

# EPB FINANCIAL REPORT

2018 - 2019



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# LETTER FROM

Joe Ferguson and David Wade



## Letter from Joe Ferguson and David Wade

This Annual Report highlights EPB's efforts during the 2018-2019 Fiscal Year. By providing world-class energy and connectivity solutions while holding ourselves to the highest standards for industry-leading customer service, we strive to build on EPB's 84-year history of improving quality of life and supporting local economic growth for our neighbors.

Enhancements to our fiber optics services this year resulted in EPB celebrating our 100,000th Fiber Optics customer – just ten years after launching. We tripled our starting internet speed at no additional cost and adjusted the price of our Gig-speed internet to be just \$10 more per month to help more families in our community enjoy the benefits of the world's fastest internet. We also used the power of our internet to develop a new Fi TV app that delivers a more robust television experience. And, we strengthened our commitment to exceptional customer service by improving our Smart Network whole-home WiFi service.

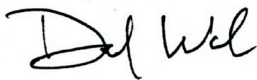
As the energy industry continues to adapt to a changing landscape, EPB is working to fulfill our commitment to position Chattanooga for success in the future. We continued to explore Smart Grid technology through our partnership with the U.S. Department of Energy and the Oak Ridge National Laboratory. We worked to pioneer the ability of microgrids to scale in size depending on immediate power needs. And we continued to enhance safeguards to secure the Grid and protect customer data with an encryption method that utilizes quantum physics.

This year we launched EPB Broadband Services, which helps municipalities striving for the exceptional quality of life we enjoy here in Chattanooga. EPB utilizes our world-class infrastructure and expertise to help other communities deploy fiber optic networks and deliver internet, video, and telephone services. As we help these other communities succeed, we achieve greater cost efficiencies for the benefit of our customers.

As you read the stories about EPB's efforts, you will also see our people working together to solve problems, dream big and support our growing community with the best possible services. It's what we set out to do in 1935, and continues today and into the 21st Century.

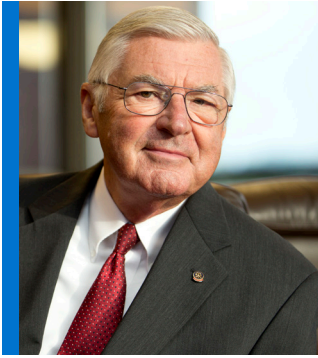


Joe Ferguson



David Wade

# Board of Directors



**Joe Ferguson**  
*Chairman*



**Warren E. Logan, Jr.**  
*Vice Chairman*



**John Foy**  
*Member*



**Vicky Gregg**  
*Member*



**Jon Kinsey**  
*Member*

# Senior Management



**David Wade**  
*President & CEO*



**Greg Eaves**  
*Executive VP & CFO*



**Kathy Burns**  
*Senior Vice President  
Customer Relations*



**Sandra Tilley**  
*Senior Vice President  
Brand Strategies*



**Kade Abed**  
*Vice President  
Field Operations*



**Katie Espeseth**  
*Vice President  
New Products*



**Jim Ingraham**  
*Vice President  
Strategic Research*



**Ryan Keel**  
*Vice President  
Technical Operations*



**Hodgen Mainda**  
*Vice President  
Community Development*



**J.Ed. Marston**  
*Vice President  
Marketing*



**Marie Webb**  
*Vice President  
Human Resources*

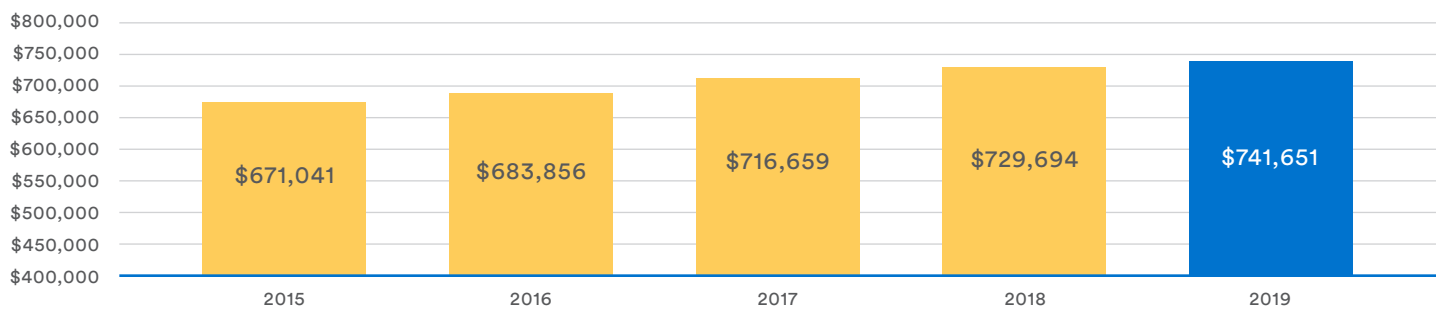
# FINANCIAL HIGHLIGHTS



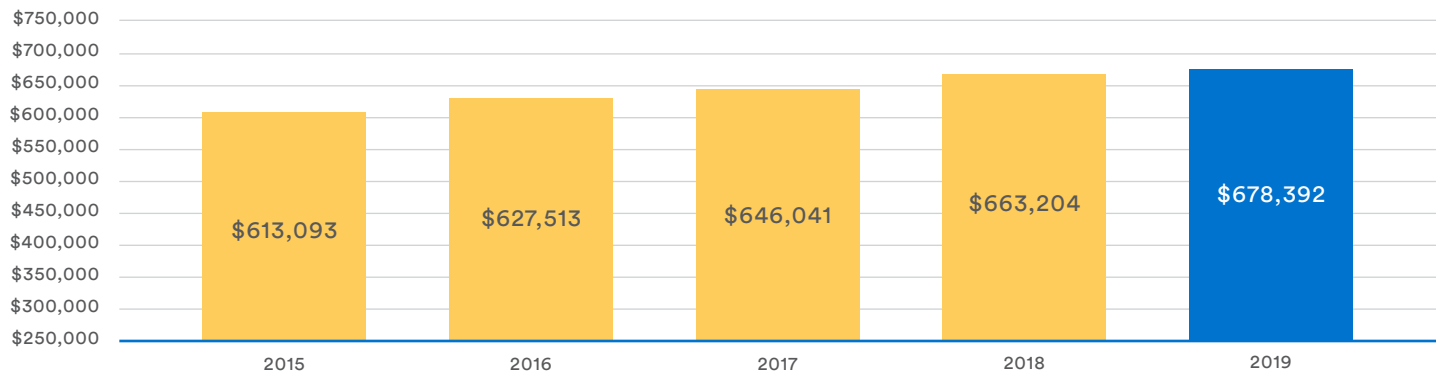
# Financial Highlights 2019

EPB operating revenues were \$741.7 million, an increase of 1.6% from the previous year. This increase was primarily due to a net increase of approximately \$8.2 million in Fiber Optics sales revenues. Net plant value increased to \$678.4 million, an increase of 2.3% from the previous year. Areas of plant investment included electric distribution assets and fiber optics communications equipment and wiring in addition to software and automation development. EPB continues to be 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 approximately \$21.7 million, an increase of 3.4% over the prior year and an increase of 11.5% 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 and optical fiber equipment.

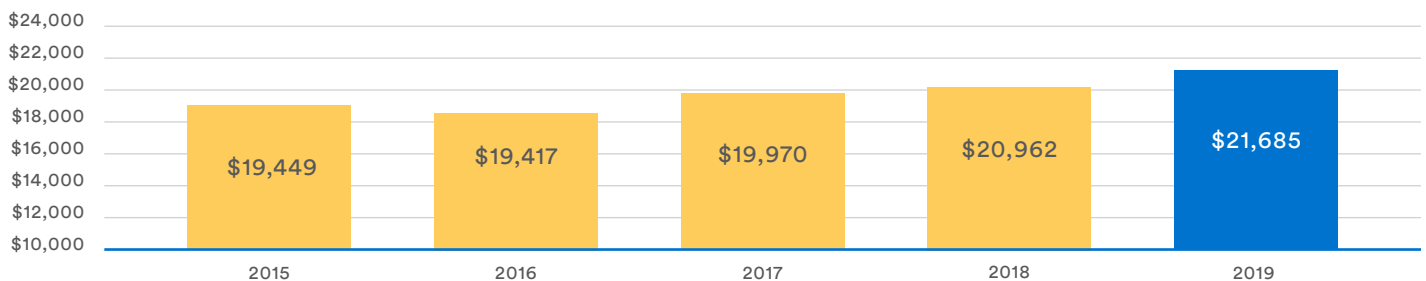
## OPERATING REVENUES (in thousands)



## NET PLANT VALUE (in thousands)



## TAX EQUIVALENTS EXPENSE AND TRANSFERS (in thousands)

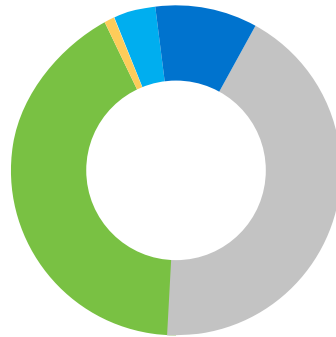




# Electric System Financial Highlights 2019

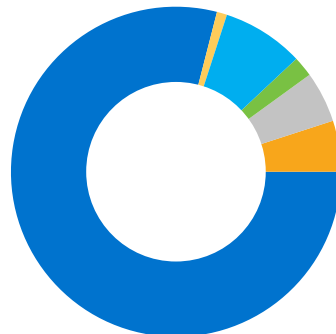
EPB provided electric service to nearly 186,000 customers in a 600 square mile area – an increase of approximately 2,300 customers from FY 2018. Total Electric System revenues were \$590.9 million, an increase of 1.3% over FY 2018. Total purchased power for the year resulted in \$442.4 million, an increase of 1.5% from FY 2018. Purchased power was 78.9% of the total electric sales. Residential customers paid an average of 10.94 cents per kwh – 15.2% less than the national average during FY 2019. Net electric plant value totaled \$583.8 million while electric expenses and transfers to the City of Chattanooga totaled \$582.3 million.

## Electric Revenues



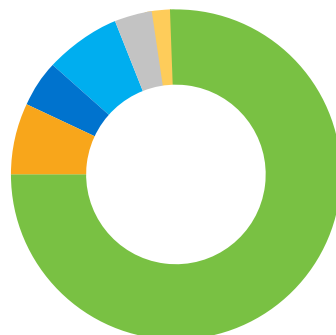
LARGE COMMERCIAL	\$253,649,000	43%
RESIDENTIAL	\$ 252,130,000	43%
SMALL COMMERCIAL	\$ 51,511,000	9%
OTHER	\$ 26,905,000	4%
OUTDOOR LIGHTING SYSTEMS	\$ 6,720,000	1%

## Electric Net Plant



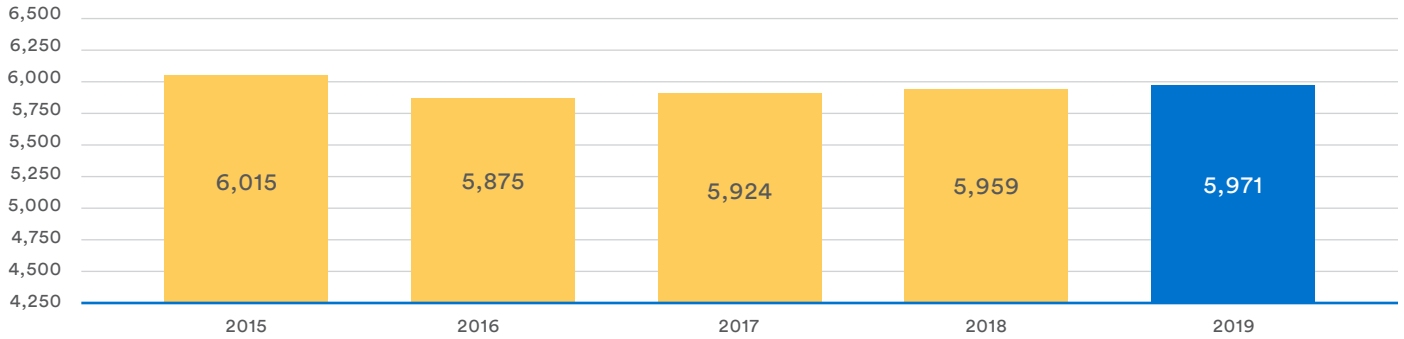
DISTRIBUTION	\$ 462,516,000	79%
BUILDINGS & IMPROVEMENTS	\$ 46,756,000	8%
FURNITURE, FIXTURES AND EQUIPMENT	\$ 28,781,000	5%
TRANSMISSION	\$ 26,982,000	5%
CONSTRUCTION WORK IN PROGRESS	\$ 12,169,000	2%
OTHER	\$ 6,548,000	1%

## Electric Expenses and Tax Equivalents

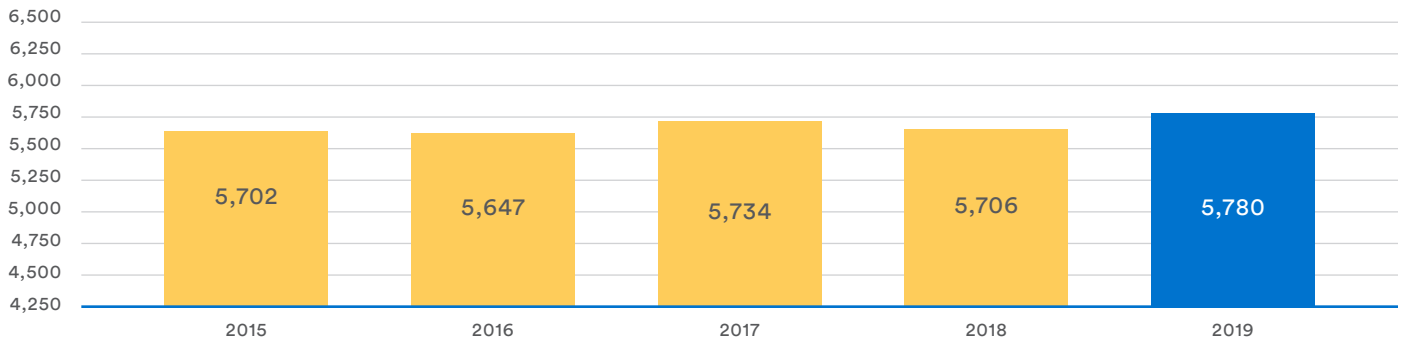


PURCHASED POWER	\$442,352,000	76%
OPERATION EXPENSES	\$ 43,239,000	7%
PROVISION FOR DEPRECIATION	\$ 40,875,000	7%
MAINTENANCE EXPENSES	\$ 25,866,000	5%
TAX EQUIVALENTS	\$ 19,764,000	3%
INTEREST EXPENSE AND INTERCOMPANY CARRYING CHARGE	\$ 10,171,000	2%

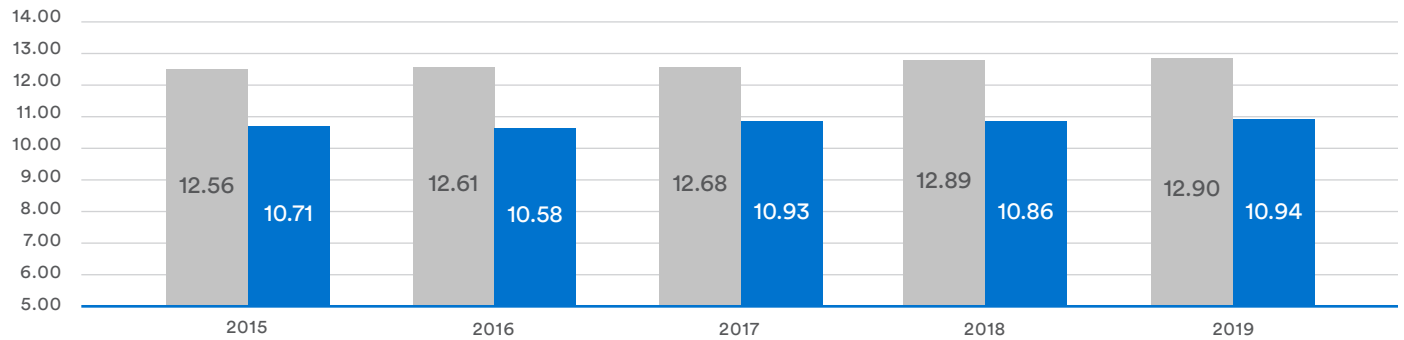
KILOWATT HOURS PURCHASED (in millions)



KILOWATT HOUR SALES (in millions)



AVERAGE COST PER KWH PER RESIDENTIAL CUSTOMER (in cents)



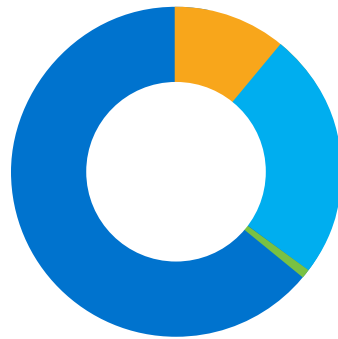
\* Source: U. S. Energy Information Administration  
 Table 5.3 –Average Retail Prices of Electricity to Ultimate Consumers

■ NATIONWIDE\*    ■ EPB

# Fiber Optics Financial Highlights 2019

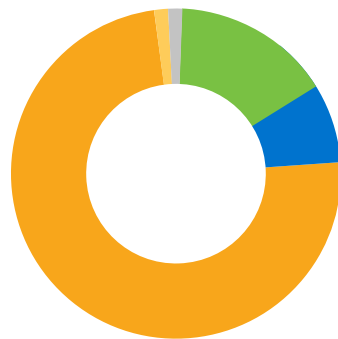
EPB Fiber Optics System increased its revenue from \$163.4 million in FY 2018 to \$172.5 million in FY 2019, an increase of \$9.1 million or 5.6%. This increase in revenues is due mainly to the growth in the number of customers for Fiber Optics residential services from approximately 89,000 to over 95,000 during FY 2019. EPB saw its total Fiber Optics customer base exceed 100,000 customers during FY 2019. The net plant grew from \$91.1 million in FY 2018 to \$94.6 million in FY 2019, an increase of 3.9%. 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 2019. Fiber Optics expenses and transfers to the City of Chattanooga totaled \$144.3 million.

## Fiber Optics Revenues



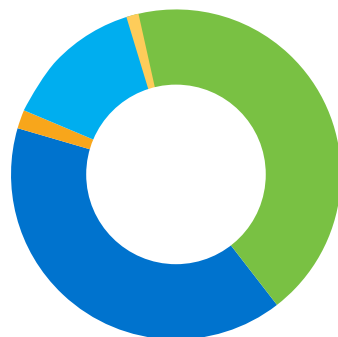
RESIDENTIAL SERVICES	\$ 119,111,000	69%
COMMERCIAL BASIC LOCAL SERVICE	\$ 38,688,000	22%
OTHER	\$ 14,077,000	8%
COMMERCIAL LONG DISTANCE	\$ 645,000	1%

## Fiber Optics Net Plant



CABLE & WIRE FACILITIES & CUSTOMER PREMISES	\$ 69,539,000	73%
CENTRAL OFFICE EQUIPMENT	\$ 14,741,000	16%
INFORMATION ORIGINATION/TERMINATION	\$ 6,146,000	7%
CONSTRUCTION WORK IN PROGRESS	\$ 2,219,000	2%
FURNITURE, FIXTURES AND EQUIPMENT	\$ 1,995,000	2%

## Fiber Optics Expenses and Tax Equivalents



OPERATION EXPENSES	\$ 60,158,000	42%
COST OF SERVICES	\$ 58,811,000	41%
PROVISION FOR DEPRECIATION	\$ 19,719,000	14%
GENERAL AND ADMINISTRATIVE	\$ 3,679,000	2%
TAX EQUIVALENTS	\$ 1,921,000	1%



**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 years ended June 30, 2019 and June 30, 2018, 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 opinions.

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## **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, 2019 and June 30, 2018, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *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 Ratios, and Schedule of Changes in OPEB Liability and Related Ratios on pages 15-24, 57, 58, and 59, 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 David Wade, 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, 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, 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 David Wade, 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.

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***Emphasis of Matter***

As discussed in Note 1, the financial statements present only the EPB, an 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, 2019 and June 30, 2018, the changes in its financial position, or, where applicable, its cash flows for the years 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 9, 2019 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of EPB's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering EPB's internal control over financial reporting and compliance.

*Mauldin & Jenkins, LLC*

Chattanooga, Tennessee  
September 9, 2019

# MANAGEMENT'S DISCUSSION & ANALYSIS



## Management's Discussion and Analysis

This Management's Discussion and Analysis is in accordance with Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. Our discussion and analysis of EPB's financial performance provides an overview of financial activities for the Fiscal Year (FY) ended June 30, 2019. Please read it in conjunction with EPB's financial statements, which follows this section.

### FINANCIAL HIGHLIGHTS

- EPB's total net position was \$453.2 million, an increase of 8.9%
- During the year consolidated electric sales were \$570.6 million, an increase of 0.6% from FY 2018; consolidated fiber optics sales were \$171.1 million, an increase of 5.2%.
- Total consolidated operating expenses were \$689.1 million, an increase of approximately 2.8%.

### 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)**

	FY 2019	FY 2018	FY 2017
Assets and Deferred Outflows, Excluding Utility Plant	\$ 239,379	\$ 229,261	\$ 204,799
Utility Plant, net	678,392	663,204	646,041
<b>Total Assets and Deferred Outflows</b>	<b>\$ 917,771</b>	<b>\$ 892,465</b>	<b>\$ 850,840</b>
Bonds Outstanding	\$ 272,436	\$ 284,391	\$ 295,983
Other Liabilities and Deferred Inflows	192,094	191,714	182,285
<b>Total Liabilities and Deferred Inflows</b>	<b>464,530</b>	<b>476,105</b>	<b>478,268</b>
Invested in Utility Plant, Net of Related Debt	417,873	391,620	363,755
Unrestricted Net Position	35,368	24,740	8,817
<b>Total Net Position</b>	<b>453,241</b>	<b>416,360</b>	<b>372,572</b>
<b>Total Liabilities, Deferred Inflows and Net Position</b>	<b>\$ 917,771</b>	<b>\$ 892,465</b>	<b>\$ 850,840</b>

### Fiscal Year 2019 Compared to Fiscal Year 2018

Net position increased \$36.9 million to \$453.2 million in FY 2019, up from \$416.4 million in FY 2018. The largest changes in net position were due to an increase of \$15.2 million in Utility Plant and increases in Cash and Investments of \$13.7 million. The net position was further aided by decreases of \$12.0 million in bonds outstanding. Other changes represented a net decrease in position of \$4.0 million.

### Fiscal Year 2018 Compared to Fiscal Year 2017

Net position increased \$43.8 million to \$416.4 million in FY 2018, up from \$372.6 million in FY 2017. The largest changes in net position were due to an increase of \$17.2 million in Utility Plant, increases in Cash and Investments of \$17.1 million, and an increase in Accounts Receivable of \$4.9 million. These increases are further aided by decreases of \$11.6 million in bonds outstanding. Other changes represented a net decrease in position of \$7.0 million.

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

	FY 2019	FY 2018	FY 2017
<b>OPERATING REVENUES</b>			
Electric Sales	\$ 560,050	\$ 557,293	\$ 557,040
Electric Other Operating Revenues	10,526	9,765	9,995
Fiber Optics Sales	156,815	148,627	136,511
Fiber Optics Other Operating Revenues	14,260	14,009	13,113
<b>Total</b>	<b>741,651</b>	<b>729,694</b>	<b>716,659</b>
<b>OPERATING EXPENSES</b>			
Electric	510,912	502,324	508,038
Fiber Optics	103,530	97,467	89,328
Provision for Depreciation	60,594	57,060	54,663
Tax Equivalents	14,067	13,615	12,925
<b>Total</b>	<b>689,103</b>	<b>670,466</b>	<b>664,954</b>
Other Deductions	(9,800)	(10,271)	(11,376)
<b>Income before Transfers and Contributions</b>	<b>42,748</b>	<b>48,957</b>	<b>40,329</b>
Tax Equivalents Transferred to the City of Chattanooga Contributions	(7,618)	(7,347)	(7,045)
	1,751	2,178	1,990
<b>Change in Net Position</b>	<b>36,881</b>	<b>43,788</b>	<b>35,274</b>
Beginning Net Position	416,360	372,572	334,238
Change in Accounting Principle	—	—	3,060
<b>Ending Net Position</b>	<b>\$ 453,241</b>	<b>\$ 416,360</b>	<b>\$ 372,572</b>

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.

#### **Fiscal Year 2019 Compared to Fiscal Year 2018**

As shown in Table 2 above, the income before transfers and contributions of \$42.7 million combined with the contributions in aid of construction of \$1.8 million and tax equivalents of \$7.6 million accrued to the City of Chattanooga, resulted in an increase in net position of \$36.9 million for FY 2019.

A closer examination of the sources of changes in net position reveals electric sales increased \$2.8 million. Additionally, electric operating expenses, excluding depreciation and tax equivalents, increased by \$8.6 million in FY 2019 to \$510.9 million from \$502.3 million in FY 2018. This increase was primarily due to \$6.4 million more purchased power from TVA due primarily to weather conditions along with \$1.2 million of increased healthcare spending and \$0.5 million in increased marketing spending.

Fiber Optics operating sales increased by \$8.2 million to \$156.8 million in FY 2019 from \$148.6 million in FY 2018 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 \$6.1 million, a 6.2% increase in FY 2019 due mainly to increased expense allocations from the Electric System for shared resources and access to the fiber network totaling \$6.3 million. The increased allocations were largely related to the continued rise in Fiber Optics customers as over 5,500 new customers were added during the year.

Expenses for tax equivalents and transfers to municipal governments including transfers to the City of Chattanooga were \$21.7 million in FY 2019 and \$21.0 million in FY 2018. 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%.

Depreciation expense increased to \$60.6 million in FY 2019 from \$57.1 million in FY 2018, an increase of 6.2%. This increase is largely related to the increase in Plant Assets from FY 2018 to FY 2019.

### **Fiscal Year 2018 Compared to Fiscal Year 2017**

As shown in Table 2 above, the income before transfers and contributions of \$48.9 million combined with the contributions in aid of construction of \$2.2 million and tax equivalents of \$7.3 million accrued to the City of Chattanooga, resulted in an increase in net position of \$43.8 million for FY 2018.

A closer examination of the sources of changes in net position reveals electric sales increased \$0.3 million. Additionally, electric operating expenses, excluding depreciation and tax equivalents, decreased by \$5.7 million in FY 2018 to \$502.3 million from \$508.0 million in FY 2017. This decrease was primarily due to \$3.7 million less purchased power from TVA due to weather conditions and \$2.3 million in reduced healthcare spending.

Fiber Optics operating sales increased by \$12.1 million to \$148.6 million in FY 2018 from \$136.5 million in FY 2017 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 \$8.1 million, a 9.1% increase in FY 2018 due mainly to increased expense allocations from the Electric System for shared resources and access to the fiber network totaling \$4.2 million, as well as an increase of \$3.5 million in cost of goods sold, related to the increase of over 6,100 new customers during the year.

Expenses for tax equivalents and transfers to municipal governments including transfers to the City of Chattanooga were \$21.0 million in FY 2018 and \$20.0 million in FY 2017. 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%.

Depreciation expense increased to \$57.1 million in FY 2018 from \$54.7 million in FY 2017, an increase of 4.4%.

## 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 budget comparison is presented in Table 3 below. 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 2019	BUDGET FY 2019	ACTUAL FY 2018	BUDGET FY 2018
<b>OPERATING REVENUES</b>				
Electric Sales	\$ 560,050	\$ 565,810	\$ 557,293	\$ 559,161
Other Electric Revenue	10,526	9,769	9,765	9,510
<b>Subtotal</b>	<b>570,576</b>	<b>575,579</b>	<b>567,058</b>	<b>568,671</b>
Fiber Optics Sales	156,815	154,107	148,627	145,752
Other Fiber Optics Revenue	14,260	14,476	14,009	13,604
<b>Subtotal</b>	<b>171,075</b>	<b>168,583</b>	<b>162,636</b>	<b>159,356</b>
<b>Total</b>	<b>741,651</b>	<b>744,162</b>	<b>729,694</b>	<b>728,027</b>
<b>OPERATING EXPENSES</b>				
Electric	510,912	517,832	502,324	508,164
Fiber Optics	103,530	103,892	97,467	99,875
Provision for Depreciation	60,594	60,659	57,060	56,897
Tax Equivalents	14,067	13,907	13,615	13,275
<b>Total</b>	<b>689,103</b>	<b>696,290</b>	<b>670,466</b>	<b>678,211</b>
Other Deductions	(9,800)	(9,301)	(10,271)	(10,563)
<b>Income before Transfers and Contributions</b>	<b>42,748</b>	<b>38,571</b>	<b>48,957</b>	<b>39,253</b>
Tax Equivalents Transferred to the City of Chattanooga	(7,618)	(7,485)	(7,347)	(7,302)
Contributions	1,751	1,083	2,178	1,350
<b>Change in Net Position</b>	<b>\$ 36,881</b>	<b>\$ 32,169</b>	<b>\$ 43,788</b>	<b>\$ 33,301</b>
<b>CAPITAL EXPENDITURES (NET OF CONTRIBUTIONS)</b>				
Electric	\$ 54,694	\$ 54,233	\$ 53,387	\$ 49,746
Fiber Optics	23,269	27,495	21,985	27,904
<b>Total Capital Expenditures</b>	<b>\$ 77,963</b>	<b>\$ 81,728</b>	<b>\$ 75,372</b>	<b>\$ 77,650</b>

**FY 2019 Actual Compared to FY 2019 Budget**

The Electric System's revenues were \$5.0 million below budget due mainly to significantly milder than expected weather throughout FY 2019. Electric operating expenses were lower than budget by \$6.9 million due mainly to purchased power expense which was also affected by the significantly milder than expected weather noted above.

The Fiber Optics System's total operating revenues were above budget by \$2.5 million, an increase of 1.5% due mainly to more customers being added in FY 2019 than budgeted. Fiber Optics System's expenses were lower than budget by \$0.4 million, a decrease of 0.3%.

**FY 2018 Actual Compared to FY 2018 Budget**

The Electric System's revenues were \$1.6 million below budget due mainly to milder than expected weather throughout FY 2018. Electric operating expenses were lower than budget by \$5.8 million due mainly to purchased power expense which was also affected by the milder than expected weather noted above.

The Fiber Optics System's total operating revenues were above budget by \$3.3 million, an increase of 2.1% due mainly to more customers being added in FY 2018 than budgeted. Fiber Optics System's expenses were lower than budget by \$2.4 million, a decrease of 2.4%, due to lower than budgeted operating expenses related to a marketing initiative budgeted for \$2 million during FY 2018 but will not be incurred until FY 2019 and later.

## UTILITY PLANT

Net Utility Plant 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 below shows a comparison. As shown in Table 4 below, EPB had \$678.4 million, \$663.2 million, and \$646.0 million in net utility plant for FY 2019, FY 2018 and FY 2017, respectively.

**TABLE 4 – Utility Plant (in thousands of dollars)**

	FY 2019	FY 2018	FY 2017
<b>ELECTRIC</b>			
Intangible Plant	\$ 75	\$ 87	\$ 100
Transmission	53,429	54,638	56,045
Distribution	686,442	674,049	649,826
Building & improvements	66,391	67,244	69,754
Furniture, fixtures & equipment	85,233	78,343	76,877
Land & land rights	6,501	6,499	6,475
Construction work in progress	12,169	13,196	9,259
<b>Total</b>	<b>910,240</b>	<b>894,056</b>	<b>868,336</b>
Less: Accumulated depreciation	(326,488)	(321,942)	(308,721)
<b>Electric Total</b>	<b>\$ 583,752</b>	<b>\$ 572,114</b>	<b>\$ 559,615</b>
<b>FIBER OPTICS</b>			
Central office equipment	\$ 29,501	\$ 26,099	\$ 27,453
Information origination/termination	12,586	10,271	8,719
Cable & wire facilities	148	155	2,357
Furniture, fixtures & equipment	4,676	4,417	4,105
Customer premises wiring	92,878	83,290	75,517
Customer premises equipment	19,356	17,490	13,002
Construction work in progress	2,219	4,336	1,151
<b>Total</b>	<b>161,364</b>	<b>146,058</b>	<b>132,304</b>
Less: Accumulated depreciation	(66,724)	(54,968)	(45,878)
<b>Fiber Optics Total</b>	<b>94,640</b>	<b>91,090</b>	<b>86,426</b>
<b>Net Utility Plant</b>	<b>\$ 678,392</b>	<b>\$ 663,204</b>	<b>\$ 646,041</b>

## DEBT ADMINISTRATION

As of year-end, EPB Electric System had \$272.4 million in bond debt outstanding compared to \$284.4 in FY 2018 and \$296.0 million FY 2017. These bonds were rated AA+ by Fitch and AA by Standard & Poor's at fiscal year-end.

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 Tables 5. This ratio is currently 3.8x. This represents no change from FY 2018.

**TABLE 5 – Electric System – Debt Coverage Analysis (in thousands of dollars)**

	FY 2019	FY 2018	FY 2017
<b>REVENUES</b>			
Electric Revenue	\$ 589,694	\$ 582,689	\$ 582,337
Interest Income	1,110	647	354
Other Income	111	181	209
<b>Total Revenue</b>	<b>590,915</b>	<b>583,517</b>	<b>582,900</b>
<b>EXPENSES</b>			
Purchased Power	442,352	435,995	439,729
Operating Expenses	67,864	65,695	67,842
<b>Total Operation Expenses</b> (excluding depreciation and tax equivalent payments)	<b>510,216</b>	<b>501,690</b>	<b>507,571</b>
<b>Funds Available for Debt Service</b>	<b>\$ 80,699</b>	<b>\$ 81,827</b>	<b>\$ 75,329</b>
<b>DEBT SERVICE</b>			
Interest Paid on Long-Term Debt	\$ 11,127	\$ 11,546	\$ 11,895
Principal Payments	10,205	9,835	9,560
<b>Total Debt Service</b>	<b>\$ 21,332</b>	<b>\$ 21,381</b>	<b>\$ 21,455</b>
<b>Debt Coverage Ratio</b>	<b>3.8</b>	<b>3.8</b>	<b>3.5</b>

The Video & Internet System line of credit matured in December of 2017 and was not renewed.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

EPB's Board of Directors and Management considered many factors when setting FY 2020 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 historical load data to estimate growth and average kilowatt-hour sales per customer class. These estimates are adjusted by any known data, such as changes anticipated by a large industrial customer.

In FY 2020, 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 over 102,000 residential and business customers at the end of FY 2019 and is projected to have over 105,000 by the end of FY 2020.

The EPB Electric System budget for FY 2020 includes the allocation of capital for fiber installations to support the Smart Grid, as well as Information Technology 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, new building facilities, 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



## Statements of Net Position as of June 30, 2019 and 2018

ASSETS AND DEFERRED OUTFLOWS	FY 2019	FY 2018
<b>Current Assets</b>		
Cash and cash equivalents	\$ 104,366,000	\$ 105,886,000
Investments	4,029,000	4,966,000
Accounts receivable, less allowance for doubtful accounts of \$1,617,000 and \$1,407,000 in 2019 and 2018, respectively	32,179,000	32,050,000
Unbilled electric sales	34,138,000	37,468,000
Materials and supplies, at average cost	13,422,000	13,566,000
Prepayments and other current assets	6,402,000	7,268,000
<b>Total Current Assets</b>	<b>194,536,000</b>	<b>201,204,000</b>
<b>Non-Current Assets</b>		
Investments	16,192,000	—
Utility plant -		
Utility plant	1,071,604,000	1,040,114,000
Less - accumulated provision for depreciation	(393,212,000)	(376,910,000)
<b>Net utility plant</b>	<b>678,392,000</b>	<b>663,204,000</b>
Other non-current assets	1,932,000	2,036,000
Net other post-employment benefit asset	352,000	—
<b>Total Non-Current Assets</b>	<b>696,868,000</b>	<b>665,240,000</b>
<b>Deferred Outflows of Resources</b>		
Deferred defeasance outflows	11,917,000	12,807,000
Deferred pension outflows	12,731,000	11,632,000
Deferred OPEB outflows	1,719,000	1,582,000
<b>Total Deferred Outflows</b>	<b>26,367,000</b>	<b>26,021,000</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<b>\$ 917,771,000</b>	<b>\$ 892,465,000</b>

## Statements of Net Position as of June 30, 2019 and 2018

LIABILITIES, DEFERRED INFLOWS AND NET POSITION	FY 2019	FY 2018
<b>Current Liabilities</b>		
Accounts payable -		
Tennessee Valley Authority, for power purchased	\$ 74,420,000	\$ 76,626,000
Other	21,893,000	23,570,000
Customer deposits	3,691,000	3,338,000
Revenue bonds, current portion	10,645,000	10,205,000
Accrued tax equivalents	21,533,000	20,788,000
Accrued interest payable	3,634,000	3,783,000
Unearned revenue	6,116,000	5,929,000
Other current liabilities	14,166,000	12,543,000
<b>Total Current Liabilities</b>	<b>156,098,000</b>	<b>156,782,000</b>
<b>Non-Current Liabilities</b>		
Revenue bonds, net	261,791,000	274,186,000
Net pension liability	14,361,000	12,802,000
Net other post-employment benefit liability	—	2,572,000
Customer deposits	21,657,000	21,119,000
Other non-current liabilities	4,079,000	4,160,000
<b>Total Non-Current Liabilities</b>	<b>301,888,000</b>	<b>314,839,000</b>
<b>Deferred Inflows Of Resources</b>		
Deferred OPEB inflows	6,544,000	4,484,000
<b>Net Position</b>		
Net investment in capital assets	417,873,000	391,620,000
Unrestricted	35,368,000	24,740,000
<b>Total Net Position</b>	<b>453,241,000</b>	<b>416,360,000</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION</b>	<b>\$ 917,771,000</b>	<b>\$ 892,465,000</b>

## Statements of Revenues, Expenses, and Changes in Net Position for the years ended June 30, 2019 and 2018

	FY 2019	FY 2018
<b>Operating Revenues</b>		
Electric sales		
Residential	\$ 252,130,000	\$ 246,869,000
Small commercial and power	51,511,000	50,082,000
Large commercial and power	253,649,000	251,071,000
Outdoor lighting systems	6,720,000	6,608,000
<b>Total Billed Electric Sales</b>	<b>564,010,000</b>	<b>554,630,000</b>
Change in unbilled electric sales	(3,330,000)	3,278,000
Less uncollectible electric sales	(630,000)	(615,000)
<b>Total Electric Sales</b>	<b>560,050,000</b>	<b>557,293,000</b>
Fiber optics sales		
Billed fiber optics revenues	157,899,000	149,838,000
Less: uncollectible fiber optics revenues	(1,084,000)	(1,211,000)
<b>Total Fiber Optics Sales</b>	<b>156,815,000</b>	<b>148,627,000</b>
Other operating revenues	24,786,000	23,774,000
<b>Total Operating Revenues</b>	<b>741,651,000</b>	<b>729,694,000</b>
<b>Operating Expenses</b>		
Operation		
Power purchased from Tennessee Valley Authority	442,352,000	435,995,000
Other operation expenses	42,694,000	39,902,000
Maintenance	25,866,000	26,427,000
Fiber optic operating expenses	103,530,000	97,467,000
Provision for depreciation	60,594,000	57,060,000
City, county, and state tax equivalents	14,067,000	13,615,000
<b>Total Operating Expenses</b>	<b>689,103,000</b>	<b>670,466,000</b>
<b>Net Operating Income</b>	<b>52,548,000</b>	<b>59,228,000</b>
<b>Non-Operating Revenues (Expenses)</b>		
Interest revenue on invested funds	1,673,000	743,000
Interest expense	(9,833,000)	(9,017,000)
Other, net	111,000	181,000
Plant cost recovered through contributions in aid of construction	(1,751,000)	(2,178,000)
<b>Total Non-Operating Expenses</b>	<b>(9,800,000)</b>	<b>(10,271,000)</b>
<b>Income Before Transfers and Contributions</b>	<b>42,748,000</b>	<b>48,957,000</b>
Tax Equivalents Transferred to The City of Chattanooga	(7,618,000)	(7,347,000)
<b>Contributions in Aid of Construction</b>	<b>1,751,000</b>	<b>2,178,000</b>
<b>Change in Net Position</b>	<b>36,881,000</b>	<b>43,788,000</b>
<b>Net Position, Beginning of Year</b>	<b>416,360,000</b>	<b>372,572,000</b>
<b>Net Position, End of Year</b>	<b>\$ 453,241,000</b>	<b>\$ 416,360,000</b>

Statements of Cash Flows  
for the years ended June 30, 2019 and 2018

	FY 2019	FY 2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 761,959,000	\$ 736,296,000
Payments to suppliers for goods and services	(583,058,000)	(556,045,000)
Payments to employees for services	(47,763,000)	(48,548,000)
Payments in lieu of taxes	(20,924,000)	(19,978,000)
Net cash provided by operating activities	110,214,000	111,725,000
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Additions to utility plant	(77,857,000)	(75,189,000)
Removal cost	(1,296,000)	(1,309,000)
Salvage	662,000	525,000
Contributions in aid of construction	1,751,000	2,178,000
Interest paid on debt	—	(61,000)
Bond principal payment	(10,205,000)	(9,835,000)
Bond interest payment	(11,127,000)	(11,546,000)
Unused line of credit fees	(80,000)	(83,000)
Net cash used in capital and related financing activities	(98,152,000)	(95,320,000)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	7,000,000	3,000,000
Purchase of investments	(22,086,000)	(4,960,000)
Interest on investments	1,504,000	737,000
Net cash used in investing activities	(13,582,000)	(1,223,000)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>\$ (1,520,000)</b>	<b>\$ 15,182,000</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>105,886,000</b>	<b>90,704,000</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 104,366,000</b>	<b>\$ 105,886,000</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Net operating income	\$ 52,548,000	\$ 59,228,000
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation and amortization	61,835,000	58,208,000
Miscellaneous non-operating expenses, net	193,000	264,000
Tax equivalents transferred to the City of Chattanooga	(7,618,000)	(7,347,000)
Changes in assets and liabilities:		
Accounts receivable, net	(129,000)	(4,931,000)
Unbilled electric sales	3,330,000	(3,278,000)
Materials and supplies	144,000	(65,000)
Prepayments and other current assets	866,000	(1,196,000)
Other charges	104,000	373,000
Accounts payable, net	(3,883,000)	10,480,000
Customer deposits	891,000	(42,000)
Accrued tax equivalents	745,000	971,000
Unearned revenue	187,000	309,000
Other current liabilities	1,623,000	(1,243,000)
Other credits	(81,000)	180,000
Net pension liability	460,000	176,000
Net other post-employment benefit liability	(1,001,000)	(362,000)
Net cash provided by operating activities	\$ 110,214,000	\$ 111,725,000

## Notes To Financial Statements for the years ended June 30, 2019 and 2018

### 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 over 185,000 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 2019, EPB had over 95,000 residential customers and 7,900 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 2018, EPB implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (“OPEB”).

#### **Use of Estimates**

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

#### **Cash and Cash Equivalents**

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

**Financial Instruments**

Financial instruments of EPB may include certificates of deposit, money market accounts, short-term and long-term investments in federal agency bonds and notes, commercial paper, investment in the State of Tennessee Local Government Investment Pool, and accounts receivable. All financial instruments are carried at fair value as determined by market prices at June 30, 2019 and 2018.

**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 5.95% in 2019 and 5.78% in 2018.

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.

**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.

## Reclassifications

Certain amounts in the 2018 financial statements have been reclassified to conform to the 2019 presentation, with no effect on net position or change in net position.

## 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. All LGIP, money market, certificate of deposit accounts, and commercial paper with maturities 90 days or less are classified as cash and cash equivalents for reporting purposes.

At June 30, 2019, 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)	\$ 141	\$ 141	\$ —	\$ —
Money Market Accounts	89,471	89,471	—	—
Certificates of Deposit	22,309	10,212	6,048	6,049
Commercial Paper	2,000	2,000	—	—
Bonds	3,110	1,131	—	1,979
Total	\$ 117,031	\$ 102,955	\$ 6,048	\$ 8,028



At June 30, 2018, 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)	\$ 51,807	\$ 51,807	\$ —	\$ —
Money Market Accounts	27,624	27,624	—	—
Certificates of Deposit	5,057	5,057	—	—
Commercial Paper	12,717	12,717	—	—
Bonds	4,985	4,985	—	—
Total	\$ 102,190	\$ 102,190	\$ —	\$ —

### 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, 2019 and 2018 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, 2019:

- United States Treasury Bonds of \$3.1 million are valued using the principal cost plus any amortized discounts and premiums and accrued interest as a reasonable estimate of fair value (Level 1 inputs).
- Certificate of Deposits of \$22.3 million are valued using the carrying amount, including accrued interest earned, as a reasonable estimate of fair value (Level 1 inputs).

EPB has the following recurring fair value measurements as of June 30, 2018:

- United States Treasury Bonds of \$5.0 million are valued using the principal cost plus any amortized discounts and premiums and accrued interest as a reasonable estimate of fair value (Level 1 inputs).
- Certificate of Deposits of \$5.1 million are valued using the carrying amount, including accrued interest earned, as a reasonable estimate of fair value (Level 1 inputs).

### **Custodial Credit Risk**

At June 30, 2019 and 2018, 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, 2019 and 2018, 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, 2019 and 2018 were as follows:

ISSUER	INVESTMENT TYPE	JUNE 30, 2019	JUNE 30, 2018
State of Tennessee	Local Government Investment Pool	0.12%	50.70%
BB&T Bank	Money Market Accounts	0.05%	0.06%
Capstar Bank	Money Market Accounts & CD's	3.54%	0.76%
United States Treasury	Treasury Bills & Bonds	2.66%	7.32%
First Bank	Money Market Accounts	2.72%	1.22%
First Tennessee Bank	Money Market Accounts	0.00%	0.04%
First Volunteer Bank	Money Market Accounts	0.01%	0.01%
FSG Bank/Atlantic Capital	Money Market Accounts	0.00%	4.27%
Pinnacle Financial Partners	Money Market Accounts	66.41%	14.57%
Regions Bank	Money Market Accounts	0.04%	0.01%
SmartBank	Money Market Accounts & CD's	8.28%	0.09%
Southern Community Bank	Money Market Accounts & CD's	0.00%	4.86%
SunTrust Bank	Money Market Accounts	0.07%	0.11%
JP Morgan Securities LLC	Commercial Paper	1.71%	1.95%
Toyota Industries	Commercial Paper	0.00%	1.96%
Coca Cola Company	Commercial Paper	0.00%	1.95%
Qualcomm	Commercial Paper	0.00%	1.95%
Reliant Bank	Money Market Accounts & CD's	11.80%	5.98%
Prudential	Commercial Paper	0.00%	2.19%
Tower Community Bank	Money Market Accounts & CD's	2.59%	0.00%

## 4. UTILITY PLANT

Electric utility plant assets activity for the year ended June 30, 2019 was as follows (in thousands):

ELECTRIC ASSET COST	JUNE 30, 2018	ADDITIONS	RETIREMENTS AND OTHER	JUNE 30, 2019
<b>Non-Depreciable Assets</b>				
Land & Land Rights	\$ 6,499	\$ 2	\$ —	\$ 6,501
Construction Work in Progress	13,196	(1,027)	—	12,169
<b>Depreciable Assets</b>				
Intangible Plant	87	—	(12)	75
Transmission	54,638	523	(1,732)	53,429
Distribution	674,049	39,525	(27,132)	686,442
Buildings & Improvements	67,244	1,200	(2,053)	66,391
Furniture, Fixtures, & Equipment	78,343	13,110	(6,220)	85,233
<b>Electric Total Asset Cost</b>	<b>\$ 894,056</b>	<b>\$ 53,333</b>	<b>\$ (37,149)</b>	<b>\$ 910,240</b>
<b>ELECTRIC ACCUMULATED DEPRECIATION</b>				
	<b>JUNE 30, 2018</b>	<b>ADDITIONS</b>	<b>RETIREMENTS AND OTHER</b>	<b>JUNE 30, 2019</b>
Intangible Plant	\$ 33	\$ 8	\$ (13)	\$ 28
Transmission	26,383	1,823	(1,759)	26,447
Distribution	224,962	26,923	(27,959)	223,926
Buildings & Improvements	19,450	2,274	(2,089)	19,635
Furniture, Fixtures, & Equipment	51,114	11,088	(5,750)	56,452
<b>Electrical Total Accumulated Depreciation</b>	<b>\$ 321,942</b>	<b>\$ 42,116</b>	<b>\$ (37,570)</b>	<b>\$ 326,488</b>
<b>Electric Total Net Utility Plant</b>	<b>\$ 572,114</b>	<b>\$ 11,217</b>	<b>\$ 421</b>	<b>\$ 583,752</b>

Fiber Optics utility plant assets activity for the year ended June 30, 2019 was as follows (in thousands):

FIBER OPTICS ASSET COST	JUNE 30, 2018	ADDITIONS	RETIREMENTS AND OTHER	JUNE 30, 2019
<b>Non-Depreciable Assets</b>				
Construction Work in Progress	\$ 4,336	\$ (2,117)	\$ —	\$ 2,219
<b>Depreciable Assets</b>				
Central Office Equipment	26,099	5,836	(2,434)	29,501
Information Origination/Termination	10,271	2,905	(590)	12,586
Cable & Wire Facilities	155	—	(7)	148
Furniture, Fixtures, & Equipment	4,417	347	(88)	4,676
Customer Premise Wiring	83,290	12,170	(2,582)	92,878
Customer Premise Equipment	17,490	3,944	(2,078)	19,356
<b>Fiber Optics Total Asset Cost</b>	<b>\$ 146,058</b>	<b>\$ 23,085</b>	<b>\$ (7,779)</b>	<b>\$ 161,364</b>
<b>FIBER OPTICS ACCUMULATED DEPRECIATION</b>				
	<b>JUNE 30, 2018</b>	<b>ADDITIONS</b>	<b>RETIREMENTS AND OTHER</b>	<b>JUNE 30, 2019</b>
Central Office Equipment	\$ 14,486	\$ 2,708	\$ (2,434)	\$ 14,760
Information Origination/Termination	4,777	2,253	(590)	6,440
Cable & Wire Facilities	36	2	(8)	30
Furniture, Fixtures, & Equipment	2,354	415	(88)	2,681
Customer Premise Wiring	22,855	8,834	(2,824)	28,865
Customer Premise Equipment	10,460	5,507	(2,019)	13,948
<b>Fiber Optics Total Accumulated Depreciation</b>	<b>\$ 54,968</b>	<b>\$ 19,719</b>	<b>\$ (7,963)</b>	<b>\$ 66,724</b>
<b>Fiber Optics Total Net Utility Plant</b>	<b>\$ 91,090</b>	<b>\$ 3,366</b>	<b>\$ 184</b>	<b>\$ 94,640</b>
<b>TOTAL NET UTILITY PLANT</b>	<b>\$ 663,204</b>	<b>\$ 14,583</b>	<b>\$ 605</b>	<b>\$ 678,392</b>

Electric utility plant assets activity for the year ended June 30, 2018 was as follows (in thousands):

ELECTRIC ASSET COST	JUNE 30, 2017	ADDITIONS	RETIREMENTS AND OTHER	JUNE 30, 2018
<b>Non-Depreciable Assets</b>				
Land & Land Rights	\$ 6,475	\$ 24	\$ —	\$ 6,499
Construction Work in Progress	9,259	3,937	—	13,196
<b>Depreciable Assets</b>				
Intangible Plant	100	—	(13)	87
Transmission	56,045	531	(1,938)	54,638
Distribution	649,826	40,988	(16,765)	674,049
Buildings & Improvements	69,754	817	(3,327)	67,244
Furniture, Fixtures, & Equipment	76,877	5,875	(4,409)	78,343
<b>Electric Total Asset Cost</b>	<b>\$ 868,336</b>	<b>\$ 52,172</b>	<b>\$ (26,452)</b>	<b>\$ 894,056</b>
<b>ELECTRIC ACCUMULATED DEPRECIATION</b>				
	<b>JUNE 30, 2017</b>	<b>ADDITIONS</b>	<b>RETIREMENTS AND OTHER</b>	<b>JUNE 30, 2018</b>
Intangible Plant	\$ 37	\$ 9	\$ (13)	\$ 33
Transmission	26,504	1,863	(1,984)	26,383
Distribution	217,296	25,992	(18,326)	224,962
Buildings & Improvements	20,444	2,341	(3,335)	19,450
Furniture, Fixtures, & Equipment	44,440	10,682	(4,008)	51,114
<b>Electrical Total Accumulated Depreciation</b>	<b>\$ 308,721</b>	<b>\$ 40,887</b>	<b>\$ (27,666)</b>	<b>\$ 321,942</b>
<b>Electric Total Net Utility Plant</b>	<b>\$ 559,615</b>	<b>\$ 11,285</b>	<b>\$ 1,214</b>	<b>\$ 572,114</b>

Fiber Optics utility plant assets activity for the year ended June 30, 2018 was as follows (in thousands):

FIBER OPTICS ASSET COST	JUNE 30, 2017	ADDITIONS	RETIREMENTS AND OTHER	JUNE 30, 2018
<b>Non-Depreciable Assets</b>				
Construction Work in Progress	\$ 1,151	\$ 3,185	\$ —	\$ 4,336
<b>Depreciable Assets</b>				
Central Office Equipment	27,453	1,072	(2,426)	26,099
Information Origination/Termination	8,719	1,919	(367)	10,271
Cable & Wire Facilities	2,357	1	(2,203)	155
Furniture, Fixtures, & Equipment	4,105	401	(89)	4,417
Customer Premise Wiring	75,517	9,991	(2,218)	83,290
Customer Premise Equipment	13,002	4,488	—	17,490
<b>Fiber Optics Total Asset Cost</b>	<b>\$ 132,304</b>	<b>\$ 21,057</b>	<b>\$ (7,303)</b>	<b>\$ 146,058</b>
<b>FIBER OPTICS ACCUMULATED DEPRECIATION</b>				
	<b>JUNE 30, 2017</b>	<b>ADDITIONS</b>	<b>RETIREMENTS AND OTHER</b>	<b>JUNE 30, 2018</b>
Central Office Equipment	\$ 14,219	\$ 2,693	\$ (2,426)	\$ 14,486
Information Origination/Termination	3,305	1,839	(367)	4,777
Cable & Wire Facilities	2,243	7	(2,214)	36
Furniture, Fixtures, & Equipment	1,960	483	(89)	2,354
Customer Premise Wiring	18,018	7,967	(3,130)	22,855
Customer Premise Equipment	6,133	4,327	—	10,460
<b>Fiber Optics Total Accumulated Depreciation</b>	<b>\$ 45,878</b>	<b>\$ 17,316</b>	<b>\$ (8,226)</b>	<b>\$ 54,968</b>
<b>Fiber Optics Total Net Utility Plant</b>	<b>\$ 86,426</b>	<b>\$ 3,741</b>	<b>\$ 923</b>	<b>\$ 91,090</b>
<b>TOTAL NET UTILITY PLANT</b>	<b>\$ 646,041</b>	<b>\$ 15,026</b>	<b>\$ 2,137</b>	<b>\$ 663,204</b>

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 years
Customer premise wiring	10 years
Customer premise equipment	3.5 years

Depreciation expense for the Electric System was approximately \$42.1 million and \$40.9 million for the fiscal years ended June 30, 2019 and 2018, respectively. This depreciation expense includes automotive equipment depreciation which is included in other operation expenses of approximately \$1.2 million for both the fiscal years ended June 30, 2019 and 2018. Depreciation expense for the Fiber Optics System was approximately \$19.7 million and \$17.3 million for the fiscal years ended June 30, 2019 and 2018, respectively.



## 5. DEBT

Long-term debt for the year ended June 30, 2019 is as follows (in thousands):

	BALANCE AT JUNE 30, 2018	REPAYMENTS, AMORTIZATION OR ACCRETION	ADDITIONS	BALANCE AT JUNE 30, 2019	CURRENT AMOUNT DUE
Electric System Revenue Bonds, 2015 Series A, bear interest at rates from 2.875% to 5.00% maturing through September 2033, interest due semi-annually	\$ 217,485	\$ (8,380)	\$ —	\$ 209,105	\$ 8,880
Electric System Revenue Bonds, 2015 Series B, bear interest at rates from 2.05% to 3.375%, maturing through September 2025, interest due semi-annually	13,295	(1,825)	—	11,470	1,765
Electric System Revenue Bonds, 2015 Series C, bear interest at rates from 4.00% to 5.00%, maturing through September 2040, interest due semi-annually	25,880	—	—	25,880	—
Subtotal	256,660	(10,205)	—	246,455	10,645
Unamortized premium/(discount)	27,731	(1,750)	—	25,981	—
<b>Total Debt</b>	<b>\$ 284,391</b>	<b>\$ (11,955)</b>	<b>\$ —</b>	<b>\$ 272,436</b>	<b>\$ 10,645</b>

Long-term debt for the year ended June 30, 2018 is as follows (in thousands):

	BALANCE AT JUNE 30, 2017	REPAYMENTS, AMORTIZATION OR ACCRETION	ADDITIONS	BALANCE AT JUNE 30, 2018	CURRENT AMOUNT DUE
Electric System Revenue Bonds, 2008 Series A, bears interest at a rate of 4.50%, maturing through September 2017, interest due semi- annually	\$ 6,575	\$ (6,575)	\$ —	\$ —	\$ —
Electric System Revenue Bonds, 2015 Series A, bears interest at rates from 2.875% to 5.00%, maturing through September 2033, interest due semi-annually	218,855	(1,370)	—	217,485	8,380
Electric System Revenue Bonds, 2015 Series B, bears interest at rates from 1.10% to 3.375%, maturing through September 2025, interest due semi-annually	15,185	(1,890)	—	13,295	1,825
Electric System Revenue Bonds, 2015 Series C, bear interest at rates from 4.00% to 5.00%, maturing through September 2040, interest due semi-annually	25,880	—	—	25,880	—
Subtotal	266,495	(9,835)	—	256,660	10,205
Unamortized premium/(discount)	29,488	(1,757)	—	27,731	—
<b>Total Debt</b>	<b>\$ 295,983</b>	<b>\$ (11,592)</b>	<b>\$ —</b>	<b>\$ 284,391</b>	<b>\$ 10,205</b>

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
2020	\$ 10,645	\$ 10,502	\$ 21,147
2021	11,130	9,997	21,127
2022	12,440	9,427	21,867
2023	13,015	8,823	21,838
2024	13,625	8,180	21,805
2025–2029	77,885	31,348	109,233
2030–2034	95,720	12,753	108,473
2035–2039	8,140	1,885	10,025
2040–2041	3,855	131	3,986
Total	\$ 246,455	\$ 93,046	\$ 339,501

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. The remaining bonds were paid off during FY 2018.

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 provided 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 were 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, removed from the accounts of EPB as this portion 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 resulting in an economic gain of approximately \$19.8 million. At June 30, 2019, there were no remaining balances of refunded bonds in escrow.

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 year 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, 2019 was 3.8.

EPB maintained a \$50 million bank line of credit with the execution of an Electric System Revenue Anticipation Note in FY 2019 and 2018. 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 2020 and bears an interest rate of 30-day LIBOR plus 0.70%. As of June 30, 2019 and 2018, 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. 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 \$191,000 and \$200,000 at June 30, 2019 and 2018, respectively. Also, employees were eligible to be paid upon retirement at the rate of 38% for accumulated sick leave hours at June 30, 2019 and 2018, 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 \$412,000 and \$435,000 at June 30, 2019 and 2018, 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

The following table details number of employees that were covered by the benefit terms, as of June 30, 2019 and 2018, respectively:

	NUMBER OF EMPLOYEES	
	2019	2018
Inactive employees or beneficiaries currently receiving benefits	14	15
Inactive employees entitled to but not yet receiving benefits	133	128
Active employees	541	542
Total	688	685

### 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 13.3% and 13.6% of annual covered payroll as of August 1, 2018 and 2017, respectively.

## Net Pension Liability

EPB's net pension liability was measured as of July 31, 2018 and 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of August 1, 2018 and 2017, respectively.

The total pension liability in the actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurements:

Inflation	1.5%
Salary Increase	3.0%
Investment rate of return	7.0%

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

The actuarial assumptions used in the August 1, 2018 valuation were based on the results of an actuarial experience study for the period August 1, 2015 - July 31, 2018. The actuarial assumptions used in the August 1, 2017 valuation were based on the results of an actuarial experience study for the period August 1, 2014 - July 31, 2017.

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	30-45 %	7.0 %
International equity	25-40 %	6.5 %
Fixed income	15-25 %	4.0 %
Real estate	0-10 %	6.0 %
Cash	0-10 %	0.5 %

The discount rate used to measure the total pension liability was 7.0 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 June 30, 2018	\$ 60,310	\$ 47,508	\$ 12,802
Changes for the year:			
Service Cost	4,052	—	4,052
Interest	4,222	—	4,222
Differences between expected and experience	2,278	—	2,278
Changes in assumptions	—	—	—
Contributions-employer	—	5,834	(5,834)
Net investment income	—	3,214	(3,214)
Benefit payments	(5,963)	(5,963)	—
Administrative expense	—	(55)	55
Net changes	4,589	3,030	1,559
Balances at June 30, 2019	\$ 64,899	\$ 50,538	\$ 14,361

	INCREASE (DECREASE)		
	TOTAL PENSION LIABILITY	PLAN FIDUCIARY NET POSITION	NET PENSION LIABILITY
Balances at June 30, 2017	\$ 58,176	\$ 44,761	\$ 13,415
Changes for the year:			
Service Cost	3,420	—	3,420
Interest	4,432	—	4,432
Differences between expected and experience	1,460	—	1,460
Contributions-employer	—	5,825	(5,825)
Net investment income	—	4,174	(4,174)
Benefit payments	(7,178)	(7,178)	—
Administrative expense	—	(74)	74
Net changes	2,134	2,747	(613)
Balances at June 30, 2018	\$ 60,310	\$ 47,508	\$ 12,802

The following presents the net pension liability of the Plan, calculated using the discount rate of 7.0 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 (6.0 percent) or 1-percentage-point higher (8.0 percent) than the current rate (in thousands):

Net pension position as of June 30, 2019

	1% DECREASE (6.0%)	CURRENT DISCOUNT RATE (7.0%)	1% INCREASE (8.0%)
Net pension liability (asset)	\$ 24,970	\$ 14,361	\$ 5,537

Net pension position as of June 30, 2018

	1% DECREASE (6.0%)	CURRENT DISCOUNT RATE (7.0%)	1% INCREASE (8.0%)
Net pension liability (asset)	\$ 22,604	\$ 12,802	\$ 4,559

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

For the year ended June 30, 2019, EPB recognized pension expense of \$6.1 million. At June 30, 2019, 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	\$ 8,584	\$ —
Employer contributions made after plan year	100	—
Change in assumptions	3,330	—
Net difference between projected and actual earnings on pension plan investments	717	—
<b>Total</b>	<b>\$ 12,731</b>	<b>\$ —</b>

For the year ended June 30, 2018, EPB recognized pension expense of \$5.8 million. At June 30, 2018, 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	\$ 6,929	\$ —
Employer contributions made after plan year	335	—
Change in assumptions	3,570	—
Net difference between projected and actual earnings on pension plan investments	798	—
<b>Total</b>	<b>\$ 11,632</b>	<b>\$ —</b>



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
2020	\$ 1,465
2021	1,263
2022	592
2023	845
2024	862
Thereafter	7,604
Total	\$ 12,631

Deferred outflows of resources totaling \$0.1 million represent contributions made after the Plan's valuation date. These contributions will be used to reduce the net pension liability during 2020.

#### **Payable to the Pension Plan**

At June 30, 2019 and 2018, 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, 2018, this Actuarial Accrued Liability has been calculated to be \$48.0 million; with the Actuarial Value of Plan Assets being \$50.5 million. As of August 1, 2017, this Actuarial Accrued Liability has been calculated to be \$45.7 million; with the Actuarial Value of Plan Assets being \$47.5 million. Therefore, the Actuarial Accrued Liability strictly devoted to past service and compensation has been 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 \$1.5 million and \$1.4 million in fiscal years 2019 and 2018, respectively. Employee contributions were approximately \$3.5 million and \$3.3 million in fiscal years 2019 and 2018, respectively. 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. OTHER POST-EMPLOYMENT BENEFITS

### OPEB PLAN

#### Plan Description

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 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 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 receive a death benefit from the plan.

#### Employees Covered by Benefit Terms

The following table details number of employees that were covered by the benefit terms, as of June 30, 2019 and 2018, respectively:

	2019	2018
Inactive employees or beneficiaries currently receiving benefits	438	450
Inactive employees entitled to but not yet receiving benefits	54	55
Active employees	617	602
Total	1,109	1,107

## Contributions

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 2019 and 2018 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	\$	—	\$ 475.42	\$ 419.49	\$ 307.63	\$ 195.76	\$ 83.90
Employee +1		—	950.85	838.98	615.25	391.53	167.80
Family		—	1,426.27	1,258.48	922.88	587.29	251.70
Pre-Age 65, PPO							
Individual	\$	—	\$ 380.34	\$ 335.59	\$ 246.10	\$ 156.61	\$ 67.12
Employee +1		—	760.68	671.19	492.20	313.22	134.24
Family		—	1,141.02	1,006.78	738.31	469.83	201.36
CATEGORY	RETIREMENT BEFORE MARCH 1, 1991		RETIREMENT AFTER MARCH 1, 1991 YEARS OF SERVICE/PERCENT OF CONTRIBUTIONS				
			5-9/85%	10-14/75%	15-19/57.5%	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

EPB's contributions are calculated based on an actuarially determined rate, which is 3.7% and 4.0% of annual covered payroll as of June 30, 2018 and 2017, respectively.

## Net OPEB Liability

EPB's net OPEB liability was measured as of June 30, 2018 and 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

## Actuarial Assumptions

The total OPEB liability in the actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Healthcare cost trend	7.5% initial, 5.5% ultimate
Investment rate of return	6.5%

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

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2015 - June 30, 2018. The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2014 - June 30, 2017.

The long-term expected rate of return on OPEB 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 OPEB 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 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	30-40 %	7.0 %
International equity	30-50 %	6.5 %
Fixed income	15-25 %	4.0 %
Real estate	0-10 %	6.0 %
Cash	0-10 %	0.5 %

The discount rate used to measure the total OPEB liability was 6.5 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 OPEB liability (asset) (in thousands):

	INCREASE (DECREASE)		
	TOTAL OPEB LIABILITY	PLAN FIDUCIARY NET POSITION	NET OPEB LIABILITY (ASSET)
Balances at June 30, 2018	\$ 25,950	\$ 23,378	\$ 2,572
Changes for the year:			
Service cost	1,250	—	1,250
Interest	1,686	—	1,686
Differences between expected and experience	(2,537)	—	(2,537)
Contributions-employer	—	1,582	(1,582)
Net investment income	—	1,780	(1,780)
Benefit payments	(1,603)	(1,603)	—
Administrative expense	—	(39)	39
Net changes	(1,204)	1,720	(2,924)
Balances at June 30, 2019	\$ 24,746	\$ 25,098	\$ (352)

	INCREASE (DECREASE)		
	TOTAL OPEB LIABILITY	PLAN FIDUCIARY NET POSITION	NET OPEB LIABILITY
Balances at June 30, 2017	\$ 28,484	\$ 20,962	\$ 7,522
Changes for the year:			
Service cost	1,191	—	1,191
Interest	1,851	—	1,851
Differences between expected and experience	(3,860)	—	(3,860)
Contributions-employer	—	1,686	(1,686)
Net investment income	—	2,495	(2,495)
Benefit payments	(1,716)	(1,716)	—
Administrative expense	—	(49)	49
Net changes	(2,534)	2,416	(4,950)
Balances at June 30, 2018	\$ 25,950	\$ 23,378	\$ 2,572

The following presents the net OPEB position of the Plan, calculated using the discount rate of 6.5 percent, as well as what the Plan's net OPEB position would be if it were calculated using a discount rate that is 1-percentage-point lower (5.5 percent) or 1-percentage-point higher (7.5 percent) than the current rate (in thousands):

Net OPEB position as of June 30, 2019

	1% DECREASE (5.5%)	CURRENT DISCOUNT RATE (6.5%)	1% INCREASE (7.5%)
Net OPEB Liability (Asset)	\$ 2,668	\$ (352)	\$ (2,883)

Net OPEB position as of June 30, 2018

	1% DECREASE (5.5%)	CURRENT DISCOUNT RATE (6.5%)	1% INCREASE (7.5%)
Net OPEB Liability (Asset)	\$ 5,859	\$ 2,572	\$ (162)

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

For the year ended June 30, 2019, EPB recognized an OPEB expense of \$0.7 million. At June 30, 2019, EPB reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (in thousands):

	DEFERRED OUTFLOWS OF RESOURCES	DEFERRED INFLOWS OF RESOURCES
Differences between expected and actual experience	\$ —	\$ 5,651
Employer contributions made after plan year	1,719	—
Change in assumptions	—	—
Net difference between projected and actual earnings on pension plan investments	—	893
Total	\$ 1,719	\$ 6,544

For the year ended June 30, 2018, EPB recognized an OPEB expense of \$1.2 million. At June 30, 2018, EPB reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (in thousands):

	DEFERRED OUTFLOWS OF RESOURCES	DEFERRED INFLOWS OF RESOURCES
Differences between expected and actual experience	\$ —	\$ 3,575
Employer contributions made after plan year	1,582	—
Change in assumptions	—	—
Net difference between projected and actual earnings on pension plan investments	—	909
Total	\$ 1,582	\$ 4,484

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

Fiscal Year	Amount
2020	\$ (742)
2021	(742)
2022	(742)
2023	(515)
2024	(462)
Thereafter	(3,341)
Total	\$ (6,544)

Deferred outflows of resources totaling \$1.7 million represent contributions made after the Plan's valuation date. These contributions will be used to reduce the net OPEB liability during 2020.

#### **Payable to the OPEB Plan**

At June 30, 2019 and 2018, EPB reported no payable balances for required outstanding contributions to the Plan.

## 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 \$182 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 2019 or 2018. There are no significant claims liabilities outstanding at June 30, 2019.

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 \$220,000 per covered life.

Changes in the balances of claims liabilities for these three areas during the fiscal years ended June 30, 2019 and 2018 are as follows (in thousands):

Unpaid claims, June 30, 2017	\$	1,946
Incurred claims		7,506
Claim payments		(7,561)
Unpaid claims, June 30, 2018	\$	1,891
Incurred claims		8,572
Claim payments		(8,587)
Unpaid claims, June 30, 2019	\$	1,876



**Schedule of EPB Contributions to Pension Plan  
Last 10 Fiscal Years  
(in thousands)**

	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015	FY 2014
Actuarially determined contribution	\$ 5,597	\$ 5,573	\$ 5,059	\$ 4,447	\$ 3,562	\$ 3,646
Contributions in relation to the actuarially determined contribution	5,600	5,584	5,075	4,500	3,700	3,630
Contribution deficiency (excess)	(3)	(11)	(16)	(53)	(138)	16
Covered-employee payroll	42,079	40,978	37,196	35,296	34,481	32,127
Contributions as a percentage of covered-employee payroll	13.31%	13.63%	13.64%	12.75%	10.73%	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 determine 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% - 2019 - 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.

Schedule of Changes in Net Pension Liability and Related Ratios  
Last 10 Years  
(in thousands)

	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015
<b>TOTAL PENSION LIABILITY</b>					
Service cost	\$ 4,052	\$ 3,420	\$ 3,192	\$ 2,766	\$ 2,395
Interest	4,222	4,432	4,250	4,043	3,637
Changes of benefit terms	—	—	—	—	—
Differences between expected and actual experience	2,278	1,460	735	2,594	3,608
Changes of assumptions	—	—	4,050	—	—
Benefit payments, including refunds of employee contributions	(5,963)	(7,178)	(6,569)	(5,237)	(2,455)
<b>Net change in total pension liability</b>	<b>4,589</b>	<b>2,134</b>	<b>5,658</b>	<b>4,166</b>	<b>7,185</b>
<b>Total pension liability—beginning</b>	<b>60,310</b>	<b>58,176</b>	<b>52,518</b>	<b>48,352</b>	<b>41,167</b>
<b>Total pension liability—ending (a)</b>	<b>\$ 64,899</b>	<b>\$ 60,310</b>	<b>\$ 58,176</b>	<b>\$ 52,518</b>	<b>\$ 48,352</b>
<b>PLAN FIDUCIARY NET POSITION</b>					
Contributions—employer	\$ 5,834	\$ 5,825	\$ 7,000	\$ 5,700	\$ 3,630
Net investment income	3,214	4,174	(346)	2,143	5,735
Benefit payments, including refunds of employee contributions	(5,963)	(7,178)	(6,569)	(5,237)	(2,455)
Administrative expense	(55)	(74)	(74)	(74)	(87)
<b>Net change in plan fiduciary net position</b>	<b>3,030</b>	<b>2,747</b>	<b>11</b>	<b>2,532</b>	<b>6,823</b>
<b>Plan fiduciary net position—beginning</b>	<b>47,508</b>	<b>44,761</b>	<b>44,750</b>	<b>42,218</b>	<b>35,395</b>
<b>Plan fiduciary net position—ending (b)</b>	<b>\$ 50,538</b>	<b>\$ 47,508</b>	<b>\$ 44,761</b>	<b>\$ 44,750</b>	<b>\$ 42,218</b>
<b>Plan's net pension liability—ending (a) – (b)</b>	<b>\$ 14,361</b>	<b>\$ 12,802</b>	<b>\$ 13,415</b>	<b>\$ 7,768</b>	<b>\$ 6,134</b>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	<b>77.87%</b>	<b>78.77%</b>	<b>76.94%</b>	<b>85.21%</b>	<b>87.31%</b>
<b>Covered-employee payroll</b>	<b>40,978</b>	<b>37,196</b>	<b>35,296</b>	<b>34,481</b>	<b>32,127</b>
<b>Net pension liability as a percentage of covered-employee payroll</b>	<b>35.05%</b>	<b>34.42%</b>	<b>38.01%</b>	<b>22.53%</b>	<b>19.09%</b>

[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 Changes in OPEB Liability and Related Ratios  
Last 10 Years  
(in thousands)

	FY 2019	FY 2018
<b>TOTAL OPEB LIABILITY</b>		
Service cost	\$ 1,250	\$ 1,191
Interest	1,686	1,851
Changes of benefit terms	—	—
Differences between expected and actual experience	(2,537)	(3,860)
Changes of assumptions	—	—
Benefit payments, including refunds of employee contributions	(1,603)	(1,716)
<b>Net change in total OPEB liability</b>	<b>(1,204)</b>	<b>(2,534)</b>
<b>Total OPEB liability—beginning</b>	<b>25,950</b>	<b>28,484</b>
<b>Total OPEB liability—ending (a)</b>	<b>\$ 24,746</b>	<b>\$ 25,950</b>
<b>PLAN FIDUCIARY NET POSITION</b>		
Contributions—employer	\$ 1,582	\$ 1,686
Net investment income	1,780	2,495
Benefit payments, including refunds of employee contributions	(1,603)	(1,716)
Administrative expense	(39)	(49)
<b>Net change in plan fiduciary net position</b>	<b>1,720</b>	<b>2,416</b>
<b>Plan fiduciary net position—beginning</b>	<b>23,378</b>	<b>20,962</b>
<b>Plan fiduciary net position—ending (b)</b>	<b>\$ 25,098</b>	<b>\$ 23,378</b>
<b>Plan's net OPEB liability (asset) — ending (a) - (b)</b>	<b>\$ (352)</b>	<b>\$ 2,572</b>
<b>Plan fiduciary net position as a percentage of the total OPEB liability</b>	<b>101.42%</b>	<b>90.09%</b>
<b>Covered-employee payroll</b>	<b>43,270</b>	<b>42,611</b>
<b>Net OPEB liability as a percentage of covered-employee payroll</b>	<b>-0.81%</b>	<b>6.04%</b>

[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.

Electric System  
Schedules of Net Position  
as of June 30, 2019 and 2018

ASSETS AND DEFERRED OUTFLOWS	FY 2019	FY 2018
<b>Current Assets</b>		
Cash and cash equivalents	\$ 79,536,000	\$ 90,071,000
Investments	2,014,000	4,966,000
Accounts receivable, less allowance for doubtful accounts of \$986,000 and \$730,000 in 2019 and 2018, respectively	24,853,000	23,185,000
Unbilled electric sales	34,138,000	37,468,000
Materials and supplies, at average cost	13,422,000	13,566,000
Prepayments and other current assets	3,622,000	4,358,000
<b>Total Current Assets</b>	<b>157,585,000</b>	<b>173,614,000</b>
<b>Non-Current Assets</b>		
Investments	2,128,000	—
Utility plant - Utility plant	910,240,000	894,056,000
Less - accumulated provision for depreciation	(326,488,000)	(321,942,000)
<b>Net utility plant</b>	<b>583,752,000</b>	<b>572,114,000</b>
Other non-current assets	1,932,000	2,036,000
Net other post-employment benefit asset	329,000	—
<b>Total Non-Current Assets</b>	<b>588,141,000</b>	<b>574,150,000</b>
<b>Deferred Outflows of Resources</b>		
Deferred defeasance outflows	11,917,000	12,807,000
Deferred pension outflows	11,178,000	10,201,000
Deferred OPEB outflows	1,599,000	1,572,000
<b>Total Deferred Outflows</b>	<b>24,694,000</b>	<b>24,580,000</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<b>\$ 770,420,000</b>	<b>\$ 772,344,000</b>

Electric System  
Schedules of Net Position  
as of June 30, 2019 and 2018

LIABILITIES, DEFERRED INFLOWS AND NET POSITION	FY 2019	FY 2018
<b>Current Liabilities</b>		
Accounts payable		
Tennessee Valley Authority, for power purchased	\$ 74,420,000	\$ 76,626,000
Other	13,537,000	15,397,000
Customer deposits	3,691,000	3,338,000
Revenue bonds, current portion	10,645,000	10,205,000
Accrued tax equivalents	19,633,000	18,990,000
Accrued interest payable	3,634,000	3,783,000
Other current liabilities	10,518,000	8,911,000
<b>Total Current Liabilities</b>	<b>136,078,000</b>	<b>137,250,000</b>
<b>Non-Current Liabilities</b>		
Revenue bonds, net	261,791,000	274,186,000
Net pension liability	12,609,000	11,227,000
Net other post-employment benefit liability	—	2,419,000
Customer deposits	21,657,000	21,119,000
Intercompany fund advance	15,600,000	15,600,000
Other non-current liabilities	4,079,000	4,160,000
<b>Total Non-Current Liabilities</b>	<b>315,736,000</b>	<b>328,711,000</b>
<b>Deferred Inflows of Resources</b>		
Deferred OPEB inflows	6,126,000	4,218,000
Deferred other inflows	3,214,000	1,547,000
<b>Total Deferred Inflows</b>	<b>9,340,000</b>	<b>5,765,000</b>
<b>Net Position</b>		
Net investment in capital assets	323,233,000	300,530,000
Unrestricted	(13,967,000)	88,000
<b>Total Net Position</b>	<b>309,266,000</b>	<b>300,618,000</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION</b>	<b>\$ 770,420,000</b>	<b>\$ 772,344,000</b>

Electric System  
Schedules of Revenues, Expenses, and Changes in Net Position  
for the Years ended June 30, 2019 and 2018 (in thousands)

	FY 2019	FY 2018
<b>Operating Revenues</b>		
Electric sales		
Residential	\$ 252,130,000	\$ 246,869,000
Small commercial	51,511,000	50,082,000
Large commercial	253,649,000	251,071,000
Outdoor lighting systems	6,720,000	6,608,000
Total Billed Electric Sales	564,010,000	554,630,000
Change in unbilled electric sales	(3,330,000)	3,278,000
Less uncollectible electric sales	(630,000)	(615,000)
Total Electric Sales	560,050,000	557,293,000
Other operating revenues	29,644,000	25,396,000
Total Operating Revenues	589,694,000	582,689,000
<b>Operating Expenses</b>		
Operation		
Power purchased from Tennessee Valley Authority	442,352,000	435,995,000
Other operation expenses	43,239,000	40,416,000
Maintenance	25,866,000	26,427,000
Provision for depreciation	40,875,000	39,739,000
City, county, and state tax equivalents	12,821,000	12,434,000
Total Operating Expenses	565,153,000	555,011,000
Net Operating Income	24,541,000	27,678,000
<b>Non-Operating Revenues (Expenses)</b>		
Interest revenue on invested funds	1,110,000	647,000
Interest expense on long-term debt	(9,833,000)	(8,979,000)
Intercompany carrying charge	(338,000)	(104,000)
Other, net	111,000	181,000
Plant cost recovered through contributions in aid of construction	(1,691,000)	(2,178,000)
Total Non-Operating Expenses	(10,641,000)	(10,433,000)
Income Before Transfers and Contributions	13,900,000	17,245,000
Tax Equivalents Transferred to The City of Chattanooga	(6,943,000)	(6,710,000)
Contributions in Aid of Construction	1,691,000	2,178,000
Change in Net Position	8,648,000	12,713,000
Net Position, Beginning of the Year	300,618,000	287,905,000
Net Position, End of Year	\$ 309,266,000	\$ 300,618,000

Electric System  
Schedules of Cash Flows  
for the Years ended June 30, 2019 and 2018

	FY 2019	FY 2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 592,734,000	\$ 575,080,000
Payments to suppliers for goods and services	(469,892,000)	(449,585,000)
Payments to employees for services	(40,984,000)	(39,648,000)
Payments in lieu of taxes	(19,106,000)	(18,321,000)
Net cash provided by operating activities	62,752,000	67,526,000
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Additions to utility plant	(54,528,000)	(53,204,000)
Removal cost	(1,296,000)	(1,309,000)
Salvage	662,000	525,000
Contributions in aid of construction	1,691,000	2,178,000
Intercompany fund advances received	—	9,100,000
Intercompany carrying charge payment	(338,000)	(104,000)
Bond principal payment	(10,205,000)	(9,835,000)
Bond interest payment	(11,127,000)	(11,546,000)
Unused line of credit fees	(80,000)	(83,000)
Net cash used in capital and related financing activities	(75,221,000)	(64,278,000)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Receipts from investments	6,000,000	3,000,000
Purchase of investments	(5,118,000)	(4,960,000)
Interest on investments	1,052,000	641,000
Net cash provided by (used in) investing activities	1,934,000	(1,319,000)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>\$ (10,535,000)</b>	<b>\$ 1,929,000</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>90,071,000</b>	<b>88,142,000</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 79,536,000</b>	<b>\$ 90,071,000</b>
<b>Reconciliation of operating income to net cash provided by operating activities</b>		
Net operating income	\$ 24,541,000	\$ 27,678,000
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation and amortization	42,116,000	40,887,000
Miscellaneous non-operating expense, net	193,000	264,000
Tax equivalents transferred to the City of Chattanooga	(6,943,000)	(6,710,000)
Changes in assets and liabilities:		
Accounts receivable, net	(1,668,000)	(3,937,000)
Unbilled electric sales	3,330,000	(3,278,000)
Materials and supplies	144,000	(65,000)
Prepayments and other current assets	736,000	789,000
Other charges	104,000	373,000
Accounts payable, net	(4,066,000)	9,846,000
Customer deposits	891,000	(42,000)
Accrued tax equivalents	643,000	811,000
Other current liabilities	1,607,000	(540,000)
Other credits	1,586,000	1,727,000
Net pension liability	405,000	147,000
Net other post-employment benefit liability	(867,000)	(424,000)
Net cash provided by operating activities	\$ 62,752,000	\$ 67,526,000

Telecom System  
Schedules of Net Position  
as of June 30, 2019 and 2018

ASSETS AND DEFERRED OUTFLOWS	FY 2019	FY 2018
<b>Current Assets</b>		
Cash and cash equivalents	\$ 7,862,000	\$ 4,864,000
Accounts receivable, less allowance for doubtful accounts of \$16,000 and \$29,000 in 2019 and 2018, respectively	4,034,000	2,386,000
Prepayments and other current assets	121,000	128,000
<b>Total Current Assets</b>	<b>12,017,000</b>	<b>7,378,000</b>
<b>Non-Current Assets</b>		
Investments	4,036,000	—
Utility plant -		
Utility plant	11,507,000	9,830,000
Less - accumulated provision for depreciation	(6,358,000)	(4,482,000)
<b>Net utility plant</b>	<b>5,149,000</b>	<b>5,348,000</b>
Intercompany fund advance	15,600,000	15,600,000
<b>Total Non-Current Assets</b>	<b>24,785,000</b>	<b>20,948,000</b>
<b>Defferered Outflows of Resources</b>		
Deferred other outflows	276,000	53,000
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<b>\$ 37,078,000</b>	<b>\$ 28,379,000</b>
<b>LIABILITIES AND NET POSITION</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 2,810,000	\$ 1,199,000
Accrued tax equivalents	763,000	730,000
Unearned revenue	519,000	508,000
Other current liabilities	163,000	150,000
<b>Total Current Liabilities</b>	<b>4,255,000</b>	<b>2,587,000</b>
<b>Net Position</b>		
Net investments in capital assets	5,149,000	5,348,000
Unrestricted	27,674,000	20,444,000
<b>Total Net Position</b>	<b>32,823,000</b>	<b>25,792,000</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 37,078,000</b>	<b>\$ 28,379,000</b>



Telecom System  
Schedules of Revenues, Expenses, and Changes in Net Position  
for the Years Ended June 30, 2019 and 2018

	FY 2019	FY 2018
<b>Operating Revenues</b>		
Fiber optics sales		
Commercial basic local services revenue	\$ 16,555,000	\$ 16,175,000
Commercial long distance message revenue	645,000	823,000
Total Billed Fiber Optics Sales	17,200,000	16,998,000
Less uncollectible accounts	(36,000)	(47,000)
Total Fiber Optics Sales	17,164,000	16,951,000
Other operating revenues	1,885,000	1,650,000
Total Operating Revenues	19,049,000	18,601,000
<b>Operating Expenses</b>		
Cost of services	2,436,000	2,242,000
Operation expenses	6,688,000	6,822,000
General and administrative	678,000	497,000
Provision for depreciation	1,928,000	1,602,000
City, county, and state tax equivalents	473,000	452,000
Total Operating Expenses	12,203,000	11,615,000
Net Operating Income	6,846,000	6,986,000
<b>Non-Operating Revenues</b>		
Intercompany carrying charge	338,000	119,000
Interest Income	137,000	56,000
Total Non-Operating Revenues	475,000	175,000
Income Before Transfers	7,321,000	7,161,000
Tax Equivalents Transferred to The City Of Chattanooga	(290,000)	(278,000)
Change in Net Position	7,031,000	6,883,000
Net Position, Beginning of Year	25,792,000	18,909,000
Net Position, End of Year	\$ 32,823,000	\$ 25,792,000

Telecom System  
Schedules of Cash Flows  
for the Years Ended June 30, 2019 and 2018

	FY 2019	FY 2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 17,412,000	\$ 17,853,000
Payments to suppliers for goods and services	(8,394,000)	(9,045,000)
Payments in lieu of taxes	(730,000)	(679,000)
Net cash provided by operating activities	8,288,000	8,129,000
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Additions to utility plant	(1,729,000)	(1,657,000)
Intercompany fund advances paid	—	(9,600,000)
Intercompany fund advances received	—	6,850,000
Intercompany carrying charges received	338,000	119,000
Net cash used in capital and related financing activities	(1,391,000)	(4,288,000)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest income received	101,000	56,000
Purchase of Investments	(5,000,000)	—
Proceeds from sale of investments	1,000,000	—
Net cash provided by (used in) investing activities	(3,899,000)	56,000
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>\$ 2,998,000</b>	<b>\$ 3,897,000</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>4,864,000</b>	<b>967,000</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 7,862,000</b>	<b>\$ 4,864,000</b>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>		
Net operating income	\$ 6,846,000	\$ 6,986,000
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation and amortization	1,928,000	1,602,000
Tax equivalents transferred to the City of Chattanooga	(290,000)	(278,000)
Changes in assets and liabilities:		
Accounts receivable, net	(1,648,000)	(774,000)
Prepayments and other current assets	7,000	(84,000)
Accounts payable, net	1,611,000	994,000
Accrued tax equivalents	33,000	51,000
Other current liabilities	13,000	(341,000)
Unearned revenue	11,000	26,000
Deferred other outflows	(223,000)	(53,000)
Net cash provided by operating activities	\$ 8,288,000	\$ 8,129,000

Video & Internet System  
Schedules of Net Position  
as of June 30, 2019 and 2018

ASSETS AND DEFERRED OUTFLOWS	FY 2019	FY 2018
<b>Current Assets</b>		
Cash and cash equivalents	\$ 16,968,000	\$ 10,951,000
Investments	2,015,000	—
Accounts receivable, less allowance for doubtful accounts of \$615,000 and \$648,000 in 2019 and 2018, respectively	9,297,000	8,344,000
Prepayments and other current assets	2,659,000	2,782,000
<b>Total Current Assets</b>	<b>30,939,000</b>	<b>22,077,000</b>
<b>Non-Current Assets</b>		
Investments	10,028,000	—
Utility plant - Utility plant	149,857,000	136,228,000
Less - accumulated provision for depreciation	(60,366,000)	(50,486,000)
Net utility plant	89,491,000	85,742,000
Net other post-employment benefit asset	23,000	—
<b>Total Non-Current Assets</b>	<b>99,542,000</b>	<b>85,742,000</b>
<b>Deferred Outflows of Resources</b>		
Deferred OPEB outflows	120,000	10,000
Deferred pension outflows	1,553,000	1,431,000
Deferred other outflows	2,938,000	1,494,000
<b>Total Deferred Outflows</b>	<b>4,611,000</b>	<b>2,935,000</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<b>\$ 135,092,000</b>	<b>\$ 110,754,000</b>

LIABILITIES, DEFERRED INFLOWS, AND NET POSITION	FY 2019	FY 2018
<b>Current Liabilities</b>		
Accounts payable	\$ 11,551,000	\$ 8,839,000
Accrued tax equivalents	1,137,000	1,068,000
Unearned revenue	5,597,000	5,421,000
Other current liabilities	3,485,000	3,482,000
<b>Total Current Liabilities</b>	<b>21,770,000</b>	<b>18,810,000</b>
<b>Non-Current Liabilities</b>		
Net pension liability	1,752,000	1,575,000
Net other post-employment benefit liability	—	153,000
<b>Total Non-Current Liabilities</b>	<b>1,752,000</b>	<b>1,728,000</b>
<b>Deferred Inflows of Resources</b>		
Deferred OPEB inflows	418,000	266,000
<b>Net Position</b>		
Net investments in capital assets	89,491,000	85,742,000
Unrestricted	21,661,000	4,208,000
<b>Total Net Position</b>	<b>111,152,000</b>	<b>89,950,000</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION</b>	<b>\$ 135,092,000</b>	<b>\$ 110,754,000</b>

Video & Internet System  
Schedules of Revenues, Expenses, and Changes in Net Position  
for the Years Ended June 30, 2019 and 2018

	FY 2019	FY 2018
<b>Operating Revenues</b>		
Fiber optics sales		
Commercial basic local services revenue	\$ 22,133,000	\$ 19,575,000
Residential services revenue	119,111,000	113,779,000
Total Billed Fiber Optics Sales	141,244,000	133,354,000
Less uncollectible accounts	(1,048,000)	(1,164,000)
Total Fiber Optics Sales	140,196,000	132,190,000
Other operating revenues	12,375,000	12,359,000
Total Operating Revenues	152,571,000	144,549,000
<b>Operating Expenses</b>		
Cost of services	56,375,000	55,473,000
Operation expenses	53,470,000	46,088,000
General and administrative	3,001,000	1,976,000
Provision for depreciation	17,791,000	15,719,000
City, county, and state tax equivalents	773,000	729,000
Total Operating Expenses	131,410,000	119,985,000
Net Operating Income	21,161,000	24,564,000
<b>Non-Operating Revenues (Expenses)</b>		
Interest expense on long term debt	—	(38,000)
Intercompany carrying charge	—	(15,000)
Interest income	426,000	40,000
Plant cost recovered through contributions in aid of construction	(60,000)	—
Total Non-Operating Revenues (Expenses)	366,000	(13,000)
Income Before Transfers	21,527,000	24,551,000
Tax Equivalents Transferred to The City Of Chattanooga	(385,000)	(359,000)
Contributions in aid of construction	60,000	—
Change in Net Position	21,202,000	24,192,000
Net Position, Beginning of Year	89,950,000	65,758,000
Net Position, End of Year	\$ 111,152,000	\$ 89,950,000

Video & Internet System  
Schedules of Cash Flows  
for the Years Ended June 30, 2019 and 2018

	FY 2019	FY 2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 151,813,000	\$ 143,363,000
Payments to suppliers for goods and services	(104,772,000)	(97,415,000)
Payments to employees for services	(6,779,000)	(8,900,000)
Payments in lieu of taxes	(1,088,000)	(978,000)
Net cash provided by operating activities	39,174,000	36,070,000
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Additions to utility plant	(21,600,000)	(20,328,000)
Interest paid on line of credit	—	(61,000)
Intercompany fund advances paid	—	(6,850,000)
Intercompany fund advances received	—	500,000
Intercompany carrying charges paid	—	(15,000)
Contributions in aid of construction	60,000	—
Net cash used in capital and related financing activities	(21,540,000)	(26,754,000)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(11,968,000)	—
Interest income received	351,000	40,000
Net cash provided by (used in) investing activities	(11,617,000)	40,000
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>\$ 6,017,000</b>	<b>\$ 9,356,000</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>10,951,000</b>	<b>1,595,000</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 16,968,000</b>	<b>\$ 10,951,000</b>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>		
Net operating income	\$ 21,161,000	\$ 24,564,000
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation and amortization	17,791,000	15,719,000
Tax equivalents transferred to the City of Chattanooga	(385,000)	(359,000)
Changes in assets and liabilities:		
Accounts receivable, net	(953,000)	(1,486,000)
Prepayments and other current assets	123,000	(1,901,000)
Accounts payable, net	2,712,000	906,000
Accrued tax equivalents	69,000	109,000
Other current liabilities	3,000	(362,000)
Unearned revenue	176,000	283,000
Net pension liability	55,000	29,000
Net other post-employment benefit liability	(134,000)	62,000
Deferred other outflows	(1,444,000)	(1,494,000)
Net cash provided by operating activities	\$ 39,174,000	\$ 36,070,000

Fiber Optics System  
Schedules of Net Position  
as of June 30, 2019 and 2018

ASSETS AND DEFERRED OUTFLOWS	FY 2019	FY 2018
<b>Current Assets</b>		
Cash and cash equivalents	\$ 24,830,000	\$ 15,815,000
Investments	2,015,000	—
Accounts receivable, less allowance for doubtful accounts of \$631,000 and \$677,000 in 2019 and 2018, respectively	11,100,000	10,039,000
Prepayments and other current assets	2,780,000	2,910,000
<b>Total Current Assets</b>	<b>40,725,000</b>	<b>28,764,000</b>
<b>Non-Current Assets</b>		
Investments	14,064,000	—
Utility plant - Utility plant	161,364,000	146,058,000
Less - accumulated provision for depreciation	(66,724,000)	(54,968,000)
Net utility plant	94,640,000	91,090,000
Net other post-employment benefit asset	23,000	—
Intercompany fund advance receivable	15,600,000	15,600,000
<b>Total Non-Current Assets</b>	<b>124,327,000</b>	<b>106,690,000</b>
<b>Deferred Outflows of Resources</b>		
Deferred OPEB outflows	120,000	10,000
Deferred pension outflows	1,553,000	1,431,000
Deferred other outflows	3,214,000	1,547,000
<b>Total Deferred Outflows</b>	<b>4,887,000</b>	<b>2,988,000</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<b>\$ 169,939,000</b>	<b>\$ 138,442,000</b>
<b>LIABILITIES, DEFERRED INFLOWS, AND NET POSITION</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 12,130,000	\$ 9,347,000
Accrued tax equivalents	1,900,000	1,798,000
Unearned revenue	6,116,000	5,929,000
Other current liabilities	3,648,000	3,632,000
<b>Total Current Liabilities</b>	<b>23,794,000</b>	<b>20,706,000</b>
<b>Non-Current Liabilities</b>		
Net pension liability	1,752,000	1,575,000
Net other post-employment benefit liability	—	153,000
<b>Total Non-Current Liabilities</b>	<b>1,752,000</b>	<b>1,728,000</b>
<b>Net Inflows of Resources</b>		
Deferred OPEB inflows	418,000	266,000
<b>Net Position</b>		
Net investments in capital assets	94,640,000	91,090,000
Unrestricted	49,335,000	24,652,000
<b>Total Net Position</b>	<b>143,975,000</b>	<b>115,742,000</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION</b>	<b>\$ 169,939,000</b>	<b>\$ 138,442,000</b>

**Fiber Optics System**  
**Schedules of Revenues, Expenses, and Changes in Net Position**  
**for the Years Ended June 30, 2019 and 2018**

	FY 2019	FY 2018
<b>Operating Revenues</b>		
Fiber optics sales		
Commercial basic local services revenue	\$ 38,688,000	\$ 35,750,000
Commercial long distance message revenue	645,000	823,000
Residential services revenue	119,111,000	113,779,000
Total Billed Fiber Optics Sales	158,444,000	150,352,000
Less uncollectible accounts	(1,084,000)	(1,211,000)
Total Fiber Optics Sales	157,360,000	149,141,000
Other Operating Revenues	14,260,000	14,009,000
Total Operating Revenues	171,620,000	163,150,000
<b>Operating Expenses</b>		
Cost of services	58,811,000	57,715,000
Operation expenses	60,158,000	52,910,000
General and administrative	3,679,000	2,473,000
Provision for depreciation	19,719,000	17,321,000
City, county, and state tax equivalents	1,246,000	1,181,000
Total Operating Expenses	143,613,000	131,600,000
Net Operating Income	28,007,000	31,550,000
<b>Non-Operating Revenues (Expenses)</b>		
Interest expense on long term debt and line of credit	—	(38,000)
Intercompany carrying charge	338,000	104,000
Interest income	563,000	96,000
Plant cost recovered through contributions in aid of construction	(60,000)	—
Total Non-Operating Revenues	841,000	162,000
Income Before Transfers	28,848,000	31,712,000
Tax Equivalents Transferred to The City Of Chattanooga	(675,000)	(637,000)
Contributions in aid of construction	60,000	—
Change in Net Position	28,233,000	31,075,000
Net Position, Beginning of Year	115,742,000	84,667,000
Net Position, End of Year	\$ 143,975,000	\$ 115,742,000

Fiber Optics System  
Schedules of Cash Flows  
for the Years Ended June 30, 2019 and 2018

	FY 2019	FY 2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 169,225,000	\$ 161,216,000
Payments to suppliers for goods and services	(113,166,000)	(106,460,000)
Payments to employees for services	(6,779,000)	(8,900,000)
Payments in lieu of taxes	(1,818,000)	(1,657,000)
Net cash provided by operating activities	47,462,000	44,199,000
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Additions to utility plant	(23,329,000)	(21,985,000)
Interest paid on line of credit	—	(61,000)
Intercompany carrying charge received	338,000	104,000
Intercompany fund advances paid	—	(9,100,000)
Cosntructions in aid of construction	60,000	—
Net cash used in capital and related financing activities	(22,931,000)	(31,042,000)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(16,968,000)	—
Proceeds from investment sales	1,000,000	—
Interest income received	452,000	96,000
Net cash provided by (used in) investing activities	(15,516,000)	96,000
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>\$ 9,015,000</b>	<b>\$ 13,253,000</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>15,815,000</b>	<b>2,562,000</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 24,830,000</b>	<b>\$ 15,815,000</b>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>		
Net operating income	\$ 28,007,000	\$ 31,550,000
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation and amortization	19,719,000	17,321,000
Tax equivalents transferred to the City of Chattanooga	(675,000)	(637,000)
Changes in assets and liabilities:		
Accounts receivable, net	(1,061,000)	(1,569,000)
Prepayments and other current assets	130,000	(1,985,000)
Accounts payable, net	2,783,000	1,209,000
Accrued tax equivalents	102,000	160,000
Other current liabilities	16,000	(703,000)
Unearned revenue	187,000	309,000
Net pension liability	55,000	29,000
Net other post-employment benefit liability	(134,000)	62,000
Deferred other outflows	(1,667,000)	(1,547,000)
Net cash provided by operating activities	\$ 47,462,000	\$ 44,199,000



Schedule Expenditures of Federal Awards  
Year ended June 30, 2019

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	AGENCY OR PASS-THROUGH NUMBER	ACCRUED GRANT REVENUES JUNE 30, 2018	GRANT REVENUES RECEIVED	EXPENDITURES	ACCRUED GRANT REVENUES JUNE 30, 2019
U.S. Department of Energy Calable Quantum Cryptography Network for Protected Automation Communications	81.122	PB-201618-832	\$ 2,698	\$ 58,319	\$ 56,303	\$ 682
Smart and Flexible Microgrid with Open-Scalable Source Controller	81.135	A16-1328-S002-A01	105,479	142,564	152,562	115,477
Total U.S. Department of Energy			108,177	200,883	208,865	116,159
Total Expenditures of Federal Awards			\$ 108,177	\$ 200,883	\$ 208,865	\$ 116,159

**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.

The Smart and Flexible Microgrid with Open-Scalable Source Controller grant was awarded to EPB as a sub-recipient during Fiscal Year 2017. This grant was not presented on this schedule in the prior year Annual Report.

## Schedule of Bonds Payable as of June 30, 2019

FISCAL YEAR ENDED JUNE 30	ISSUE	INTEREST RATE	PRINCIPAL	DUE INTEREST	TOTAL INTEREST AND PRINCIPAL
2020	2015 A Electric System Revenue Bonds	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
			209,105,000	74,904,815	284,009,815
2020	2015 B Electric System Revenue Bonds	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
			11,470,000	1,073,658	12,543,658

## Schedule of Bonds Payable as of June 30, 2019

FISCAL YEAR ENDED JUNE 30	ISSUE	INTEREST RATE	PRINCIPAL	DUE INTEREST	TOTAL INTEREST AND PRINCIPAL
2020	2015 C Electric System Revenue Bonds	N/A	—	1,276,500	1,276,500
2021		N/A	—	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	17,067,201	42,947,201
<b>TOTAL</b>			<b>\$ 246,455,000</b>	<b>\$ 93,045,674</b>	<b>\$ 339,500,674</b>



**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”, an enterprise fund of the City of Chattanooga, Tennessee) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise EPB’s basic financial statements, and have issued our report thereon dated September 9, 2019, which references, that the financial statements, 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.

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## 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, Tennessee  
September 9, 2019