.2%
Tax Equivalents	12,580	12,630	(50)	-0.4%
Total	**633,678**	**654,876**	**(21,198)**	**-3.2%**
Other Deductions	(12,124)	(19,231)	7,107	-37.0%
Income before Transfers and Contributions	38,054	30,115	7,939	26.4%
Tax Equivalents Transferred to the City of Chattanooga	(6,837)	(6,866)	29	-0.4%
Contributions	865	2,518	(1,653)	-65.6%
Change in Net Position	**$ 32,082**	**$ 25,767**	**$ 6,315**	**24.5%**
Capital Expenditures (net of contributions)				
Electric	$ 51,278	$ 49,174	$ 2,104	4.3%
Fiber Optics	19,136	17,542	1,594	9.1%
Total Capital Expenditures	**$ 70,414**	**$ 66,716**	**$ 3,698**	**5.5%**

The Electric System's sales revenues were $23.7 million below budget due mainly to milder weather throughout FY 2016. Electric operating expenses were lower than budget by $19.6 million due mainly to purchased power expense, transfers and overheads, as well as budgeted storm expenses not fully utilized through the year.

The Fiber Optics System's net operating revenues were over budget by $3.3 million, an increase of 2.5% due mainly to more customers being added in FY 2016 than budgeted. Fiber Optics System's expenses were lower than budget by $2.3 million, a decrease of 2.8% also due to lower than budgeted cost of goods sold and software expenses.

UTILITY PLANT

At the end of FY 2016, EPB had $627.5 million in net utility plant as shown 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 2016	FY 2015	DOLLAR CHANGE	TOTAL PERCENT CHANGE
Electric				
Intangible Plant	$ 113	$ 125	$ (12)	-9.6%
Transmission	56,778	58,777	(1,999)	-3.4%
Distribution	628,173	607,781	20,392	3.4%
Land & land rights	6,476	6,476	-	0.0%
Buildings & improvements	71,836	72,446	(610)	-0.8%
Furniture, fixtures & equipment	72,900	69,336	3,564	5.1%
Construction work in progress	8,705	9,997	(1,292)	-12.9%
Total	844,981	824,938	20,043	2.4%
Less: Accumulated depreciation	(297,266)	(289,101)	(8,165)	2.8%
Electric Total	**547,715**	**535,837**	**11,878**	**2.2%**
Fiber Optics				
Central office equipment	32,949	32,974	(25)	-0.1%
Information origination/termination	6,942	7,525	(583)	-7.7%
Cable & wire facilities	5,016	7,361	(2,345)	-31.9%
Furniture, fixtures & equipment	6,168	6,343	(175)	-2.8%
Customer premises wiring	66,140	48,733	17,407	35.7%
Customer premises equipment	10,016	17,175	(7,159)	-41.7%
Construction work in progress	1,093	1,305	(212)	-16.2%
Total	128,324	121,416	6,908	5.7%
Less: Accumulated depreciation	(48,526)	(44,160)	(4,366)	9.9%
Fiber Optics Total	**79,798**	**77,256**	**2,542**	**3.3%**
Net Utility Plant	**$ 627,513**	**$ 613,093**	**$ 14,420**	**2.4%**

DEBT ADMINISTRATION

As of year-end, EPB Electric System had $307.3 million in bond debt outstanding compared to $270.4 million last year. These bonds were rated AA+ by Standard & Poor's and Fitch at fiscal year-end. During FY 2016, EPB refinanced the majority of these bonds to take advantage of lower market interest rates. This refinance resulted in estimated present value interest savings of approximately $19.8 million.

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 1.5x, 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 3.8x. The increase in the debt coverage ratio is due to the decrease in in operating expenses realized in FY 2016 and increased funds available for debt service.

Table 5
Electric System Debt Coverage Analysis (in thousands of dollars)

	FY 2016	FY 2015
Revenues		
Electric Revenue	$ 563,804	$ 567,121
Interest Income	272	197
Other Income	204	210
Total Revenue	**564,280**	**567,528**
Expenses		
Purchased Power	424,355	443,970
Operating Expenses	62,746	56,171
Total Operation Expenses	**487,101**	**500,141**
(excluding depreciation and tax equivalent payments)		
Funds Available for Debt Service	$ 77,179	$ 67,387
Debt Service		
Interest Paid on Long-Term Debt	$ 12,371	$ 12,832
Principal Payments	8,075	7,040
Total Debt Service	**$ 20,446**	**$ 19,872**
Debt Coverage Ratio	3.8	3.4

The Video and Internet System line of credit was replaced by a new $60.0 million line of credit in FY 2015 which matures in December of 2017. The balance of the lines of credit at the end of FY 2016 and 2015 were $19.2 million and $36.7 million, respectively.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

EPB's Board of Directors and Management considered many factors when setting FY 2017 budget and rates. One of those factors is the local economy and EPB's related impact on local industries. EPB's budget is based upon a statistical model using nine 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.

In FY 2017, 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. EPB Fiber Optics had approximately 83,000 residential and business customers at the end of FY 2016 and is projected to have over 87,000 by the end of FY 2017.

The EPB Electric Systems budget for FY 2017 includes the allocation of capital for fiber installations to support the Smart Grid, as well as IT system upgrades and integrations. The budget also includes capital allocations to account for steadily increasing residential and commercial growth.

Capital investments for the Fiber Optics System will focus on our increasing residential and business customer bases through significant video upgrades as well as the purchase of equipment to support the success of our hosted telephone solution.

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.

FINANCIAL STATEMENTS

EPB STATEMENTS OF NET POSITION AS OF JUNE 30, 2016 AND 2015

	2016	2015
ASSETS AND DEFERRED OUTFLOWS		
CURRENT ASSETS		
Cash and cash equivalents	$ 101,573,000	$ 78,918,000
Accounts receivable, less allowance for doubtful accounts of $1,256,000 and $1,300,000 in 2016 and 2015, respectively	26,934,000	27,550,000
Unbilled electric sales	36,492,000	37,096,000
Grants receivable	--	4,819,000
Materials and supplies, at average cost	13,293,000	13,066,000
Prepayments and other current assets	6,596,000	5,765,000
	184,888,000	167,214,000
NON-CURRENT ASSETS		
Investments	5,000,000	--
Utility plant -		
Utility plant	973,305,000	946,354,000
Less - accumulated provision for depreciation	(345,792,000)	(333,261,000)
Net utility plant	627,513,000	613,093,000
Other non-current assets	2,532,000	2,676,000
	635,045,000	615,769,000
DEFERRED OUTFLOWS OF RESOURCES		
Deferred pension outflows	8,130,000	7,097,000
Deferred bond defeasance outflows	14,586,000	--
	22,716,000	7,097,000
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 842,649,000	$ 790,080,000
LIABILITIES, DEFERRED INFLOWS AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable -		
Tennessee Valley Authority, for power purchased	$ 73,692,000	$ 77,469,000
Other	18,008,000	15,416,000
Customer deposits	4,602,000	3,239,000
Revenue bonds, current portion	9,560,000	8,075,000
Accrued tax equivalents	19,265,000	19,318,000
Accrued interest payable	4,108,000	4,345,000
Other current liabilities	13,532,000	12,307,000
	142,767,000	140,169,000
NON-CURRENT LIABILITIES		
Revenue bonds, net	297,777,000	262,318,000
Net pension liability	7,768,000	6,134,000
Line of credit	19,230,000	36,725,000
Accrued post-employment benefit obligation	8,921,000	8,894,000
Customer deposits	20,117,000	22,176,000
Other non-current liabilities	10,818,000	9,082,000
	364,631,000	345,329,000
DEFERRED INFLOWS OF RESOURCES		
Deferred pension inflows	1,013,000	2,426,000
NET POSITION		
Net investment in capital assets	334,762,000	342,700,000
Unrestricted	(524,000)	(40,544,000)
	334,238,000	302,156,000
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	$ 842,649,000	$ 790,080,000

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

EPB STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
OPERATING REVENUES		
Electric sales		
Residential	$ 229,934,000	$ 231,864,000
Small commercial and power	47,309,000	45,460,000
Large commercial and power	257,812,000	256,158,000
Outdoor lighting systems	6,057,000	6,069,000
Total billed electric sales	541,112,000	539,551,000
Change in unbilled electric sales	(604,000)	4,902,000
Less uncollectible electric sales	(600,000)	(610,000)
Total electric sales	539,908,000	543,843,000
Fiber optics sales		
Billed fiber optics revenues	123,564,000	107,708,000
Less uncollectible fiber optics revenues	(869,000)	(859,000)
Total fiber optics sales	122,695,000	106,849,000
Other operating revenues	21,253,000	20,349,000
Total operating revenues	683,856,000	671,041,000
OPERATING EXPENSES		
Operation		
Power purchased from Tennessee Valley Authority	424,355,000	443,970,000
Other operation expenses	40,415,000	34,969,000
Maintenance	22,922,000	22,023,000
Fiber optic operating expenses	78,530,000	69,177,000
Provision for depreciation	54,876,000	50,766,000
City, county, and state tax equivalents	12,580,000	12,540,000
Total operating expenses	633,678,000	633,445,000
Net operating income	50,178,000	37,596,000
NON-OPERATING REVENUES (EXPENSES)		
Interest revenue on invested funds	272,000	197,000
Interest expense	(11,735,000)	(13,961,000)
Other, net	204,000	210,000
Plant cost recovered through contributions in aid of construction	(865,000)	(738,000)
Total non-operating revenues (expenses)	(12,124,000)	(14,292,000)
INCOME BEFORE TRANSFERS AND CONTRIBUTIONS	38,054,000	23,304,000
TAX EQUIVALENTS TRANSFERRED TO THE CITY OF CHATTANOOGA	(6,837,000)	(6,909,000)
CONTRIBUTIONS IN AID OF CONSTRUCTION	865,000	738,000
CHANGE IN NET POSITION	32,082,000	17,133,000
NET POSITION, BEGINNING OF YEAR	302,156,000	285,023,000
NET POSITION, END OF YEAR	$ 334,238,000	$ 302,156,000

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

EPB STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 688,015,000	$ 686,859,000
Payments to suppliers for goods and services	(519,867,000)	(544,365,000)
Payments to employees for services	(42,944,000)	(38,472,000)
Payments in lieu of taxes	(19,470,000)	(18,402,000)
Net cash provided by operating activities	105,734,000	85,620,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Additions to utility plant	(70,803,000)	(71,535,000)
Removal cost	(544,000)	(910,000)
Salvage	497,000	464,000
Contributions in aid of construction	865,000	738,000
Interest paid on debt	(432,000)	(1,082,000)
Change in line of credit, net	(17,495,000)	(9,382,000)
Debt issuance cost	(1,246,000)	--
Receipts from Refunding Bond Issue	262,716,000	--
Receipts from Bond Issue	30,122,000	--
Payment to Refund Bond Escrow Agent	(266,997,000)	--
Repayments of long term debt	--	(4,777,000)
Bond principal payment	(8,075,000)	(7,040,000)
Bond interest payment	(6,959,000)	(12,832,000)
Net cash used in capital and related financing activities	(78,351,000)	(106,356,000)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(5,000,000)	--
Interest on investments	272,000	197,000
Net cash provided by (used in) investing activities	(4,728,000)	197,000
NET CHANGE IN CASH AND CASH EQUIVALENTS	**22,655,000**	**(20,539,000)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	78,918,000	99,457,000
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 101,573,000	$ 78,918,000
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net operating income	$ 50,178,000	$ 37,596,000
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation and amortization	56,004,000	51,910,000
Miscellaneous non-operating expenses, net	204,000	210,000
Tax equivalents transferred to the City of Chattanooga	(6,837,000)	(6,909,000)
Changes in assets and liabilities:		
Accounts receivable, net	616,000	4,846,000
Unbilled electric sales	604,000	(4,902,000)
Grants receivable	4,819,000	1,875,000
Materials and supplies	(227,000)	(257,000)
Prepayments and other current assets	(831,000)	396,000
Other charges	144,000	(96,000)
Accounts payable, net	(367,000)	(1,384,000)
Customer deposits	(696,000)	633,000
Accrued tax equivalents	(53,000)	1,045,000
Other current liabilities	1,225,000	2,035,000
Other credits	1,736,000	(194,000)
Net pension liability	(812,000)	(713,000)
Accrued post-employment benefit obligation	27,000	(471,000)
Net cash provided by operating activities	$ 105,734,000	$ 85,620,000

* *The accompanying Notes to Financial Statements are an integral part of these 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 provides electric power (the "Electric System") to nearly 180,000 homes and businesses in a 600 square-mile area that includes greater Chattanooga, as well as parts of surrounding counties and areas of North 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 2016, EPB had over 76,800 residential customers and 6,300 business customers in the Telecom and Video & Internet Systems. Supplementary data for the Electric System, Telecom System, Video & Internet System and Fiber Optics System (consolidated 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 inter-system 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.

In FY 2015, EPB implemented GASB Statement No. 68 *Accounting and Financial Reporting for Pensions*. The objective of this statement is to improve accounting and financial reporting by state and local governments for pensions.

In FY 2016, EPB implemented GASB Statement No. 72 *Fair Value Measurement and Application*. The objective of this statement is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements.

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, deferred outflows of resources, liabilities, and deferred inflows of resources 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.

Financial Instruments

Financial instruments of EPB may 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 fair value. All other financial instruments are carried at fair value as determined by market prices at June 30, 2016 and 2015.

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 5.90% in 2016 and 5.69% in 2015.

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. 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 2016 and 2015, AFUDC increased the plant balance and decreased interest expense by $0.4 million and $0.3 million, respectively.

Revenues and Expenses

Electric 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.

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

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Electric Power Board of Chattanooga Retirement Plan (the "Plan") and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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. The LGIP, money market, and certificate of deposit accounts are classified as cash and cash equivalents for reporting purposes.

At June 30, 2016, EPB had the following investments and maturities (in thousands):

INVESTMENT	FAIR VALUE OR CARRYING AMOUNT	MATURITIES LESS THAN 1 YEAR	MATURITIES 1 YEAR UP TO LESS THAN 2 YEARS	MATURITIES 2 YEARS UP TO LESS THAN 3 YEARS
Local Government Investment Pool (LGIP)	$ 213	$ 213	$ -	$ -
Money Market Accounts	76,458	76,458	-	-
Certificates of Deposit	10,110	10,110	-	-
Bonds	5,000	-	-	5,000
Total	$ 91,781	$ 86,781	$ -	$ 5,000

At June 30, 2015, EPB had the following investments and maturities (in thousands):

INVESTMENT	FAIR VALUE OR CARRYING AMOUNT	MATURITIES LESS THAN 1 YEAR	MATURITIES 1 YEAR UP TO LESS THAN 2 YEARS	MATURITIES 2 YEARS UP TO LESS THAN 3 YEARS
Local Government Investment Pool (LGIP)	$ 213	$ 213	$ -	$ -
Money Market Accounts	60,959	60,959	-	-
Certificates of Deposit	10,299	10,299	-	-
Total	$ 71,471	$ 71,471	$ -	$ -

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 years without approval of the State Director of Local Finance or as otherwise provided by State Statute. Investments at June 30, 2016 and 2015 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.

Fair Value Measurements

EPB categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

EPB has the following recurring fair value measurements as of June 30, 2016:

- Federal National Mortgage Agency bonds of $5 million are valued using a matrix pricing model (Level 2 inputs).

Custodial Credit Risk

At June 30, 2016 and 2015, 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, 2016 and 2015, 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, 2016 and 2015 were as follows:

ISSUER	INVESTMENT TYPE	JUNE 30, 2016	JUNE 30, 2015
State of Tennessee	Local Government Investment Pool	0.20%	0.30%
BB&T Bank	Money Market Accounts	0.40%	0.75%
Capstar Bank	Money Market Accounts & CD's	27.60%	21.34%
Federal National Mortgage	Bonds	5.40%	0.00%
First Bank	Money Market Accounts	0.30%	0.34%
First Tennessee Bank	Money Market Accounts	15.60%	33.12%
First Volunteer Bank	Money Market Accounts	0.00%	0.01%
FSG Bank	Money Market Accounts	11.20%	0.36%
Northwest Georgia Bank	Money Market Accounts	0.00%	0.35%
Pinnacle Financial Partners	Money Market Accounts	28.80%	36.81%
Regions Bank	Money Market Accounts	0.30%	0.36%
SmartBank	Money Market Accounts & CD's	4.40%	5.58%
Southern Community Bank	Money Market Accounts	5.70%	0.35%
SunTrust Bank	Money Market Accounts	0.10%	0.33%

4. UTILITY PLANT

Electric utility plant assets activity for the year ended June 30, 2016 was as follows (In thousands):

ELECTRIC ASSET COST	JUNE 30, 2015	ADDITIONS	RETIREMENTS AND OTHER	JUNE 30, 2016
Non-Depreciable Assets:				
Land & Land Rights	$ 6,476	$ -	$ -	$ 6,476
Construction Work In Progress	9,997	(1,292)	-	8,705
Depreciable Assets:				
Intangible Plant	125	-	(12)	113
Transmission	58,777	1,558	(3,557)	56,778
Distribution	607,781	41,223	(20,831)	628,173
Buildings & Improvements	72,446	1,608	(2,218)	71,836
Furniture, Fixtures, & Equipment	69,336	7,749	(4,185)	72,900
Electric Total Asset Cost	$ 824,938	$ 50,846	$ (30,803)	$ 844,981

ELECTRIC ACCUMULATED DEPRECIATION	JUNE 30, 2015	ADDITIONS	RETIREMENTS AND OTHER	JUNE 30, 2016
Intangible Plant	$ 39	$ 13	$ (13)	$ 39
Transmission	28,523	1,932	(3,673)	26,782
Distribution	206,670	24,953	(21,416)	210,207
Buildings & Improvements	20,490	2,465	(2,230)	20,725
Furniture, Fixtures, & Equipment	33,379	10,046	(3,912)	39,513
Electric Total Accumulated Depreciation	$ 289,101	$ 39,409	$ (31,244)	$ 297,266
Electric Total Net Utility Plant	$ 535,837	$ 11,437	$ 441	$ 547,715

Electric utility plant assets activity for the year ended June 30, 2015 was as follows (in thousands):

ELECTRIC ASSET COST	JUNE 30, 2014	ADDITIONS	RETIREMENTS AND OTHER	JUNE 30, 2015
Non-Depreciable Assets:				
Land & Land Rights	$ 6,098	$ 378	$ -	$ 6,476
Construction Work In Progress	7,704	2,293	-	9,997
Depreciable Assets:				
Intangible Plant	125	-	-	125
Transmission	57,544	2,110	(877)	58,777
Distribution	582,594	36,991	(11,804)	607,781
Buildings & Improvements	71,228	1,272	(54)	72,446
Furniture, Fixtures, & Equipment	63,848	9,893	(4,405)	69,336
Electric Total Asset Cost	$ 789,141	$ 52,937	$ (17,140)	$ 824,938

ELECTRIC ACCUMULATED DEPRECIATION	JUNE 30, 2014	ADDITIONS	RETIREMENTS AND OTHER	JUNE 30, 2015
Intangible Plant	$ 26	$ 13	$ -	$ 39
Transmission	27,605	1,879	(961)	28,523
Distribution	195,648	23,408	(12,386)	206,670
Buildings & Improvements	18,261	2,423	(194)	20,490
Furniture, Fixtures, & Equipment	29,108	8,666	(4,395)	33,379
Electric Total Accumulated Depreciation	$ 270,648	$ 36,389	$ (17,936)	$ 289,101
Electric Total Net Utility Plant	$ 518,493	$ 16,548	$ 796	$ 535,837

Fiber Optics utility plant assets activity for the year ended June 30, 2016 was as follows (in thousands):

FIBER OPTICS ASSET COST	JUNE 30, 2015	ADDITIONS	RETIREMENTS AND OTHER	JUNE 30, 2016
Non-Depreciable Assets:				
Construction Work In Progress	$ 1,305	$ (212)	$ -	$ 1,093
Depreciable Assets:				
Central Office Equipment	32,974	2,792	(2,817)	32,949
Information Origination/Termination	7,525	1,826	(2,409)	6,942
Cable & Wire Facilities	7,361	50	(2,395)	5,016
Furniture, Fixtures, & Equipment	6,343	1,075	(1,250)	6,168
Customer Premise Wiring	48,733	11,191	6,216	66,140
Customer Premise Equipment	17,175	1,900	(9,059)	10,016
Fiber Optics Total Asset Cost	$ 121,416	$ 18,622	$ (11,714)	$ 128,324

FIBER OPTICS ACCUMULATED DEPRECIATION	JUNE 30, 2015	ADDITIONS	RETIREMENTS AND OTHER	JUNE 30, 2016
Central Office Equipment	$ 18,555	$ 3,214	$ (2,817)	$ 18,952
Information Origination/Termination	3,693	1,142	(2,409)	2,426
Cable & Wire Facilities	3,875	2,403	(2,441)	3,837
Furniture, Fixtures, & Equipment	4,300	735	(1,250)	3,785
Customer Premise Wiring	7,928	8,779	(2,679)	14,028
Customer Premise Equipment	5,809	322	(633)	5,498
Fiber Optics Total Accumulated Depreciation	$ 44,160	$ 16,595	$ (12,229)	$ 48,526
Fiber Optics Total Net Utility Plant	$ 77,256	$ 2,027	$ 515	$ 79,798
Total Net Utility Plant	$ 613,093	$ 13,464	$ 956	$ 627,513

Fiber Optics utility plant assets activity for the year ended June 30, 2015 was as follows (in thousands):

FIBER OPTICS ASSET COST	JUNE 30, 2014	ADDITIONS	RETIREMENTS AND OTHER	JUNE 30, 2015
Non-Depreciable Assets:				
Construction Work In Progress	$ 1,880	$ (575)	$ -	$ 1,305
Depreciable Assets:				
Central Office Equipment	35,075	1,624	(3,725)	32,974
Information Origination/Termination	5,933	2,165	(573)	7,525
Cable & Wire Facilities	7,921	61	(621)	7,361
Furniture, Fixtures, & Equipment	5,898	502	(57)	6,343
Customer Premise Wiring	44,912	3,821	-	48,733
Customer Premise Equipment	8,682	10,047	(1,554)	17,175
Fiber Optics Total Asset Cost	$ 110,301	$ 17,645	$ (6,530)	$ 121,416

FIBER OPTICS ACCUMULATED DEPRECIATION	JUNE 30, 2014	ADDITIONS	RETIREMENTS AND OTHER	JUNE 30, 2015
Central Office Equipment	$ 19,123	$ 3,157	$ (3,725)	$ 18,555
Information Origination/Termination	2,268	1,998	(573)	3,693
Cable & Wire Facilities	3,237	1,266	(628)	3,875
Furniture, Fixtures, & Equipment	3,551	806	(57)	4,300
Customer Premise Wiring	3,407	4,677	(156)	7,928
Customer Premise Equipment	3,746	3,617	(1,554)	5,809
Fiber Optics Total Accumulated Depreciation	$ 35,332	$ 15,521	$ (6,693)	$ 44,160
Fiber Optics Total Net Utility Plant	$ 74,969	$ 2,124	$ 163	$ 77,256
Total Net Utility Plant	$ 593,462	$ 18,672	$ 959	$ 613,093

The estimated useful lives of capital assets are as follows:

Intangible Plant	10 years
Transmission	10-40 years
Distribution	10-40 years
Buildings & improvements	20-40 years
Furniture, fixtures & equipment	5-30 years
Central office equipment	10-14 years
Information origination/termination	5-10 years
Cable & wire facilities	7-30 years
Leasehold improvements	10 years
Customer premise wiring	10 years
Customer premise equipment	3.5 years

Depreciation expense for the Electric System was approximately $39.4 million and $36.4 million for the fiscal years ended June 30, 2016 and 2015, respectively. This depreciation expense includes automotive equipment depreciation which is included in other operation expenses of approximately $1.1 million for the fiscal years ended June 30, 2016 and 2015, respectively. Depreciation expense for the Fiber Optics System was approximately $16.6 million and $15.5 million for the fiscal years ended June 30, 2016 and 2015, respectively.

5. DEBT

Long-term debt for the year ended June 30, 2016 is as follows (in thousands):

	BALANCE AT JUNE 30, 2015	REPAYMENTS, AMORTIZATION OR ACCRETION	ADDITIONS	BALANCE AT JUNE 30, 2016	CURRENT AMOUNT DUE
Electric System					
Electric System Revenue Bond, 2006 Series A, bear interest at rates of 4.125%, maturing through September 2016, interest due semi-annually	$ 32,935	$ (31,535)	$ -	$ 1,400	$ 1,400
Electric System Revenue Bond, 2006 Series B, bear interest at rates of 4.125%, maturing through September 2016, interest due semi-annually	18,160	(16,445)	-	1,715	1,715
Electric System Revenue Bonds, 2008 Series A, bear interest at rates from 3.50% to 4.50%, maturing through September 2017, interest due semi-annually	212,830	(199,980)	-	12,850	6,275
Electric System Revenue Bonds, 2015 Series A, bear interest at rates from 2.875% to 5.00%, maturing September 2017 through 2033, interest due semi-annually	-	-	218,855	218,855	-
Electric System Revenue Bonds, 2015 Series B, bear interest at rates from 0.70% to 3.375%, maturing through September 2025, interest due semi-annually	-	-	15,355	15,355	170
Electric System Revenue Bonds, 2015 Series C, bear interest at rates from 4.00% to 5.00%, maturing September 2021 through 2041, interest due semi-annually	-	-	25,880	25,880	-
Subtotal	263,925	(247,960)	260,090	276,055	9,560
Unamortized premium/(discount)	6,468	(7,935)	32,749	31,282	-
Total Debt	**270,393**	**(255,895)**	**292,839**	**307,337**	**9,560**

Long-term debt for the year ended June 30, 2015 is as follows (in thousands):

	BALANCE AT JUNE 30, 2014	REPAYMENTS, AMORTIZATION OR ACCRETION	ADDITIONS	BALANCE AT JUNE 30, 2015	CURRENT AMOUNT DUE
Electric System					
Electric System Revenue Bonds, 2006 Series A, bear interest at rates from 4.125% to 4.50%, maturing through September 2031, interest due semi-annually	$ 34,230	$ (1,295)	$ -	$ 32,935	$ 1,345
Electric System Revenue Bonds, 2006 Series B, bear interest at rates from 4.00% to 4.25%, maturing through September 2025, interest due semi-annually	19,905	(1,745)	-	18,160	1,730
Electric System Revenue Bonds, 2008 Series A, bear interest at rates from 3.50% to 5.00%, maturing September 2015 through 2033, interest due semi-annually	216,830	(4,000)	-	212,830	5,000
Subtotal	270,965	(7,040)	-	263,925	8,075
Unamortized premium/(discount)	6,832	(364)	-	6,468	-
Total Electric System Debt	277,797	(7,404)	-	270,393	8,075
Fiber Optics System					
Secured Term Promissory Note, bearing interest rate of 30 day LIBOR plus 1.12% (1.27% at June 30, 2014), repayable in thirty-six monthly installments	4,777	(4,777)	-	-	-
Total Fiber Optics System Debt	4,777	(4,777)	-	-	-
Total Debt	**$ 282,574**	**$ (12,181)**	**$ -**	**$ 270,393**	**$ 8,075**

EPB issues Revenue Bonds to provide funds primarily for capital improvements to the Electric System and refunding 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 (in thousands):

FISCAL YEAR	PRINCIPAL	INTEREST	TOTAL
2017	$ 9,560	$ 11,779	$ 21,339
2018	9,835	11,411	21,246
2019	10,205	10,977	21,182
2020	10,645	10,502	21,147
2021	11,130	9,997	21,127
2022 - 2026	68,320	40,730	109,050
2027 - 2031	84,455	24,833	109,288
2032 - 2036	62,930	5,968	68,898
2037 - 2041	8,975	1,016	9,991
Total	**$ 276,055**	**$ 127,213**	**$ 403,268**

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 and placed within an irrevocable trust, with an escrow agent. The proceeds were subsequently used to service and retire $22.4 million of the series 2000 bonds on their call date of September 1, 2010.

In April 2008, EPB issued Electric System Revenue Bonds, 2008 Series A, in order to finance the construction of a Smart Grid 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. All funds in this construction account have been spent.

In August 2015, EPB issued $218.9 million par value Series 2015 A and $15.4 million par value Series 2015 B Electric System Refunding Revenue Bonds, to refinance a majority of the 2006 A, 2006 B, and 2008 A 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 the refunded portion of the 2006 A, 2006 B, and 2008 A 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, approximately $30.2 million of the 2006 A, $14.7 million of the 2006 B, and $195.0 million of the 2008 A Series Bonds, respectively, 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 $15.4 million has been deferred and will be amortized to interest expense through August 2033. 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 $25.2 million over the next nineteen years and an economic gain of approximately $19.8 million. At June 30, 2016, the balance of the refunded bonds was $239.9 million due in annual installments from September 2017 to September 2033.

Concurrent with the 2015 A and 2015 B Bond Series issues, EPB issued Electric System Revenue Bonds, 2015 Series C, in order to finance the capital costs incurred in connection with the improvement of the Electric System. The $25.9 million par value of the bonds, less underwriter discount, cost of issuance, plus original issue premium netted proceeds of approximately $30.0 million which was deposited into a project fund account that was drawn to a zero balance over the course of fiscal 2016.

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 1.5x, EPB will be required to establish and fund a reserve fund. The debt coverage ratio at June 30, 2016 was 3.8.

In March 2013, a bank loan was obtained for $11.5 million with principal and interest due in thirty-six monthly installments for the benefit of the Telecom System, guaranteed by the revenue and assets of the Telecom System. The loan bore interest equal to the 30-day LIBOR (London Interbank Offered Rate) plus 1.12%. At June 30, 2014, the balance on this loan was $4.8 million. The loan was fully repaid during FY 2015.

In December 2014, a revolving line of credit was secured for the retirement of a prior debt facility. This line of credit is secured by the revenue and other income of the Video and Internet system. The loan matures in December 2017 and incurs monthly interest payments equal to 30-day LIBOR plus 0.95%, subject to a total 1.0% floor. At June 30, 2016 and 2015, the outstanding balance under this revolving line of credit was $19.2 million and $36.7 million, respectively.

EPB maintained a $25 million bank line of credit with the execution of an Electric System Revenue Anticipation Note in FY 2016 and 2015. The purpose of the note is for financing the purchase of electric power. This note is payable from and secured by a pledge of the net revenues of the Electric System, subject to the prior pledge of such revenues in favor of the outstanding bonds. The current facility matures June 2017 and bears an interest rate of 30-day LIBOR plus 0.95%. As of June 30, 2016 and 2015, there were no amounts outstanding on the note.

6. 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 other non-current liabilities 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 $200,000 and $205,000 at June 30, 2016 and 2015, respectively. Also, employees were eligible to be paid upon retirement at the rate of 38% for accumulated sick leave hours at June 30, 2016 and 2015, 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 $561,000 and $401,000 at June 30, 2016 and 2015, respectively.

7. EMPLOYEE BENEFIT PLANS

PENSION PLAN

Plan Description

The Electric Power Board of Chattanooga Retirement Plan (the "Plan") is a single-employer defined benefit pension plan. The Plan provides retirement benefits to all employees who have completed six months of employment. The Plan assigns the authority to establish and amend benefit provisions to EPB. A stand-alone Financial Report is not issued for this plan.

Benefits Provided

The Plan provides retirement and death benefits. The normal monthly retirement benefit formula shall provide that each Participant will receive a monthly payment in the form of a single life annuity with sixty monthly guaranteed payments and the amount of the monthly payments shall be computed at the rate of 2% of final monthly salary for the first twenty years of service; 1.25% of final monthly salary for the next ten years of service; 0.5% of final monthly salary for the next five years of service (maximum 35 years).

A participant who has completed five or more years of credited service and who has attained age fifty-five may, with management consent, be entitled to receive an early retirement benefit commencing upon the early retirement date. The early retirement benefit of such participant shall be equal to the amount of the accrued benefit reduced by 0.4% for each month by which the early retirement date precedes the normal retirement date.

The death benefit shall be a survivor annuity benefit, as defined by the plan, if vested and married under prescribed conditions.

Final monthly salary is the three-year average of base salary, excluding overtime or extra compensation, on the actual retirement date and the two previous August 1sts. If applicable, commissions are included in the definition of base salary. Credited service is the total years of service from hire date to determination date. Partial years are rounded up to complete years of service. The normal retirement date is the first day of the month coincident with or next following the later of the participant's 65th birthday or having five years of participation in the plan. For a participant who elects to retire later than the normal retirement date, the date shall be the first day of the month coinciding with or next following the participant's last day of employment. A participant shall be 100% vested after five complete years of employment.

Employees Covered by Benefit Terms

At June 30, 2016, the following employees were covered by the benefit terms:

	NUMBER OF EMPLOYEES
Inactive employees or beneficiaries currently receiving benefits	15
Inactive employees entitled to but not yet receiving benefits	121
Active employees	487
Total	623

Contributions

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 12.60% of annual covered payroll.

Net Pension Liability

EPB's net pension liability was measured as of August 1, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

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

Inflation	1.5%
Salary Increase	3.0%
Investment rate of return	7.5%

Mortality rates were based on the UP-1984 Mortality Table for Males or Females.

The actuarial assumptions used in the August 1, 2015 valuation were based on the results of an actuarial experience study for the period August 1, 2012 - July 31, 2014.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

ASSET CLASS	TARGET ALLOCATION	LONG-TERM EXPECTED REAL RATE OF RETURN
Domestic equity	40-50%	6.2%
International equity	20-30%	5.9%
Fixed income	20-30%	1.9%
Real estate	0-10%	5.1%
Cash	0-10%	0.0%

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that EPB contributions will be made at rates equal to the actuarially determined contribution rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following table shows the changes in the net pension liability (in thousands):

	Increase (Decrease)		
	TOTAL PENSION LIABILITY	PLAN FIDUCIARY NET POSITION	NET PENSION LIABILITY
Balances at 6/30/2015	$ 48,352	$ 42,218	$ 6,134
Changes for the year:			
Service Cost	2,766	-	2,766
Interest	4,043	-	4,043
Difference between expected and actual experience	2,594	-	2,594
Contributions-employer	-	5,700	(5,700)
Net investment income	-	2,143	(2,143)
Benefit payments	(5,237)	(5,237)	-
Administrative expense	-	(74)	74
Net changes	4,166	2,532	1,634
Balances at 6/30/2016	**$ 52,518**	**$ 44,750**	**$ 7,768**

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

	1% DECREASE (6.5%)	CURRENT DISCOUNT RATE (7.5%)	1% INCREASE (8.5%)
Net pension liability (asset)	$ 13,019	$ 7,768	$ (4,837)

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

For the year ended June 30, 2016, EPB recognized pension expense of $3.7 million. At June 30, 2016, EPB reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	DEFERRED OUTFLOWS OF RESOURCES	DEFERRED INFLOWS OF RESOURCES
Differences between expected and actual experience	$ 5,630	$ -
Employer contributions made after plan year	2,500	-
Net difference between projected and actual earnings on pension plan investments	-	1,013
Total	**$ 8,130**	**$ 1,013**

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

FISCAL YEAR	AMOUNT
2017	$ (44)
2018	(44)
2019	(44)
2020	563
2021	361
Thereafter	3,825
Total	**$ 4,617**

Deferred outflows of resources totaling $2.5 million represent contributions made after the Plan's valuation date. These contributions will be used to reduce the net pension liability during 2017.

Payable to the Pension Plan

At June 30, 2016, EPB reported no payable balances for required outstanding contributions to the Plan.

Pension Plan's Funded Status Using Termination Basis

An exact calculation of the Actuarial Accrued Liability exclusively based on past service and compensation would be the Plan liability if the Plan were to terminate or cease recognition of future service accruals and compensation increases. As of August 1, 2015, this Actuarial Accrued Liability has been calculated to be $42.0 million; with the Actuarial Value of Plan Assets being $42.8 million. Therefore, the Actuarial Accrued Liability strictly devoted to past service and compensation is entirely covered by Plan Assets.

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 100% of their salary in a tax-deferred savings plan. EPB contributes a 100% matching contribution 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 $1.2 million in fiscal years 2016 and 2015. Employee contributions were approximately $2.8 million in fiscal years 2016 and 2015. The EPB Retirement Savings Plan is administered by an individual designated by EPB. The EPB Retirement Savings Plan assigns the authority to establish and amend the plan to EPB.

8. POST-EMPLOYMENT BENEFITS

The Electric Power Board of Chattanooga Post Employment 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. 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 2016 are as shown in the table below.

CATEGORY	RETIREMENT BEFORE MARCH 1, 1991	RETIREMENT AFTER MARCH 1, 1991 YEARS OF SERVICE/PERCENT OF CONTRIBUTIONS				
		5-9/85%	10-14/75%	15-19/55%	20-24/35%	25+/15%
Pre-Age 65-EPO						
Individual	$ -	$ 402.05	$ 354.75	$ 260.15	$ 165.55	$ 70.95
Employee +1	-	804.10	709.50	520.30	331.10	141.90
Family	-	1,206.15	1,064.25	780.45	496.65	212.85
Pre-Age 65-PPO						
Individual	$ -	$ 321.64	$ 283.80	$ 208.12	$ 132.44	$ 56.76
Employee +1	-	643.28	567.60	416.24	264.88	113.52
Family	-	964.92	851.40	624.36	397.32	170.28

CATEGORY	RETIREMENT BEFORE MARCH 1, 1991	RETIREMENT AFTER MARCH 1, 1991 YEARS OF SERVICE/PERCENT OF CONTRIBUTIONS				
		5-9/85%	10-14/77.5%	15-19/57.5%	20-24/37.5%	25+/17.5%
Age 65 & Over						
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 2016, EPB contributed approximately $1.7 million (approximately 85 percent of total claims). Presently, EPB has the option of prefunding a "Voluntary Employees' Beneficiary Association Trust" (VEBA) to pay post-employment benefit claims. During FY 2016, EPB had no additional funding to the VEBA for post-employment benefit claims.

EPB's annual other post-employment benefit (OPEB) cost 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 (in thousands):

Annual required contribution	$	1,925
Interest on net OPEB obligation		578
Adjustment to annual required contribution		(760)
Annual OPEB cost (expense)		1,743
Contributions made		1,716
Increase in net OPEB obligation		27
Net OPEB obligation - beginning of year		8,894
Net OPEB obligation - end of year	$	8,921

EPB's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for FY 2016 and the four preceding years were as follows (in thousands):

FISCAL YEAR ENDED	ANNUAL OPEB COST	PERCENTAGE OF ANNUAL OPEB COST CONTRIBUTION	NET OPEB OBLIGATION
6/30/16	$ 1,743	98%	$ 8,921
6/30/15	1,565	130%	8,894
6/30/14	2,039	85%	9,365
6/30/13	1,999	95%	9,055
6/30/12	1,888	93%	8,955

The funded status of the plan as of July 1, 2015, was as follows (in thousands):

Actuarial accrued liability (AAL)	$	25,756
Actuarial value of plan assets		20,784
Unfunded actuarial accrued liability (UAAL)	$	4,972
Funded ratio (actuarial value of plan assets/AAL)		81%
Covered payroll (active plan members)	$	37,644
UAAL as a percentage of covered payroll		13%

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, 2015 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 2024. 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, 2015 was twenty years.

9. 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.

10. 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 $149 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 2016 or 2015. There are no significant claims liabilities outstanding at June 30, 2016.

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 $175,000 per covered life with an additional $110,000 Aggregating Specific Attachment Point.

Changes in the balances of claims liabilities for these three areas during the fiscal years ended June 30, 2016 and 2015 are as follows (in thousands):

Unpaid claims, June 30, 2014	$	1,370
Incurred claims (including IBNRs)		7,271
Claim payments		(6,800)
Unpaid claims, June 30, 2015		1,841
Incurred claims (including IBNRs)		7,562
Claim payments		(7,976)
Unpaid claims, June 30, 2016	**$**	**1,427**

11. 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, 2015, EPB included approximately $4.8 million in FEMA grants receivable. EPB received all outstanding receivables from FEMA during FY 2016.

EPB SCHEDULE OF EPB CONTRIBUTIONS TO PENSION PLAN LAST 10 FISCAL YEARS (IN THOUSANDS)

	2016	2015	2014
Actuarially determined contribution	$ 4,759	$ 3,562	$ 3,646
Contributions in relation to the actuarially determined contribution	4,500	3,700	3,630
Contribution deficiency (excess)	$ 259	$ (138)	$ 16
Covered-employee payroll	$ 35,296	$ 35,015	$ 32,127
Contributions as a percentage of covered-employee payroll	12.75%	10.57%	11.30%

NOTES TO SCHEDULE

Valuation date:
Actuarially determined contribution rates are calculated as of August 1, 23 months prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determined contribution rates:

Actuarial cost method	Entry age
Asset valuation method	Three year smoothing
Inflation	1.5%
Salary increases	3.0%
Investment rate of return	7.0% - 2016; 7.5% - 2015 and 2014
Retirement age	3% per year for ages 57-61, 20% at age 62, 10% at ages 63 and 64, and 100% at age 65
Mortality	In the actuarial valuation, assumed life expectancies were computed using the UP 1984 Table.

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

EPB SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS LAST 10 YEARS (IN THOUSANDS)

	2016	2015
Total pension liability:		
Service cost	$ 2,766	$ 2,395
Interest	4,043	3,637
Changes of benefit terms	-	-
Differences between expected and actual experience	2,594	3,608
Changes of assumptions	-	-
Benefit payments, including refunds of employee contributions	(5,237)	(2,455)
Net change in total pension liability	4,166	7,185
Total pension liability—beginning	48,352	41,167
Total pension liability—ending (a)	$ 52,518	$ 48,352
Plan fiduciary net position:		
Contributions–employer	$ 5,700	$ 3,630
Net investment income	2,143	5,735
Benefit payments, including refunds of employee contributions	(5,237)	(2,455)
Administrative expense	(74)	(87)
Net change in plan fiduciary net position	2,532	6,823
Plan fiduciary net position—beginning	42,218	35,395
Plan fiduciary net position—ending (b)	44,750	42,218
County's net pension liability—ending (a) – (b)	$ 7,768	$ 6,134
Plan fiduciary net position as a percentage of the total pension liability	85.21%	87.31%
Covered-employee payroll	**35,105**	**32,127**
Net pension liability as a percentage of covered-employee payroll	22.13%	19.09%

NOTES TO SCHEDULE:

Benefit changes. None.
Changes of assumptions. None.
This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future years until 10 years of information is available.

SCHEDULE OF FUNDING PROGRESS FOR POST-EMPLOYMENT HEALTH AND WELFARE BENEFIT PLAN (IN THOUSANDS)

ACTUARIAL VALUATION DATE	(1) ACTUARIAL VALUE OF PLAN ASSETS	(2) ACTUARIAL ACCRUED LIABILITY (AAL)	(3) UNFUNDED AAL (UAAL) (2)-(1)	(4) FUNDED RATION (1)/(2)	(5) ANNUAL COVERED PAYROLL	(6) UAAL AS A % OF COVERED PAYROLL (3)/(5)
7/1/2015	$ 20,784	$ 25,756	$ 4,972	80.7%	$ 37,644	13.2%
7/1/2014	$ 19,213	$ 24,688	$ 5,475	77.8%	$ 36,556	15.0%
7/1/2013	16,754	27,104	10,350	61.8%	34,441	30.0%
7/1/2012	15,045	25,463	10,418	59.1%	32,045	32.5%
7/1/2011	14,604	24,667	10,063	59.2%	29,998	33.5%
7/1/2010	13,081	23,128	10,047	56.6%	28,267	33.5%
7/1/2009	13,051	24,044	10,993	54.2%	25,629	42.9%
7/1/2008	14,675	26,264	11,589	55.8%	24,325	47.6%

EPB ELECTRIC SYSTEM SCHEDULES OF NET POSITION AS OF JUNE 30, 2016 AND 2015

	2016	2015
ASSETS AND DEFERRED OUTFLOWS		
CURRENT ASSETS		
Cash and cash equivalents	$ 93,660,000	$ 77,471,000
Accounts receivable, less allowance for doubtful accounts of $709,000 and $765,000 in 2016 and 2015, respectively	20,516,000	21,459,000
Unbilled electric sales	36,492,000	37,096,000
Grants receivable	--	4,819,000
Materials and supplies, at average cost	13,293,000	13,066,000
Prepayments and other current assets	5,729,000	4,550,000
	169,690,000	158,461,000
NON-CURRENT ASSETS		
Investments	5,000,000	--
Utility plant -		
Utility plant	844,981,000	824,938,000
Less - accumulated provision for depreciation	(297,266,000)	(289,101,000)
Net utility plant	547,715,000	535,837,000
Other non-current assets	2,532,000	2,676,000
	555,247,000	538,513,000
DEFERRED OUTFLOWS OF RESOURCES		
Deferred pension outflows	7,114,000	6,206,000
Deferred defeasance	14,586,000	--
	21,700,000	6,206,000
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 746,637,000	$ 703,180,000
LIABILITIES, DEFERRED INFLOWS AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable -		
Tennessee Valley Authority, for power purchased	$ 73,692,000	$ 77,469,000
Other	10,352,000	9,384,000
Customer deposits	4,602,000	3,239,000
Revenue bonds, current portion	9,560,000	8,075,000
Accrued tax equivalents	17,688,000	17,746,000
Accrued interest payable	4,024,000	4,230,000
Other current liabilities	9,220,000	8,590,000
	129,138,000	128,733,000
NON-CURRENT LIABILITIES		
Revenue bonds, net	297,777,000	262,318,000
Net pension liability	6,797,000	5,367,000
Accrued post-employment benefit obligation	6,911,000	7,097,000
Customer deposits	20,117,000	22,176,000
Other non-current liabilities	5,719,000	4,576,000
	337,321,000	301,534,000
DEFERRED INFLOWS OF RESOURCES		
Deferred pension inflows	886,000	2,123,000
NET POSITION		
Net investment in capital assets	254,964,000	265,444,000
Unrestricted	24,328,000	5,346,000
	279,292,000	270,790,000
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	$ 746,637,000	$ 703,180,000

EPB ELECTRIC SYSTEM SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
OPERATING REVENUES		
Electric sales		
Residential	$ 229,934,000	$ 231,864,000
Small commercial	47,309,000	45,460,000
Large commercial	257,812,000	256,158,000
Outdoor lighting systems	6,057,000	6,069,000
Total billed electric sales	541,112,000	539,551,000
Change in unbilled electric sales	(604,000)	4,902,000
Less uncollectible electric sales	(600,000)	(610,000)
Total electric sales	539,908,000	543,843,000
Other operating revenues	23,896,000	23,278,000
Total operating revenues	563,804,000	567,121,000
OPERATING EXPENSES		
Operation		
Power purchased from Tennessee Valley Authority	424,355,000	443,970,000
Other operation expenses	40,953,000	35,292,000
Maintenance	22,922,000	22,023,000
Provision for depreciation	38,281,000	35,245,000
City, county, and state tax equivalents	11,552,000	11,529,000
Total operating expenses	538,063,000	548,059,000
Net operating income	25,741,000	19,062,000
NON-OPERATING REVENUES (EXPENSES)		
Interest revenue on invested funds	272,000	197,000
Interest expense on long-term debt	(11,444,000)	(12,980,000)
Other, net	204,000	210,000
Plant cost recovered through contributions in aid of construction	(865,000)	(738,000)
Total non-operating revenues (expenses)	(11,833,000)	(13,311,000)
INCOME BEFORE TRANSFERS AND CONTRIBUTIONS	13,908,000	5,751,000
TAX EQUIVALENTS TRANSFERRED TO THE CITY OF CHATTANOOGA	(6,271,000)	(6,326,000)
CONTRIBUTIONS IN AID OF CONSTRUCTION	865,000	738,000
CHANGE IN NET POSITION	8,502,000	163,000
NET POSITION, BEGINNING OF YEAR	270,790,000	270,627,000
NET POSITION, END OF YEAR	$ 279,292,000	$ 270,790,000

EPB ELECTRIC SYSTEM SCHEDULES OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 568,672,000	$ 569,323,000
Payments to suppliers for goods and services	(453,635,000)	(467,852,000)
Payments to employees for services	(34,842,000)	(33,083,000)
Payments in lieu of taxes	(17,881,000)	(16,849,000)
Net cash provided by operating activities	62,314,000	51,539,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Additions to utility plant	(51,776,000)	(53,805,000)
Removal cost	(544,000)	(910,000)
Salvage	497,000	464,000
Contributions in aid of construction	865,000	738,000
Receipts from Refunding Bond Issue	262,716,000	--
Receipts from Bond Issue	30,122,000	--
Payment of Refund Bond Escrow Agent	(266,997,000)	--
Payment of Bond Issue Cost	(1,246,000)	--
Bond principal payment	(8,075,000)	(7,040,000)
Bond interest payment	(6,959,000)	(12,832,000)
Net cash used in capital and related financing activities	(41,397,000)	(73,385,000)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(5,000,000)	--
Interest on investments	272,000	197,000
Net cash provided by (used in) investing activities	(4,728,000)	197,000
NET CHANGE IN CASH AND CASH EQUIVALENTS	**16,189,000**	**(21,649,000)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	77,471,000	99,120,000
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 93,660,000	$ 77,471,000
RECONCILLIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net operating income	$ 25,741,000	$ 19,062,000
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation and amortization	39,409,000	36,389,000
Miscellaneous non-operating expense, net	204,000	210,000
Tax equivalents transferred to the City of Chattanooga	(6,271,000)	(6,326,000)
Changes in assets and liabilities:		
Accounts receivable, net	943,000	4,524,000
Unbilled electric sales	604,000	(4,902,000)
Grants receivable	4,819,000	1,875,000
Materials and supplies	(227,000)	(257,000)
Prepayments and other current assets	(1,179,000)	429,000
Other charges	144,000	(96,000)
Accounts payable, net	(1,991,000)	(421,000)
Customer deposits	(696,000)	633,000
Accrued tax equivalents	(58,000)	1,006,000
Other current liabilites	630,000	1,652,000
Other credits	1,143,000	(968,000)
Net pension liability	(715,000)	(624,000)
Accrued post-employment benefit obligation	(186,000)	(647,000)
Net cash provided by operating activities	$ 62,314,000	$ 51,539,000

EPB TELECOM SYSTEM SCHEDULES OF NET POSITION
AS OF JUNE 30, 2016 AND 2015

ASSETS	2016	2015
CURRENT ASSETS		
Cash and cash equivalents	$ 7,806,000	$ 1,337,000
Accounts receivable, less allowance for doubtful accounts of $7,000 and $11,000 in 2016 and 2015, respectively	1,307,000	1,147,000
Prepayments and other current assets	184,000	157,000
	9,297,000	2,641,000
NON-CURRENT ASSETS		
Utility plant -		
Utility plant	16,094,000	18,815,000
Less - accumulated provision for depreciation	(10,779,000)	(12,061,000)
Net utility plant	5,315,000	6,754,000
TOTAL ASSETS	$ 14,612,000	$ 9,395,000
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	$ 195,000	$ 255,000
Accrued tax equivalents	665,000	679,000
Other current liabilities	238,000	171,000
	1,098,000	1,105,000
NON-CURRENT LIABILITIES		
Unearned revenue	457,000	388,000
NET POSITION		
Net investments in capital assets	5,315,000	6,754,000
Unrestricted	7,742,000	1,148,000
	13,057,000	7,902,000
TOTAL LIABILITIES AND NET POSITION	$ 14,612,000	$ 9,395,000

EPB TELECOM SYSTEM SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
OPERATING REVENUES		
Fiber optics sales		
Commercial basic local services revenue	$ 14,487,000	$ 13,215,000
Commercial long distance message revenue	865,000	835,000
Total billed fiber optics sales	15,352,000	14,050,000
Less uncollectible accounts	(34,000)	(34,000)
Total fiber optics sales	15,318,000	14,016,000
Other operating revenues	1,729,000	2,068,000
Total operating revenues	17,047,000	16,084,000
OPERATING EXPENSES		
Cost of services	2,139,000	2,247,000
Operation expenses	5,175,000	4,112,000
General and administrative	305,000	332,000
Provision for depreciation	3,608,000	3,387,000
City, county, and state tax equivalents	416,000	406,000
Total operating expenses	11,643,000	10,484,000
Net operating income	5,404,000	5,600,000
NON-OPERATING EXPENSES		
Interest expense on long term debt and line of credit	--	(33,000)
INCOME BEFORE TRANSFERS	5,404,000	5,567,000
TAX EXQUIVALENTS TRANSFERRED TO THE CITY OF CHATTANOOGA	(249,000)	(273,000)
CHANGE IN NET POSITION	5,155,000	5,294,000
NET POSITION, BEGINNING OF YEAR	7,902,000	2,608,000
NET POSITION, END OF YEAR	$ 13,057,000	$ 7,902,000

EPB TELECOM SCHEDULES OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 16,881,000	$ 15,922,000
Payments to suppliers for goods and services	(7,564,000)	(6,842,000)
Payments in lieu of taxes	(679,000)	(742,000)
Net cash provided by operating activities	8,638,000	8,338,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Additions to utility plant	(2,169,000)	(2,146,000)
Interest paid on long term debt	--	(31,000)
Interest paid on line of credit	--	(8,000)
Changes in line of credit, net	--	(232,000)
Repayments of long term debt	--	(4,777,000)
Net cash used in capital and related financing activities	(2,169,000)	(7,194,000)
NET CHANGE IN CASH AND CASH EQUIVALENTS	**6,469,000**	**1,144,000**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,337,000	193,000
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 7,806,000	$ 1,337,000
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net operating income	$ 5,404,000	$ 5,600,000
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation and amortization	3,608,000	3,387,000
Tax equivalents transferred to the City of Chattanooga	(249,000)	(273,000)
Changes in assets and liabilities:		
Accounts receivable, net	(160,000)	(161,000)
Prepayments and other current assets	(27,000)	(62,000)
Accounts payable, net	(60,000)	(150,000)
Accrued tax equivalents	(14,000)	(63,000)
Other current liabilities	67,000	19,000
Other credits	69,000	41,000
Net cash provided by operating activities	$ 8,638,000	$ 8,338,000

EPB VIDEO & INTERNET SYSTEM SCHEDULES OF NET POSITION AS OF JUNE 30, 2016 AND 2015

	2016	2015
ASSETS AND DEFERRED OUTFLOWS		
CURRENT ASSETS		
Cash and cash equivalents	$ 107,000	$ 110,000
Accounts receivable, less allowance for doubtful accounts of $540,000 and $524,000 in 2016 and 2015, respectively	5,822,000	5,280,000
Prepayments and other current assets	683,000	1,058,000
	6,612,000	6,448,000
NON-CURRENT ASSETS		
Utility plant -		
Utility plant	112,230,000	102,601,000
Less - accumulated provision for depreciation	(37,747,000)	(32,099,000)
Net utility plant	74,483,000	70,502,000
DEFERRED OUTFLOWS OF RESOURCES		
Deferred pension outflows	1,016,000	891,000
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 82,111,000	$ 77,841,000
LIABILITIES, DEFERRED INFLOWS AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	$ 8,172,000	$ 6,113,000
Accrued tax equivalents	912,000	893,000
Accrued interest payable	84,000	115,000
Other current liabilities	4,074,000	3,546,000
	13,242,000	10,667,000
NON-CURRENT LIABILITIES		
Line of credit	19,230,000	36,725,000
Net pension liability	971,000	767,000
Accrued post-employment benefit obligation	2,010,000	1,797,000
Deferred credits	4,642,000	4,118,000
	26,853,000	43,407,000
DEFERRED INFLOWS OF RESOURCES		
Deferred pension inflows	127,000	303,000
NET POSITION		
Net investment in capital assets	74,483,000	70,502,000
Unrestricted	(32,594,000)	(47,038,000)
	41,889,000	23,464,000
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	$ 82,111,000	$ 77,841,000

EPB VIDEO & INTERNET SYSTEM SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
OPERATING REVENUES		
Fiber optics sales		
Commercial basic local services revenue	$ 15,002,000	$ 13,077,000
Residential services revenue	93,748,000	80,904,000
Total billed fiber optics sales	108,750,000	93,981,000
Less uncollectible accounts	(835,000)	(825,000)
Total fiber optics sales	107,915,000	93,156,000
Other operating revenues	10,011,000	8,985,000
Total operating revenues	117,926,000	102,141,000
OPERATING EXPENSES		
Cost of services	46,951,000	40,690,000
Operation expenses	36,309,000	34,002,000
General and administrative	2,034,000	1,776,000
Provision for depreciation	12,987,000	12,134,000
City county, and state tax equivalents	612,000	605,000
Total operating expenses	98,893,000	89,207,000
Net operating income	19,033,000	12,934,000
NON-OPERATING EXPENSES		
Interest expense on long term debt	(291,000)	(948,000)
INCOME BEFORE TRANSFERS	18,742,000	11,986,000
TAX EQUIVALENTS TRANSFERRED TO THE CITY OF CHATTANOOGA	(317,000)	(310,000)
CHANGE IN NET POSITION	18,425,000	11,676,000
NET POSITION, BEGINNING OF YEAR	23,464,000	11,788,000
NET POSITION, END OF YEAR	$ 41,889,000	$ 23,464,000

EPB VIDEO & INTERNET SYSTEM SCHEDULES OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 117,383,000	$ 101,937,000
Payments to suppliers for goods and services	(73,589,000)	(69,994,000)
Payments to employees for services	(8,102,000)	(5,389,000)
Payments in lieu of taxes	(910,000)	(811,000)
Net cash provided by operating activities	34,782,000	25,743,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Additions to utility plant	(16,858,000)	(15,584,000)
Interest paid on line of credit	(432,000)	(1,043,000)
Changes in line of credit, net	(17,495,000)	(9,150,000)
Net cash used in capital and related financing activities	(34,785,000)	(25,777,000)
NET CHANGE IN CASH AND CASH EQUIVALENTS	**(3,000)**	**(34,000)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	110,000	144,000
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 107,000	$ 110,000
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net operating income	$ 19,033,000	$ 12,934,000
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation and amortization	12,987,000	12,134,000
Tax equivalents transferred to the City of Chattanooga	(317,000)	(310,000)
Changes in assets and liabilities:		
Accounts receivable, net	(542,000)	(189,000)
Prepayments and other current assets	375,000	29,000
Accounts payable, net	2,059,000	(141,000)
Accrued tax equivalents	19,000	102,000
Other current liabilities	528,000	364,000
Other credits	524,000	733,000
Net pension liability	(97,000)	(89,000)
Accrued post-employment benefit obligation	213,000	176,000
Net cash provided by operating activities	$ 34,782,000	$ 25,743,000

EPB FIBER OPTICS SYSTEM SCHEDULES OF NET POSITION
AS OF JUNE 30, 2016 AND 2015

	2016	2015
ASSETS AND DEFERRED OUTFLOWS		
CURRENT ASSETS		
Cash and cash equivalents	$ 7,913,000	$ 1,447,000
Accounts receivable, less allowance for doubtful accounts of $547,000 and $535,000 in 2016 and 2015, respectively	7,129,000	6,427,000
Prepayments and other current assets	867,000	1,215,000
	15,909,000	9,089,000
NON-CURRENT ASSETS		
Utility plant -		
Utility plant	128,324,000	121,416,000
Less - accumulated provision for depreciation	(48,526,000)	(44,160,000)
Net utility plant	79,798,000	77,256,000
DEFERRED OUTFLOWS OF RESOURCES		
Deferred pension outflows	1,016,000	891,000
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 96,723,000	$ 87,236,000
LIABILITIES, DEFERRED INFLOWS AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	$ 8,367,000	$ 6,368,000
Accrued tax equivalents	1,577,000	1,572,000
Accrued interest payable	84,000	115,000
Other current liabilities	4,312,000	3,717,000
	14,340,000	11,772,000
NON-CURRENT LIABILITIES		
Line of credit	19,230,000	36,725,000
Net pension liability	971,000	767,000
Accrued post-employment benefit obligation	2,010,000	1,797,000
Other non-current liabilities	5,099,000	4,506,000
	27,310,000	43,795,000
NET INFLOWS OF RESOURCES		
Deferred pension inflows	127,000	303,000
NET POSITION		
Net investment in capital assets	79,798,000	77,256,000
Unrestricted	(24,852,000)	(45,890,000)
	54,946,000	31,366,000
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	$ 96,723,000	$ 87,236,000

EPB FIBER OPTICS SYSTEM SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
OPERATING REVENUES		
Fiber optics sales		
Commercial basic local services revenue	$ 29,489,000	$ 26,292,000
Commercial long distance message revenue	865,000	835,000
Residential services revenue	93,748,000	80,904,000
Total billed fiber optics sales	124,102,000	108,031,000
Less uncollectible accounts	(869,000)	(859,000)
Total fiber optics sales	123,233,000	107,172,000
Other operating revenues	11,740,000	11,053,000
Total operating revenues	134,973,000	118,225,000
OPERATING EXPENSES		
Cost of services	49,090,000	42,937,000
Operation expenses	41,484,000	38,114,000
General and administrative	2,339,000	2,108,000
Provision for depreciation	16,595,000	15,521,000
City, county, and state tax equivalents	1,028,000	1,011,000
Total operating expenses	110,536,000	99,691,000
Net operating income	24,437,000	18,534,000
NON-OPERATING EXPENSES		
Interest expense on long term debt and line of credit	(291,000)	(981,000)
INCOME BEFORE TRANSFERS	24,146,000	17,553,000
TAX EQUIVALENTS TRANSFERRED TO THE CITY OF CHATTANOOGA	(566,000)	(583,000)
CHANGE IN NET POSITION	23,580,000	16,970,000
NET POSITION, BEGINNING OF YEAR	31,366,000	14,396,000
NET POSITION, END OF YEAR	$ 54,946,000	$ 31,366,000

EPB FIBER OPTICS SYSTEM SCHEDULES OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 134,264,000	$ 117,859,000
Payments to suppliers for goods and services	(81,153,000)	(76,836,000)
Payments to employees for services	(8,102,000)	(5,389,000)
Payments in lieu of taxes	(1,589,000)	(1,553,000)
Net cash provided by operating activities	43,420,000	34,081,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Additions to utility plant	(19,027,000)	(17,730,000)
Interest paid on long term debt	--	(31,000)
Interest paid on line of credit	(432,000)	(1,051,000)
Changes in line of credit, net	(17,495,000)	(9,382,000)
Repayments of long term debt	--	(4,777,000)
Net cash used in capital and related financing activities	(36,954,000)	(32,971,000)
NET CHANGE IN CASH AND CASH EQUIVALENTS	**6,466,000**	**1,110,000**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,447,000	337,000
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 7,913,000	$ 1,447,000
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net operating income	$ 24,437,000	$ 18,534,000
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation and amortization	16,595,000	15,521,000
Tax equivalents transferred to the City of Chattanooga	(566,000)	(583,000)
Changes in assets and liabilities:		
Accounts receivable, net	(702,000)	(350,000)
Prepayments and other current assets	348,000	(33,000)
Accounts payable, net	1,999,000	(291,000)
Accrued tax equivalents	5,000	39,000
Other current liabilities	595,000	383,000
Other credits	593,000	774,000
Net pension liability	(97,000)	(89,000)
Accrued post-employment benefit obligation	213,000	176,000
Net cash provided by operating activities	$ 43,420,000	$ 34,081,000

EPB SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	AGENCY OR PASS-THROUGH NUMBER	ACCRUED GRANT REVENUES JUNE 30, 2015	GRANT REVENUES RECEIVED	EXPENDITURES	ACCRUED GRANT REVENUES JUNE 30, 2016
U.S. DEPARTMENT OF HOMELAND SECURITY						
Passed through Tennessee Department of the Military, Tennessee Emergency Management Agency:						
Disaster Grant - Public Assistance (Presidentially Declared Disasters)	97.036	Not Available	$ 5,307,927	$ 5,307,927	$ -	$ -
Total Expenditures of Federal Awards			$ 5,307,927	$ 5,307,927	$ -	$ -

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Electric Power Board of Chattanooga and is presented on the accrual basis of accounting. Some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. Where applicable, the Electric System's accounting records follow the Federal Energy Regulatory Commission's Uniform System of Accounts Prescribed for Public Utilities.

EPB SCHEDULE OF BONDS PAYABLE
AS OF JUNE 30, 2016

FISCAL YEAR ENDED JUNE 30	ISSUE	INTEREST RATE	PRINCIPAL	DUE INTEREST	TOTAL INTEREST AND PRINCIPAL
2017	2006A Electric System Revenue Bonds	4.125%	$ 1,400,000	$ 9,625	$ 1,409,625
2017	2006B Electric System Refunding Revenue Bonds	4.125%	1,715,000	11,791	1,726,791
2017	2008 A Electric System Revenue Bonds	3.500%	6,275,000	332,479	6,607,479
2018		4.500%	6,575,000	49,313	6,624,313
			12,850,000	381,792	13,231,792
2017	2015 A Electric System Revenue Bonds		-	9,782,781	9,782,781
2018		4.000%	1,370,000	9,737,115	11,107,115
2019		5.000%	8,380,000	9,378,815	17,758,815
2020		5.000%	8,880,000	8,938,981	17,818,981
2021		5.000%	9,410,000	8,472,898	17,882,898
2022		5.000%	9,970,000	7,979,065	17,949,065
2023		5.000%	10,545,000	7,456,606	18,001,606
2024		5.000%	11,160,000	6,903,731	18,063,731
2025		5.000%	11,810,000	6,318,648	18,128,648
2026		5.000%	12,485,000	5,700,023	18,185,023
2027		2.875%	14,735,000	5,242,955	19,977,955
2028		3.000%	15,160,000	4,793,350	19,953,350
2029		5.000%	15,610,000	4,067,133	19,677,133
2030		4.000%	16,395,000	3,390,550	19,785,550
2031		4.000%	17,050,000	2,712,917	19,762,917
2032		5.000%	17,730,000	1,860,500	19,590,500
2033		5.000%	18,615,000	937,125	19,552,125
2034		4.000%	19,550,000	130,333	19,680,333
			218,855,000	103,803,526	322,658,526
2017	2015 B Electric System Revenue Bonds	0.700%	170,000	365,851	535,851
2018		1.100%	1,890,000	348,328	2,238,328
2019		1.550%	1,825,000	321,290	2,146,290
2020		2.050%	1,765,000	286,423	2,051,423
2021		2.300%	1,720,000	247,426	1,967,426
2022		2.600%	1,675,000	204,541	1,879,541
2023		2.900%	1,635,000	157,770	1,792,770
2024		3.050%	1,595,000	109,328	1,704,328
2025		3.200%	1,560,000	59,620	1,619,620
2026		3.375%	1,520,000	8,550	1,528,550
			15,355,000	2,109,127	17,464,127

EPB SCHEDULE OF BONDS PAYABLE
AS OF JUNE 30, 2016

FISCAL YEAR ENDED JUNE 30	ISSUE	INTEREST RATE	PRINCIPAL	DUE INTEREST	TOTAL INTEREST AND PRINCIPAL
2017	2015 C Electric System Revenue Bonds		$ -	$ 1,276,500	$ 1,276,500
2018			-	1,276,500	1,276,500
2019			-	1,276,500	1,276,500
2020			-	1,276,500	1,276,500
2021			-	1,276,500	1,276,500
2022		5.000%	795,000	1,243,375	2,038,375
2023		4.000%	835,000	1,208,917	2,043,917
2024		5.000%	870,000	1,167,100	2,037,100
2025		4.000%	915,000	1,129,350	2,044,350
2026		5.000%	950,000	1,083,667	2,033,667
2027		5.000%	995,000	1,034,292	2,029,292
2028		5.000%	1,045,000	982,458	2,027,458
2029		5.000%	1,100,000	927,917	2,027,917
2030		5.000%	1,155,000	870,625	2,025,625
2031		5.000%	1,210,000	810,583	2,020,583
2032		5.000%	1,275,000	747,375	2,022,375
2033		5.000%	1,335,000	681,125	2,016,125
2034		5.000%	1,405,000	611,458	2,016,458
2035		5.000%	1,475,000	538,292	2,013,292
2036		5.000%	1,545,000	461,625	2,006,625
2037		5.000%	1,625,000	381,042	2,006,042
2038		5.000%	1,705,000	296,458	2,001,458
2039		5.000%	1,790,000	207,667	1,997,667
2040		5.000%	1,880,000	114,417	1,994,417
2041		5.000%	1,975,000	16,458	1,991,458
			25,880,000	20,896,701	46,776,701
	Total		$ 276,055,000	$ 127,212,559	$ 403,267,559

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*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Electric Power Board of Chattanooga, Tennessee ("EPB", enterprise fund of the City of Chattanooga, Tennessee) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise EPB's basic financial statements, and have issued our report there on dated September 22, 2016, which references, that the financial statement, are only that portion of the City of Chattanooga, Tennessee that result from the transactions of the EPB enterprise fund.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Mauldin & Jenkins, LLC

Chattanooga, TN
September 22, 2016