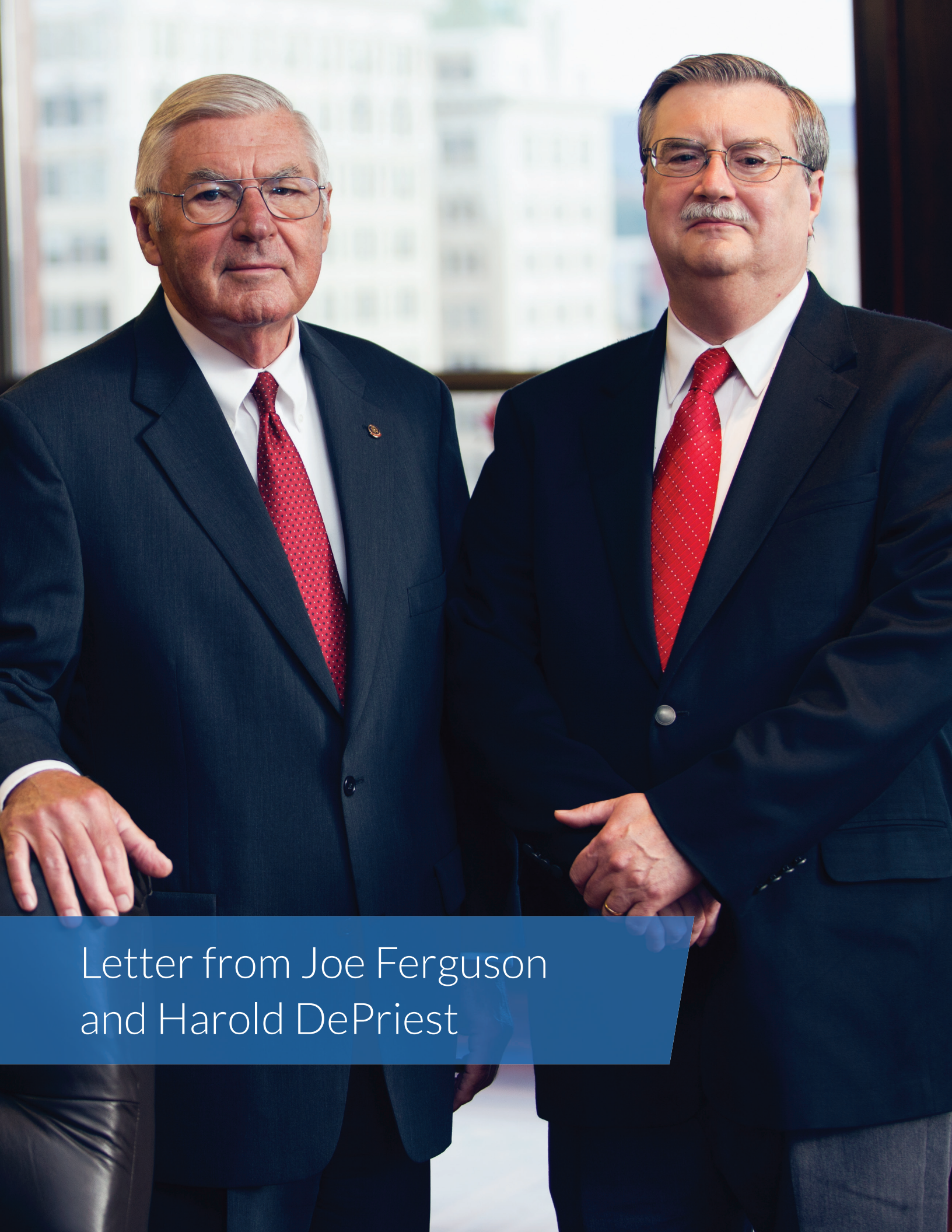

Senior Management Report & Financial Information 2013



Senior Management Report & Financial Information 2013

- 4** Letter From Joe Ferguson and Harold DePriest
- 5** Board of Directors
- 6** EPB Senior Management
- 7** EPB Financial Highlights 2013
- 21** EPB Management's Discussion & Analysis
- 33** Report Of Independent Certified Public Accountants On The Financial Statements
- 36** Financial Statements
- 39** Notes to Financial Statements
- 66** Supplemental Information
- 79** 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



Letter from Joe Ferguson
and Harold DePriest

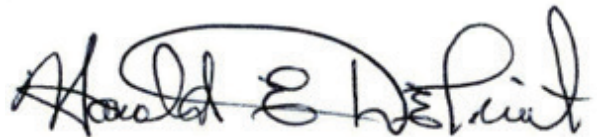
When we talk about EPB, we're not referring to buildings, or trucks, or miles of fiber. None of those things truly express what EPB really is: EPB is people, and our accomplishments are those of our people. It has been their actions that have defined our company, and we're proud that so many people have done so much for our company, and for the community.

Today, the smart grid is smarter than ever. It's helping improve EPB's efficiency and offering more options to our customers. It's smart enough to reroute power in the event of an outage, so the lights stay on even before our crews have a chance to repair any damage. And it's just getting started. But it's our people that made the grid so smart—engineering, building, maintaining, and upgrading the system for improved performance and efficiency. It's also our people that made our EPB fiber optics services even better, with new services, faster internet browsing speeds, and upgraded Fi TV features.

The best news of all is that our people are making it possible for EPB to make a business work at the same time we're making a difference in the community. Thanks to dedication, intelligence, and generosity, our employees have crafted a culture in which we don't have to choose between our bottom line and our community—to us, they're one and the same. By making EPB better and more profitable, we're doing the same for Chattanooga.

A handwritten signature in black ink, reading "L. Joe Ferguson". The signature is fluid and cursive, with a large initial "L" and "J".

L. Joe Ferguson

A handwritten signature in black ink, reading "Harold E. DePriest". The signature is cursive, with a large initial "H" and "D".

Harold DePriest

Board of Directors



Joe Ferguson
Chairman



Warren Logan
Vice Chairman



Harold Coker
Member



John Foy
Member



Vicky Gregg
Member

EPB Senior Management



Harold DePriest
CEO & President



David Wade
Executive VP & COO



Greg Eaves
Executive VP & CFO



Katie Espeseth
VP New Products



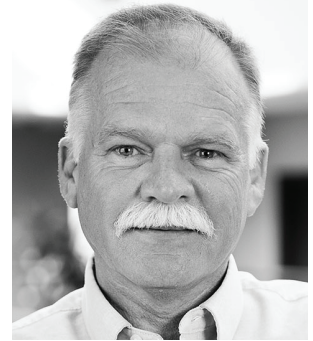
David Johnson
VP IT & CIO



Marie Webb
VP Human Resources



Jim Ingraham
VP Strategic Research



Steve Clark
Senior VP
Strategic Systems



Danna Bailey
VP Corporate
Communications



Diana Bullock
VP Economic
Development &
Government Relations



Kathy Burns
Senior VP
Customer Relations



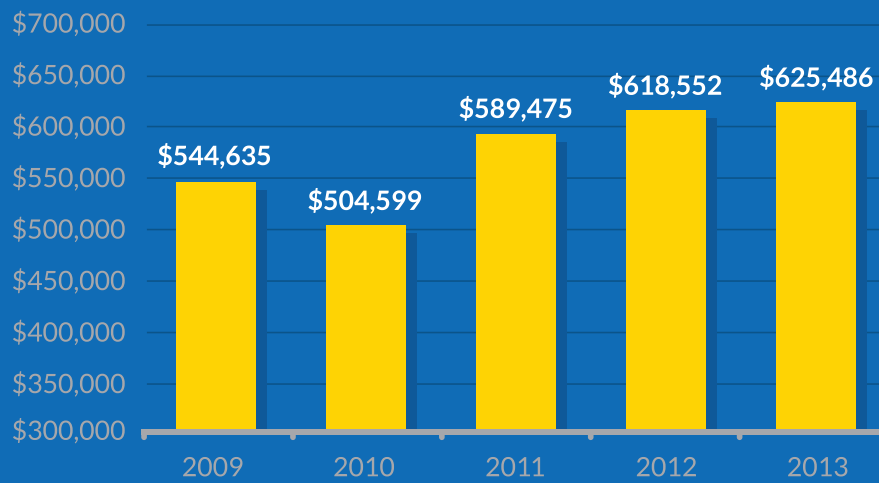
Jere Young
VP Marketing



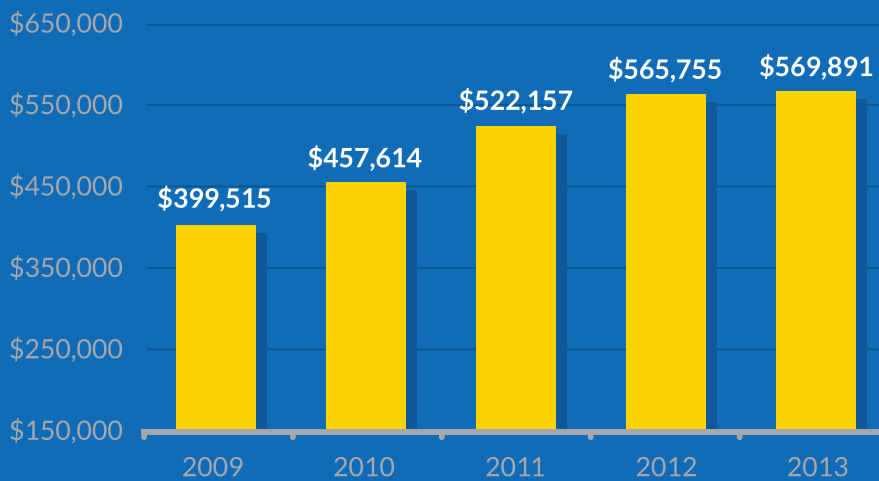
EPB Financial Highlights 2013

EPB operating revenues were \$625.5 million, an increase of 1.1 percent from the previous year. This increase was mainly due to a net increase of approximately \$12.4 million in Fiber Optics services revenues. Net plant value increased to \$569.9 million, an increase of 0.7 percent from the previous year. Areas of plant investment included electric overhead and underground line extensions, substation equipment, fiber optics communications' equipment, and Smart Grid equipment. EPB is the largest taxpayer in Chattanooga and Hamilton County. The in-lieu-of-tax equivalents expense and transfers to all of the cities and counties in EPB's service area totaled \$18.1 million, an increase of 7.4 percent over the prior year and an increase of 55.1 percent in the last four years. These increases are due mainly to the Electric System's capital expenditures on the Smart Grid.

OPERATING REVENUES (in thousands)



NET PLANT VALUE (in thousands)



TAX EQUIVALENTS EXPENSE & TRANSFERS (in thousands)

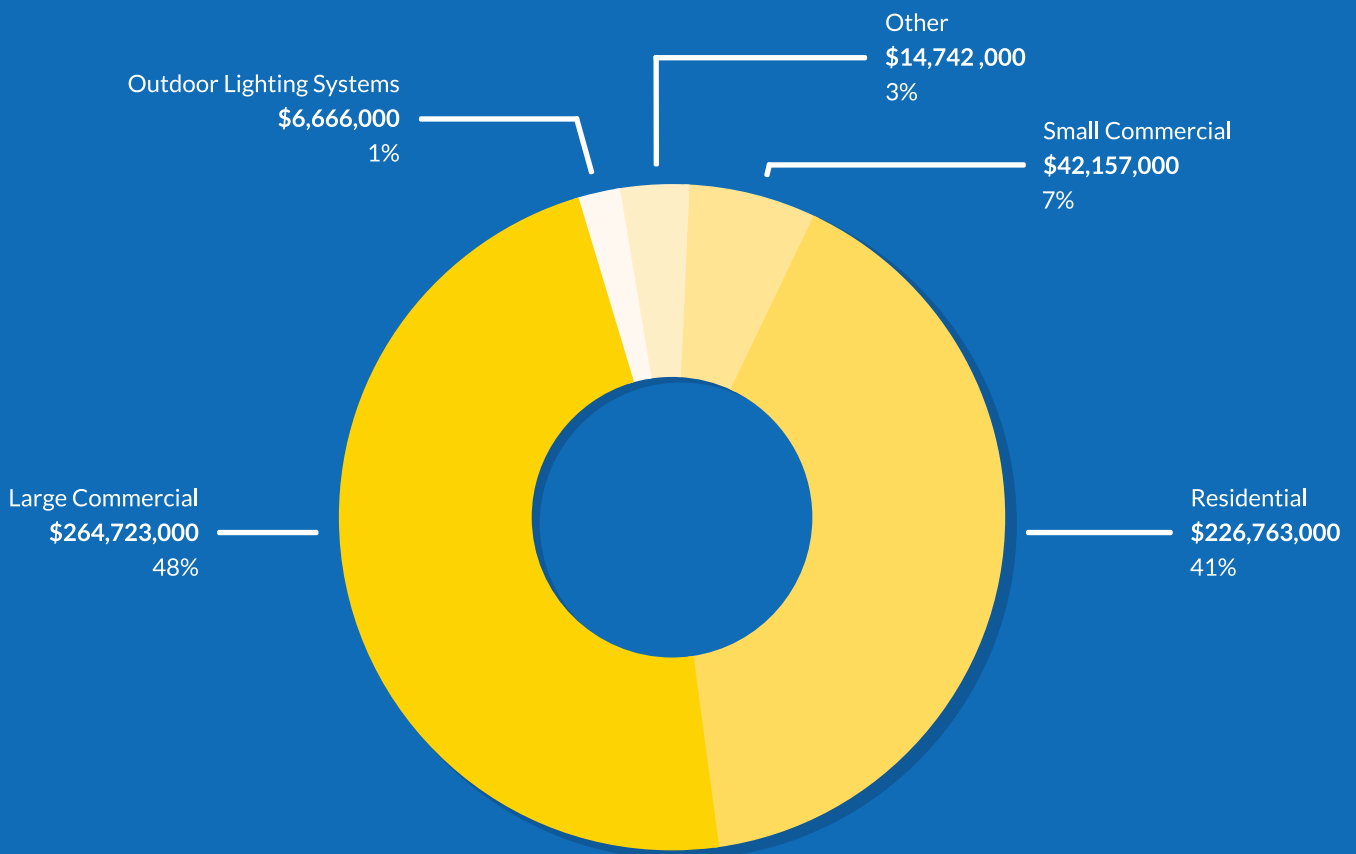


Electric System

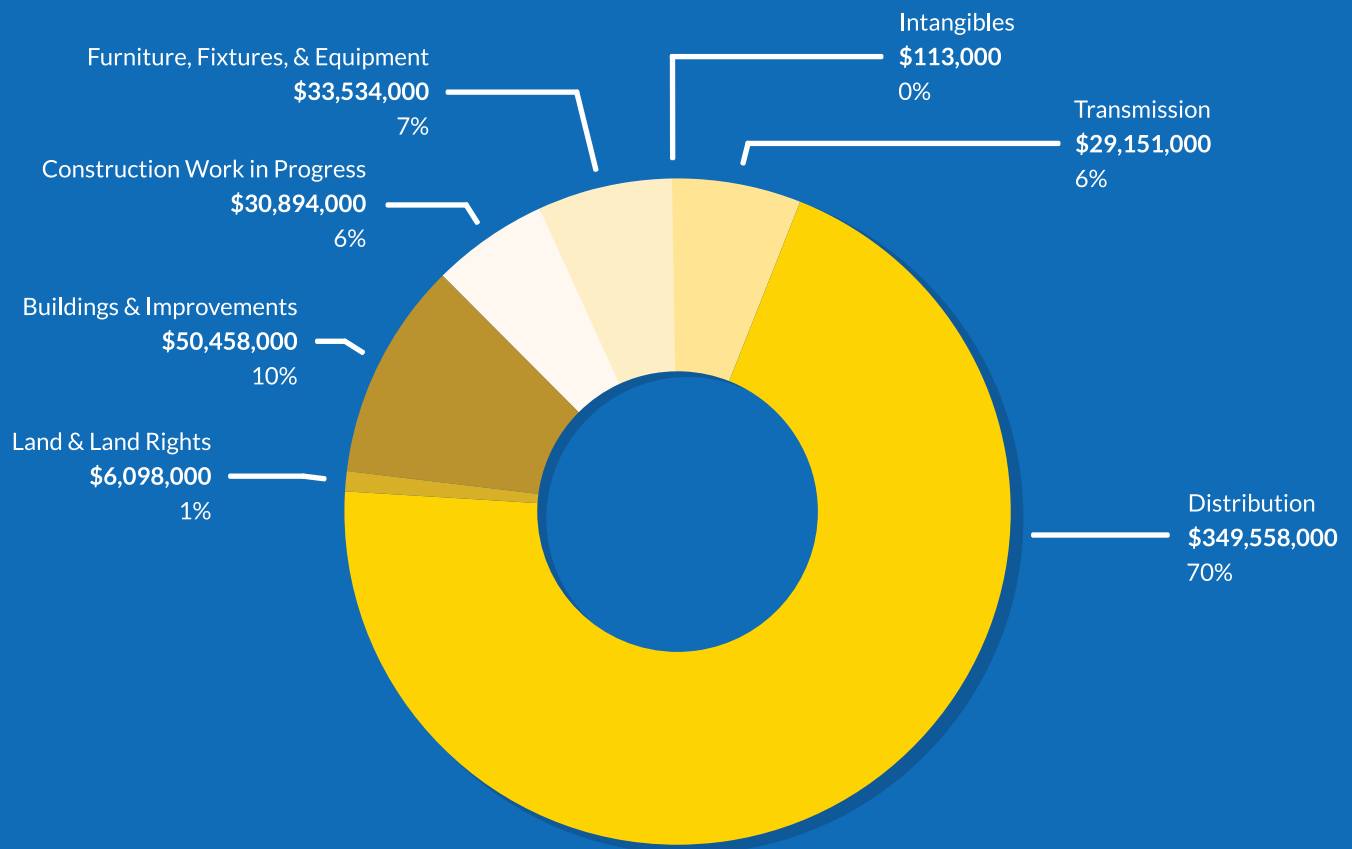
Financial Highlights 2013

EPB provided electric service to 173,418 customers in a 600 square mile area – an increase of 979 customers from FY 2012 – resulting in billed electric sales revenue of \$540.3 million and other revenue of \$14.7 million. Residential customers paid an average of 10.17 cents per kwh – 14.2 percent less than the national average. Net electric plant value totaled \$499.8 million while electric expenses and transfers to the City of Chattanooga totaled \$549.4 million.

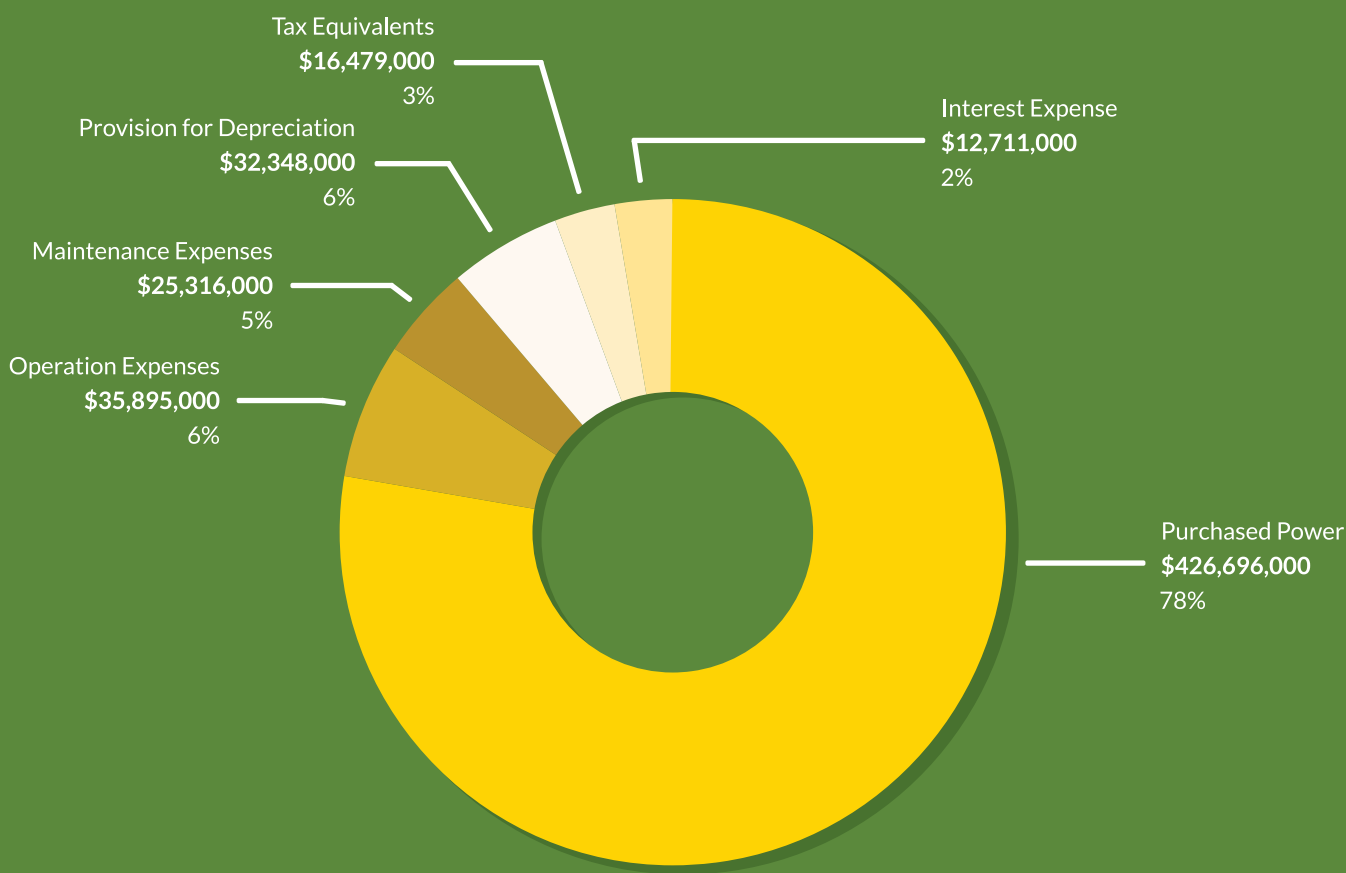
ELECTRIC REVENUES



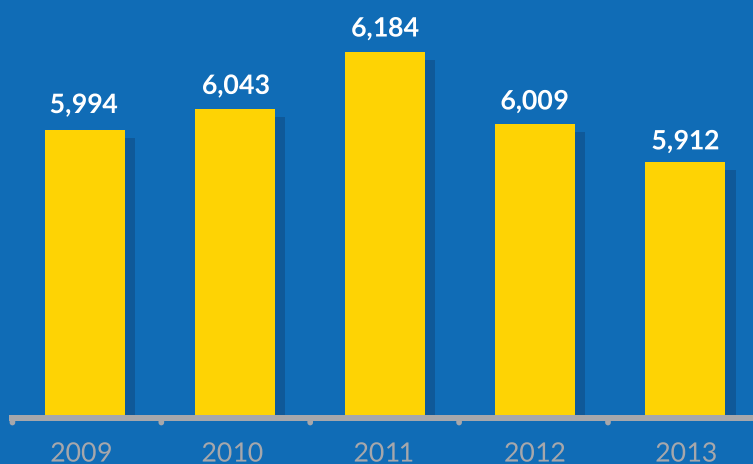
ELECTRIC NET PLANT



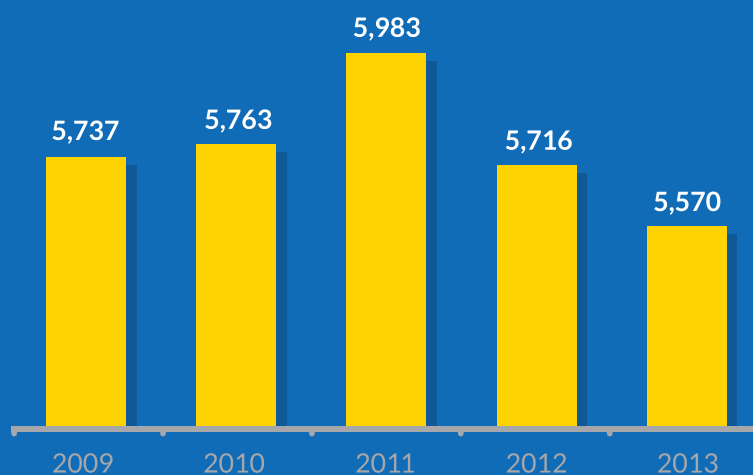
ELECTRIC EXPENSES AND TRANSFERS TO THE CITY OF CHATTANOOGA



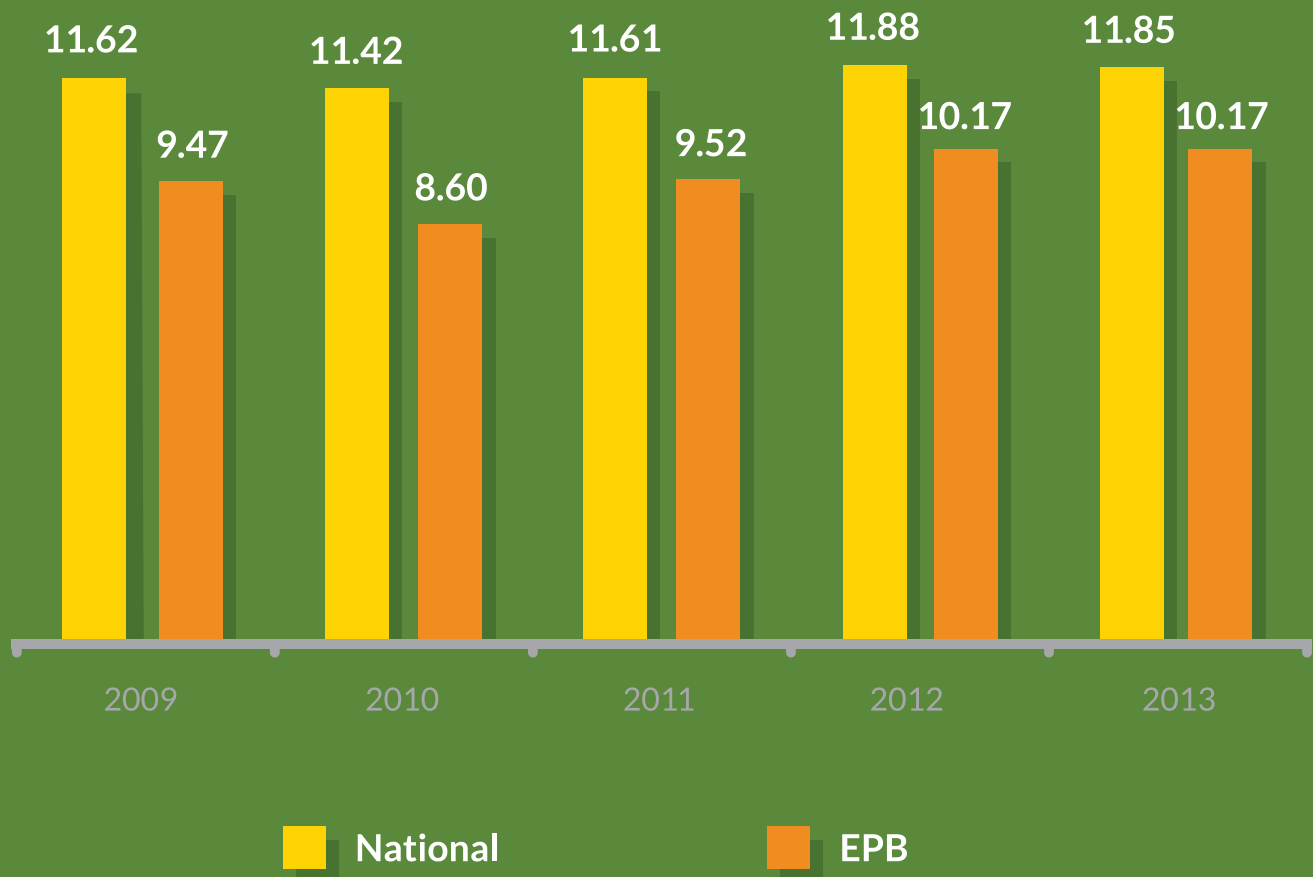
KILOWATT HOURS PURCHASED (in millions)



KILOWATT HOUR SALES (in millions)



AVERAGE COST PER KWH PER RESIDENTIAL CUSTOMER (in cents)



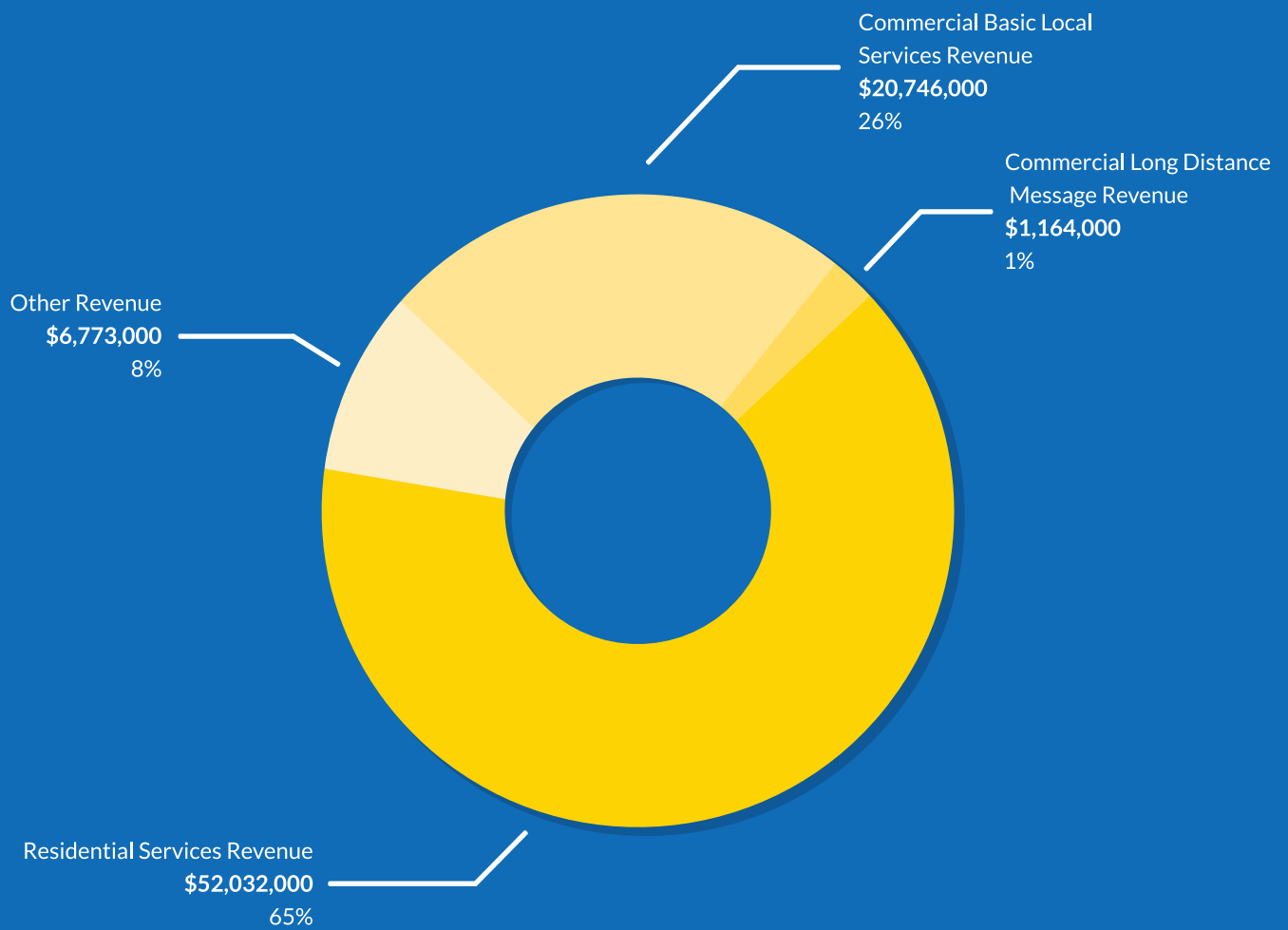
**Source: U.S. Energy Information Administration Table 5.3 - Average Retail Prices of Electricity to Ultimate Consumers*

Fiber Optics System

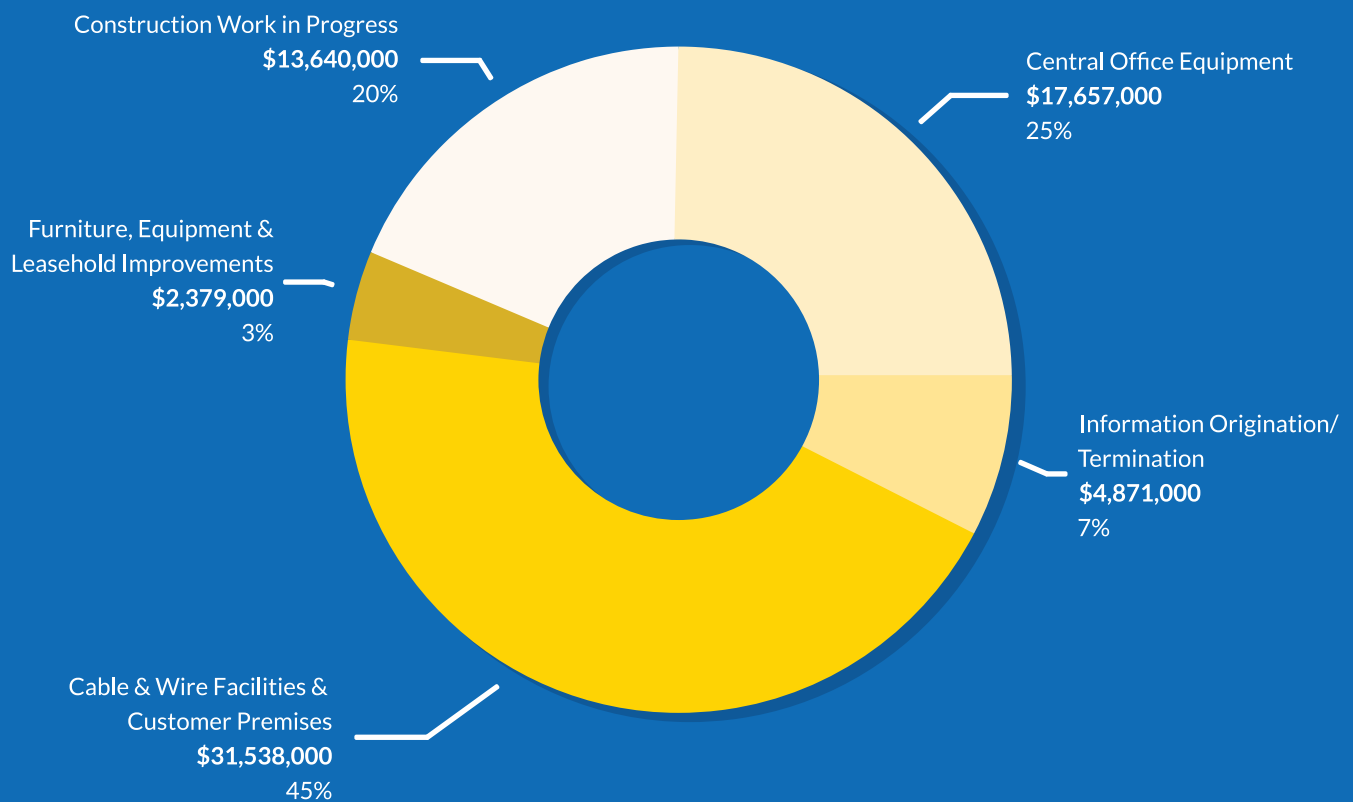
Financial Highlights 2013

EPB Fiber Optics System increased its revenue from \$66.5 million in FY 2012 to \$80.7 million in FY 2013, an increase of \$14.2 million, or 21.4 percent. This increase in revenues is due mainly to the growth in the number of customers for Fiber Optics residential services from 37,000 to over 48,000 during FY 2013. The net plant grew from \$67.2 million in FY 2012 to \$70.1 million in FY 2013, an increase of 4.3 percent. The increase in plant is due mainly to the additional plant necessary for the Fiber Optics System to provide Internet, video, and telephone services to the additional 11,000 residential customers added during FY 2013. Fiber Optics expenses and transfers to the City of Chattanooga totaled \$72.1 million.

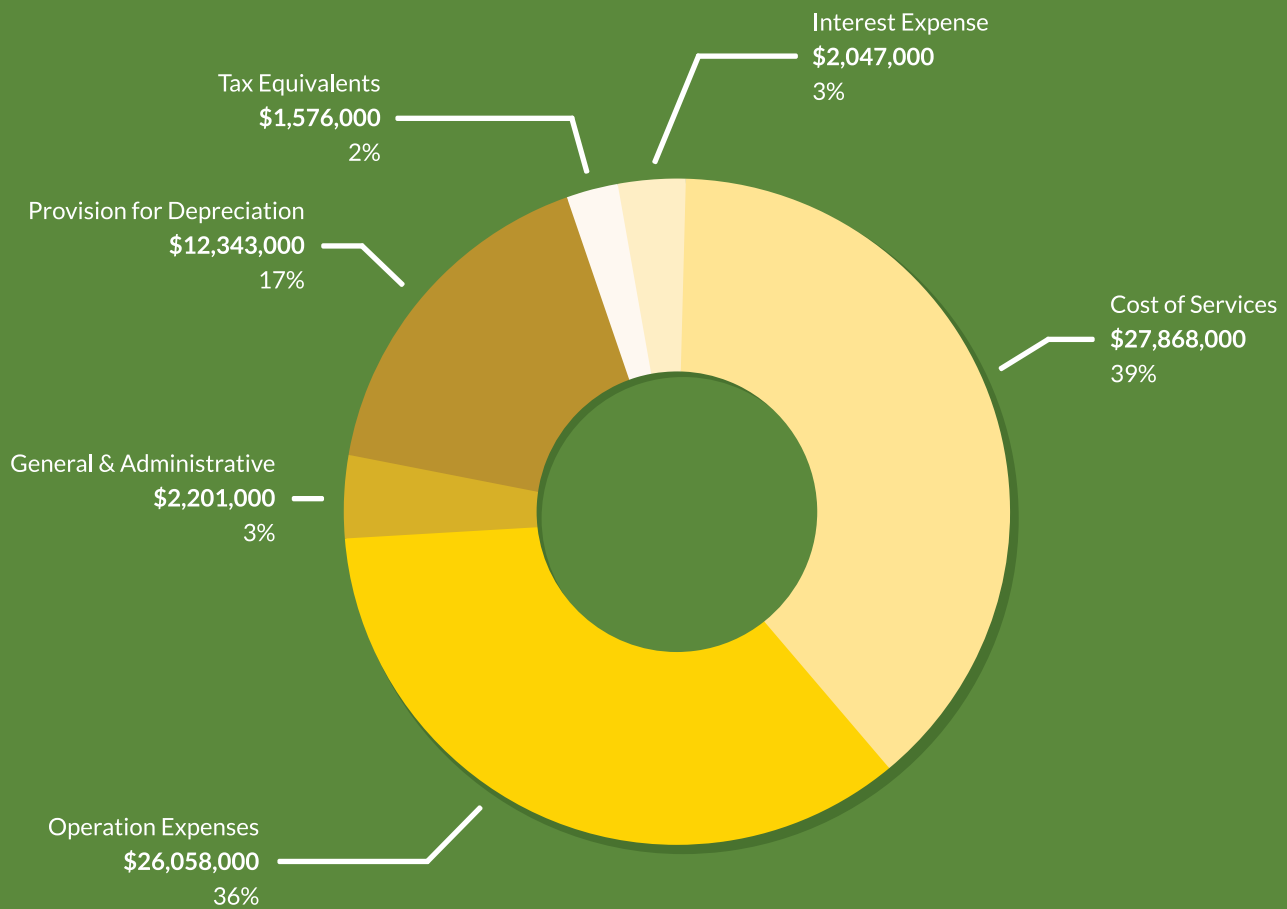
FIBER OPTICS REVENUES



FIBER OPTICS NET PLANT



FIBER OPTICS EXPENSES AND TRANSFERS TO THE CITY OF CHATTANOOGA



EPB Management's
Discussion & Analysis

This Management's Discussion and Analysis is in accordance with Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, which EPB implemented in the fiscal year (FY) ended June 30, 2002. Our discussion and analysis of EPB's financial performance provides an overview of financial activities for the FY ended June 30, 2013. Please read it in conjunction with EPB's financial statements, which follow this section.

Financial Highlights

- EPB's total net assets increased \$14.2 million, or 5.5 percent.
- During the year electric sales decreased \$8.2 million, or -1.5 percent; fiber optics sales increased \$12.4 million, or 20.6 percent.
- Total operating expenses increased \$2.2 million, or 0.4 percent.

Overview of the Financial Statements

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

Required Financial Statements

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

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

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

Financial Analysis of EPB

The Balance Sheets and the Statements of Revenues, Expenses and Changes in Net 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 net assets of EPB and the changes in them. The difference between assets and liabilities is one way to measure financial health or financial position. Over time, increases or decreases in EPB's net assets are an indicator of whether its financial health is improving. However, other non-financial factors must also be considered such as weather, economic conditions, population growth, and new or changed governmental legislation.

Net Position

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

Table 1

Condensed Balance Sheets (Statements of Net Position) (in thousands of dollars)

	FY 2013	FY 2012	DOLLAR CHANGE	TOTAL PERCENT CHANGE
Assets, Excluding Utility Plant	\$ 218,101	\$ 177,109	\$ 40,992	23.1%
Utility Plant, net	569,891	565,755	4,136	0.7%
Total Assets	787,992	742,864	45,128	6.1%
Bonds Outstanding	284,160	287,489	(3,329)	-1.2%
Notes Payable	10,861	21,725	(10,864)	-50.0%
Lines of Credit	51,828	2,112	49,716	0.0%
Other Liabilities	167,959	172,582	(4,623)	-2.7%
Total Liabilities	514,808	483,908	30,900	6.4%
Invested in Utility plant, Net of Related Debt	285,731	278,266	7,465	2.7%
Unrestricted Net Assets	(12,547)	(19,310)	6,763	35.0%
Total Net Position	\$ 273,184	\$ 258,956	\$ 14,228	5.5%

The table above shows net position increased \$14.2 million to \$273.2 million in FY 2013, up from \$259.0 million in FY 2012. The increase in net position is mainly due to an increase in Electric System cash. This increase in Electric System cash is related to an offsetting increase in other debt as a result of a \$60.0 million line of credit obtained by Video and Internet system that was used to pay off the inter-divisional loan to the Electric System.

Table 2

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

	FY 2013	FY 2012	DOLLAR CHANGE	TOTAL PERCENT CHANGE
Operating Revenues:				
Electric Sales	\$ 535,968	\$ 544,177	\$ (8,209)	-1.5%
Fiber Optics Sales	72,859	60,427	12,432	20.6%
Other Operating Revenues	16,659	13,948	2,711	19.4%
Total	625,486	618,552	6,934	1.1%
Operating Expenses:				
Electric	487,588	498,981	(11,393)	-2.3%
Fiber Optics	46,917	37,317	9,600	25.7%
Tax Equivalents	11,664	10,764	990	9.3%
Provision for Depreciation	44,691	41,713	2,978	7.1%
Total	590,860	588,685	2,175	0.4%
Other Deductions	(32,290)	(51,558)	19,268	-37.4%
Income (Loss) Before Transfers and Contributions	2,336	(21,691)	24,027	-110.8%
Tax Equivalents Transferred to City of Chattanooga	(6,391)	(6,141)	(250)	4.1%
Contributions	18,283	39,206	(20,923)	-53.4%
Change in Net Position	14,228	11,374	2,854	25.1%
Beginning Net Position	258,956	247,582	11,374	4.6%
Ending Net Position	\$ 273,184	\$ 258,956	\$ 14,228	5.5%

While the Balance Sheets show the change in net position, the Statements of Revenues, Expenses, and Changes in Net Position provide answers as to the nature and source of these changes. As shown in Table 2 above, the income before transfers and contributions of \$2.3 million combined with the contributions in aid of construction of \$18.3 million and tax equivalents of \$6.4 million accrued to the City of Chattanooga, resulted in an increase in net position of \$14.2 million for FY 2013.

A closer examination of the sources of changes in net position reveals electric sales decreased \$8.2 million, which was mostly offset by a decrease in purchased power of \$8.1 million. Operating expenses, excluding depreciation and tax equivalents, decreased by \$11.4 million in FY 2013 to \$487.6 million in FY 2013 from \$499.0 million in FY 2012 due mainly to the decrease in purchased power mentioned above (\$8.1 million) and a decrease of \$3.0 million in weather related events.

Weather has an impact on residential electric sales, and weather is reflected in degree-days as recorded by the National Weather Bureau. Degree-days measure the average daily temperature in relationship to 65 degrees: temperatures above 65 degrees are cooling degree-days; temperatures below 65 degrees are heating degree-days. In FY 2013, there were 4,877 total degree-days, an increase of 7.2% from the 4,551 degree-days in FY 2012. However, KWH used by customers decreased over last year by 2.9% due mainly to large industrial customers efforts for energy efficiency.

Fiber Optics operating sales increased by \$12.4 million to \$72.8 million in FY 2013 from \$60.4 million in FY 2012 due to the continued success of the residential service offerings (Fi TV, Fi Phone, and Fi-Speed Internet). Operating expenses, excluding depreciation and tax equivalents, associated with acquiring and serving customers increased \$9.6 million (25.7%) in FY 2013 which is consistent with the increased sales.

Depreciation expense increased to \$44.7 million in FY 2013 from \$41.7 million in FY 2012, an increase of 7.1%. This increase is the result of both Electric and Fiber Optics Systems utility plant growth.

Expenses for payments in lieu of taxes (tax equivalents expense and transfers) to municipal governments including transfers to the City of Chattanooga increased by \$1.3 million to \$18.1 million in FY 2013 from \$16.8 million in FY 2012, an increase of 7.4%. EPB's Tennessee tax equivalents expense is based on a prescribed formula that consists of two parts. Part I is calculated using utility plant value within a taxing district, the taxing district's property tax rate, the assessment ratio, and the equalization ratio. Part II is based on the average of the last three years' Tennessee operating revenues less cost of goods sold, and a prescribed rate which is currently 4%.

Budgetary Highlights

EPB's Board of Directors approves an Operating and Capital Budget each fiscal year. The budget remains in effect the entire year and is not revised. A FY 2013 budget comparison and analysis is presented in Table 3.

Table 3

Actual vs. Budget (in thousands of dollars)

	ACTUAL FY 2013	BUDGET FY 2013	DOLLAR CHANGE	TOTAL PERCENT CHANGE
Operating Revenues:				
Electric Sales	\$ 535,968	\$ 556,382	\$ (20,414)	-3.7%
Other Electric Revenue	9,122	8,139	983	12.1%
Subtotal	545,090	564,521	(19,431)	-3.4%
Fiber Optics Sales	72,859	72,772	87	0.1%
Other Fiber Optics Revenue	7,537	4,778	2,759	57.7%
Subtotal	80,396	77,550	2,846	3.7%
Total	625,486	642,071	(16,585)	-2.6%
Operating Expenses:				
Electric	487,588	505,415	(17,827)	-3.5%
Fiber Optics	46,917	45,407	1,510	3.3%
Provision for Depreciation	44,691	44,802	(111)	-0.2%
Tax Equivalents	11,664	11,829	(165)	-1.4%
Total	590,860	607,453	(16,593)	-2.7%
Other (Deductions)	(32,290)	(31,506)	(784)	2.5%
Income (Loss) Before Transfers and Contributions	2,336	3,112	(776)	-24.9%
Tax Equivalents Transferred to City of Chattanooga	(6,391)	(5,790)	(601)	10.4%
Contributions	18,283	18,600	(317)	-1.7%
Change in Net Position	\$ 14,228	\$ 15,922	\$ (1,694)	-10.6%
Capital Expenditures, (net of contributions)				
Electric	\$ 35,527	\$ 41,946	\$ \$(6,419)	-15.3%
Fiber Optics	15,051	13,643	1,408	10.3%
Total Capital Expenditures	\$ 50,578	\$ 55,589	\$ (5,011)	-9.0%

The Electric System sales revenues were \$20.4 million less than budget due mainly to unusually mild weather throughout FY 2013. Revenues were budgeted for FY 2013 based upon 5,138 degree-days while 4,877 actual degree-days were recorded, a decrease of 5.3 percent. Electric operating expenses were less than budget due mainly to lower than budgeted purchased power expense which was consistent with decreased sales.

The Fiber Optics System's net operating revenues including expenses, provision for depreciation and tax equivalents, were over budget by \$1.6 million an increase of 17.0 percent due mainly to 6,000 more residential customers being added in 2013 than budgeted.

As shown in Table 3, capital expenditures were \$5.0 million less than budgeted due to purchase of meters, optical fiber, business process automation, and distribution building additions being significantly under budget.

Utility Plant

At the end of FY 2013, EPB had \$569.9 million in net utility plant as shown in Table 4. This represents a broad range of infrastructure for the purpose of providing services to our customers. Examples include transformers, meters, conductors, conduit, poles and fixtures, control equipment, switching equipment, fiber optics central office switches, and vehicles.

Table 4

Utility Plant (in thousands of dollars)

	FY 2013	FY 2012	DOLLAR CHANGE	TOTAL PERCENT CHANGE
Electric				
Intangible Plant	\$ 125	\$ 125	\$ -	0.0%
Transmission	55,280	54,907	373	0.7%
Distribution	534,315	504,524	29,791	5.9%
Land & Land Rights	6,098	6,098	-	0.0%
Buildings & Improvements	66,606	60,806	5,800	9.5%
Furniture, Fixtures & Equipment	69,632	83,500	(13,868)	-16.6%
Construction Work in Progress	30,894	27,923	2,971	10.6%
Total	762,950	737,883	25,067	3.4%
Less: Accumulated Depreciation	(263,144)	(239,289)	(23,855)	10.0%
Electric Total	499,806	498,594	1,212	0.2%
Fiber Optics				
Central Office Equipment	33,310	29,649	3,661	12.3%
Information Origination/Termination	15,275	15,677	(402)	-2.6%
Cable & Wire Facilities	8,050	7,816	234	3.0%
Furniture, Fixtures, & Equipment	6,583	6,368	215	3.4%
Leasehold Improvements	34	34	-	0.0%
Customer Premises Wiring	25,910	15,108	10,802	71.5%
Customer Premises Equipment	14,997	13,439	1,558	11.6%
Construction Work in Progress	13,640	15,292	(1,652)	-10.8%
Total	117,799	103,383	14,416	13.9%
Less: Accumulated Depreciation	(47,714)	(36,222)	(11,492)	31.7%
Fiber Optics Total	70,085	67,161	2,924	4.4%
Net Utility Plant	\$ 569,891	\$ 565,755	\$ 4,136	0.7%

Debt Administration

As of year-end, EPB Electric System had \$284.2 million in bond debt outstanding compared to \$287.5 million last year. These bonds were rated AA+ by Standard & Poor's and AA by Fitch.

One area that demonstrates EPB's financial strength and future borrowing capability is seen in its debt coverage ratio. The City of Chattanooga has a requirement that if this ratio should ever decrease below 1.5, EPB would be required to establish and fund a reserve fund. Debt coverage ratio as it relates to the Electric System revenue bonds is shown in Table 5. This ratio is currently 4.2. The increase in the debt coverage ratio is due to the percent decrease in operating expenses for FY 2013 being greater than the percent decrease in revenue.

Table 5

Electric System Debt Coverage Analysis (in thousands of dollars)

	FY 2013	FY 2012
Revenues		
Electric Revenue	\$ 554,300	\$ 560,996
Interest Income	372	398
Other Income	379	1,175
Total Revenue	555,051	562,569
Expenses		
Purchased Power	426,696	434,816
Operating Expenses	60,073	63,568
Total Operation Expenses (excluding depreciation and tax equivalent payments)	486,769	498,384
Funds Available for Debt Service	\$ 68,282	\$ 64,185
Debt Service		
Interest Paid on Long-Term Debt	\$ 13,256	\$ 13,377
Principal Payments	2,965	2,750
Total Debt Service	\$ 16,221	\$ 16,127
Debt Coverage Ratio	4.2	4.0

In March of FY 2013, the Telecom System borrowed \$11.5 million on a three-year term loan and a \$2.5 million line of credit from a bank. The proceeds were used to pay off an existing term loan and line of credit facility. The balance of the term loan and the line of credit at the end of FY 2013 was \$10.9 million and \$0 respectively. In August of 2012 the Video and Internet System obtained a revolving line of credit for \$60.0 million which was used to repay all the funds borrowed from the Electric System and retire an outstanding bank loan. The balance of the line of credit at the end of FY 2013 was \$51.8 million.

Economic Factors and Next Year's Budgets and Rates

EPB's Board of Directors and Management considered many factors when setting FY 2014 budget and rates. One of those factors is the local economy and EPB's impact on local industries. EPB's budget is based upon a statistical model using seven years of historical data to estimate growth and average kilowatt-hour sales per customer within customer class. These estimates are adjusted by any known data, such as changes anticipated by a large industrial customer.

In FY 2014, EPB Fiber Optics plans to further its financial performance by growing its Fi TV, Fi Phone, and Fi-Speed Internet services to residential and business customers. EPB Fiber Optics had approximately 52,000 residential and business customers at the end of FY 2013 and is projected to have over 60,000 by the end of FY 2014.

EPB's electric construction budget for FY 2014 includes monies to complete the installation of fiber and AMI meters to support the Smart Grid. Monies are also included for the completion of IT system upgrades and integrations that will support the Smart Grid.

Capital investments for the Fiber Optics System in FY 2014 will focus on broadband equipment to provide telephone, Internet, and video services to residential and business customers as well as system upgrades to improve user interactions.

Smart Grid

EPB has built a Smart Grid Infrastructure that has significantly enhanced the entire system allowing real-time communications between components on the electric grid, customers and employees. In addition to current operational efficiencies, the Smart Grid will allow EPB to help customers manage their energy usage, to alert customers when there are spikes in their power consumption, and to offer options to customers for time of use programs. The Smart Grid allows EPB to instantly detect power outages with the capacity to troubleshoot and correct some electrical grid issues before they become larger problems. Deployment of the Smart Grid also gives EPB the ability to detect and reduce electricity theft. The Smart Grid was originally planned as a ten-year project with the first phase, affecting approximately 75% of our customers, being funded by a portion of the \$219.8 million par value bond issue that was completed in April 2008.

In FY 2010, EPB was awarded a \$111.6 million Smart Grid Investment Grant from the U.S. Department of Energy. This grant allowed EPB to complete the Smart Grid Infrastructure to the remaining 25% of our customers and significantly enhance the Smart Grid infrastructure for the entire system. The terms of the grant require completion within three years. As of June 30, 2013 EPB had billed the DOE a total of \$111.6 million and received \$110.5 million.

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.



Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Electric Power Board ("EPB", and enterprise fund of the City of Chattanooga) which comprise the balance sheets for the years ended June 30, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

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 Responsibility

Our responsibility is to express opinions 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 controls 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of EPB, as of June 30, 2013 and 2012, and the respective changes in financial position and, where applicable, cash flows thereof 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 Discussion and Analysis on pages 21 through 32 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 opinions on the financial statements that collectively comprise the EPB's basic financial statements. The supplemental schedules for Electric, Telecom, Video and Internet, and Fiber Optics Systems are presented for purposes of additional analysis and are not a required part of the basic financial statements.

These supplemental schedules 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 are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report date August 26, 2013, on our consideration of EPB's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering EPB's internal control over financial reporting and compliance.

Chattanooga, Tennessee

August 26, 2013

Henderson Hutcherson
& McCullough, PLLC

EPB Statements of Net Position

June 30, 2013 and 2012

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 124,488,000	\$ 80,442,000
Accounts receivable, less allowance for doubtful accounts of \$1,157,000 and \$1,222,000 in 2013 and 2012, respectively	25,866,000	22,498,000
Unbilled electric sales	34,535,000	38,299,000
Grants receivable	7,739,000	8,099,000
Materials and supplies, at average cost	12,478,000	13,872,000
Prepayments and other current assets	7,977,000	8,346,000
	213,083,000	171,556,000
NON-CURRENT ASSETS		
Utility plant -		
Utility plant	880,749,000	841,266,000
Less - accumulated provision for depreciation	(310,858,000)	(275,511,000)
Net utility plant	569,891,000	565,755,000
Other assets -		
Other non-current assets	2,898,000	2,945,000
Unamortized bond issue cost	2,120,000	2,233,000
TVA discounted energy units	--	375,000
	574,909,000	571,308,000
TOTAL ASSETS	\$ 787,992,000	\$ 742,864,000
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable -		
Tennessee Valley Authority, for power purchased	\$ 71,878,000	\$ 78,272,000
Other	16,470,000	16,852,000
Customer deposits	2,396,000	2,202,000
Revenue bonds, current portion	6,000,000	2,965,000
Accrued tax equivalents	17,958,000	16,744,000
Accrued interest payable	4,562,000	4,477,000
Line of credit	--	2,112,000
Notes payable	3,833,000	3,613,000
Other current liabilities	10,819,000	11,541,000
	133,916,000	138,778,000
NON-CURRENT LIABILITIES		
Revenue bonds, net	278,160,000	284,524,000
Line of credit	51,828,000	--
Accrued postretirement benefit obligation	9,055,000	8,955,000
Customer deposits	22,932,000	20,887,000
Notes payable	7,028,000	18,112,000
Other non-current liabilities	11,889,000	12,652,000
	380,892,000	345,130,000
NET POSITION		
Net investment in capital assets	285,731,000	278,266,000
Unrestricted	(12,547,000)	(19,310,000)
	273,184,000	258,956,000
TOTAL LIABILITIES AND NET POSITION	\$ 787,992,000	\$ 742,864,000

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

EPB Statements of Revenues, Expenses, and Changes in Net Position

For the years ended June 30, 2013 and 2012

	2013	2012
OPERATING REVENUES		
Electric sales		
Residential	\$ 226,763,000	\$ 218,628,000
Small commercial and power	42,157,000	40,060,000
Large commercial and power	264,723,000	268,828,000
Outdoor lighting systems	6,666,000	6,599,000
TOTAL BILLED ELECTRIC SALES	540,309,000	534,115,000
Change in unbilled electric sales	(3,764,000)	10,651,000
Less uncollectible electric sales	(577,000)	(589,000)
TOTAL ELECTRIC SALES	535,968,000	544,177,000
Fiber optics sales		
Billed fiber optics revenues	73,623,000	60,908,000
Less uncollectible fiber optics revenues	(764,000)	(481,000)
TOTAL FIBER OPTICS SALES	72,859,000	60,427,000
Other operating revenues	16,659,000	13,948,000
TOTAL OPERATING REVENUES	625,486,000	618,552,000
OPERATING EXPENSES		
Operation		
Power purchased from Tennessee Valley Authority	426,696,000	434,816,000
Other operation expenses	35,576,000	40,794,000
Maintenance	25,316,000	23,371,000
Fiber optic operating expenses	46,917,000	37,317,000
Provision for depreciation	44,691,000	41,713,000
City, county, and state tax equivalents	11,664,000	10,674,000
TOTAL OPERATING EXPENSES	590,860,000	588,685,000
Net operating income	34,626,000	29,867,000
OTHER REVENUES (DEDUCTIONS)		
Interest revenue on invested funds	372,000	398,000
Interest expense	(14,599,000)	(12,852,000)
Other, net	220,000	102,000
Plant cost recovered through contributions in aid of construction	(18,283,000)	(39,206,000)
TOTAL OTHER DEDUCTIONS	(32,290,000)	(51,558,000)
INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS	2,336,000	(21,691,000)
TAX EQUIVALENTS TRANSFERRED TO CITY OF CHATTANOOGA	(6,391,000)	(6,141,000)
CONTRIBUTIONS IN AID OF CONSTRUCTION	18,283,000	39,206,000
CHANGE IN NET POSITION	14,228,000	11,374,000
NET POSITION, BEGINNING OF THE YEAR	258,956,000	247,582,000
NET POSITION, END OF YEAR	\$ 273,184,000	\$ 258,956,000

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

EPB Statements of Cash Flows

For the years ended June 30, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 636,029,000	\$ 640,474,000
Payments to suppliers for goods and services	(513,754,000)	(518,966,000)
Payments to employees for services	(31,700,000)	(31,466,000)
Payments in lieu of taxes	(16,842,000)	(15,260,000)
NET CASH PROVIDED BY OPERATING ACTIVITIES	73,733,000	74,782,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Additions to utility plant	(67,862,000)	(124,840,000)
Removal cost	(1,159,000)	(1,052,000)
Salvage	160,000	1,281,000
Contributions in aid of construction	18,283,000	39,206,000
Interest paid on debt	(1,824,000)	(797,000)
Change in line of credit, net	49,716,000	360,000
Debt issuance cost	(259,000)	(12,000)
Borrowings under notes payable	11,500,000	7,500,000
Repayments of notes payable	(22,364,000)	(4,682,000)
Bond principal payment	(2,965,000)	(2,750,000)
Bond interest payment	(13,256,000)	(13,377,000)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(30,030,000)	(99,163,000)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	343,000	424,000
Sale of investments	--	5,105,000
NET CASH PROVIDED BY INVESTING ACTIVITIES	343,000	5,529,000
NET CHANGE IN CASH AND CASH EQUIVALENTS	44,046,000	(18,852,000)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	80,442,000	99,294,000
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 124,488,000	\$ 80,442,000
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net operating income	\$ 34,626,000	\$ 29,867,000
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation and amortization	45,829,000	42,627,000
Miscellaneous non-operating expenses, net	220,000	102,000
Tax equivalents transferred to City of Chattanooga	(6,391,000)	(6,141,000)
Changes in assets and liabilities:		
Accounts receivable, net	(3,368,000)	450,000
Unbilled electric sales	3,764,000	(10,651,000)
Grants receivable	360,000	20,699,000
Materials and supplies	1,394,000	(1,349,000)
Prepayments and other current assets	398,000	4,397,000
TVA discounted energy units	375,000	417,000
Other charges	149,000	75,000
Accounts payable, net	(6,776,000)	(7,909,000)
Customer deposits	2,239,000	1,833,000
Accrued tax equivalents	1,214,000	1,553,000
Other current liabilities	(722,000)	(1,709,000)
Other credits	322,000	396,000
Accrued postretirement benefit obligation	100,000	125,000
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 73,733,000	\$ 74,782,000

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



Notes to Financial Statements

1. General

The Electric Power Board of Chattanooga is a municipal utility and an enterprise fund of the City of Chattanooga, Tennessee. In 1999, the Electric Power Board began doing business as EPB. EPB began electric operations (the "Electric System") in 1939 and provides electricity to customers in the City of Chattanooga and surrounding counties, including Northwest Georgia. The Tennessee Valley Authority is EPB's sole provider of power and acts in a regulatory capacity in setting electric rates. In 1999, EPB created the Telecom System to provide telecommunications services to businesses within the EPB electric service territory. In fiscal year (FY) 2003, EPB began providing Internet services to business customers. On September 25, 2007, the City Council of the City of Chattanooga approved and authorized EPB to provide voice, Internet, and video services to residential customers. EPB provided these services to its first residential customer in September 2009. At the end of FY 2013, EPB had over 48,000 residential customers and 4,200 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 2013, EPB implemented Governmental Accounting Standards Board (GASB) Statements No. 62, *"Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,"* and No. 63, *"Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position."* Statement No. 62 incorporates accounting and financial reporting guidance from FASB and AICPA pronouncements into the GASB authoritative literature. This statement also supersedes Statement No. 20, *"Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting."* Statement No. 63 amends GASB 34 to incorporate deferred outflows of resources and deferred inflows of resources into financial reporting by establishing a framework detailing how these elements should be reported. This will result in standardizing the presentation of deferred balances and their effects on a government's net position. The adoption of these statements did not have a significant impact on EPB's financial condition or results of operations.

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 investments in federal agency bonds and notes, commercial paper, investment in the State of Tennessee Local Government Investment Pool, and accounts receivable. Short-term investments in federal agency bonds and notes with a maturity of one year or less are carried at amortized cost. All other financial instruments are carried at fair value as determined by quoted market prices at June 30, 2013 and 2012.

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 5.66% in 2013 and 5.58% in 2012.

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

Allowance for Funds Used During Construction (AFUDC)

AFUDC represents the approximate net composite interest cost of borrowed funds used for construction. For FY 2013 and 2012, AFUDC increased the plant balance and decreased interest expense by \$0.5 million and \$1.1 million, respectively. It is EPB's policy that any single capital project with an estimated cost of \$2.0 million or more will receive AFUDC.

Revenues and Expenses

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

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

Accounts Receivable

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

Advertising Cost

Costs related to advertising for the Electric System and Fiber Optics System are expensed in the FY in which related advertising takes place. Advertising expense for FY 2013 and 2012 was approximately \$2.1 million and \$2.3 million, respectively.

Subsequent Events

Management performed an evaluation of subsequent events through August 26, 2013, the date these financial statements were issued.

3. Deposits and Investments

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

At June 30, 2013, 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)	\$ 20,212	\$ 20,212	\$ -	\$ -
Money Market Accounts	91,684	91,684	-	-
Certificate of Deposits	5,000	5,000	-	-
Total	\$ 116,896	\$ 116,896	\$ -	\$ -

At June 30, 2012, 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)	\$ 202	\$ 202	\$ -	\$ -
Money Market Accounts	75,051	75,051	-	-
Total	\$ 75,253	\$ 75,253	\$ -	\$ -

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, 2013 and 2012 met investment policy restrictions.

Credit Risk

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

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

Custodial Credit Risk

At June 30, 2013 and 2012, 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, 2013 and 2012, 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, 2013 and 2012 were as follows:

ISSUER	INVESTMENT TYPE	JUNE 30, 2013	JUNE 30, 2012
State of Tennessee	Local Government Investment Pool	17.29%	0.30%
BB&T Bank	Money Market Accounts	5.01%	35.34%
CapitalMark Bank	Money Market Accounts & CD's	17.28%	27.00%
Capstar Bank	Money Market Accounts & CD's	8.57%	0%
Cornerstone Bank	Money Market Accounts	2.90%	1.20%
First Bank	Money Market Accounts	0.21%	0.32%
First Tennessee Bank	Money Market Accounts	39.90%	15.70%
First Volunteer Bank	Money Market Accounts	0.01%	0.01%
FSG Bank	Money Market Accounts	0.22%	0.40%
Northwest Georgia Bank	Money Market Accounts	0.21%	0.33%
Regions Bank	Money Market Accounts	0.22%	0.40%
SunTrust Bank	Money Market Accounts	8.18%	19.00%

4. Utility Plant

Electric utility plant assets activity for the year ended June 30, 2013 was as follows (in thousands):

ELECTRIC	JUNE 30, 2012	ADDITIONS	RETIREMENTS AND OTHER	JUNE 30, 2013
Intangible Plant	\$ 125	\$ -	\$ -	\$ 125
Transmission	54,907	4,039	(3,666)	55,280
Distribution	504,524	42,918	(13,127)	534,315
Land & Land Rights	6,098	-	-	6,098
Buildings & Improvements	60,806	5,809	(9)	66,606
Furniture, Fixtures & Equipment	83,500	8,368	(22,236)	69,632
Construction Work in Progress	27,923	3,970	(999)	30,894
Electric Total	\$ 737,883	\$ 65,104	\$ (40,037)	\$ 762,950

Fiber Optics utility plant assets activity for the year ended June 30, 2013 was as follows (in thousands):

FIBER OPTICS	JUNE 30, 2012	ADDITIONS	RETIREMENTS AND OTHER	JUNE 30, 2013
Central Office Equipment	\$ 29,649	\$ 3,661	\$ -	\$ 33,310
Information Origination/Termination	15,677	408	(810)	15,275
Cable & Wire Facilities	7,816	234	-	8,050
Furniture, Fixtures & Equipment	6,368	215	-	6,583
Leasehold Improvements	34	-	-	34
Customer Premise Wiring	15,108	10,802	-	25,910
Customer Premise Equipment	13,439	1,615	(57)	14,997
Construction Work in Progress	15,292	(1,652)	-	13,640
Fiber Optics Total	\$ 103,383	\$ 15,283	\$ (867)	\$ 117,799
Total Utility Plant	\$ 841,266	\$ 80,387	\$ (40,904)	\$ 880,749
Total Accumulated Depreciation	(275,511)	(45,829)	10,482	(310,858)
Total Net Utility Plant	\$ 565,755	\$ 34,558	\$ (30,422)	\$ 569,891

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	5-20 years
Central office equipment	10 years
Information origination/termination	5-10 years
Cable & wire facilities	30 years
Leasehold improvements	10 years
Customer premise wiring	10 years
Customer premise equipment	3.5 years

Depreciation expense for the Electric System was approximately \$32.3 million and \$30.9 million for the fiscal years ended June 30, 2013 and 2012, respectively. Depreciation expense for the Fiber Optics System was approximately \$12.3 million and \$10.8 million for the fiscal years ended June 30, 2013 and 2012, respectively.

5. Tennessee Valley Authority Programs

EPB participated in the TVA Discounted Energy Units (DEU) program. The DEU program allowed TVA distributors to prepay a portion of the price of a block of kilowatt hours yet to be supplied by TVA, each such block being a DEU, and receive a discount over a defined period of years. In 2003, EPB purchased 5.0 DEU's by paying \$5 million. Under this program, EPB has recovered this prepayment over a ten year period through a monthly discount of 2.50¢ per KWh on the specified monthly KWh DEU portion of firm energy purchased from TVA in that month. EPB recovered the last credit for this program during FY 2013. The outstanding DEU balance was \$0 and \$0.4 million for the fiscal years ended June 30, 2013 and 2012, respectively.

6. Debt

Long-term debt for the year ended June 30, 2013 is as follows (in thousands):

	BALANCE AT JUNE 30, 2012	REPAYMENTS, AMORTIZATION OR ACCRETION	ADDITIONS	BALANCE AT JUNE 30, 2013	CURRENT AMOUNT DUE
Electric System					
Electric System Revenue Bonds, 2006 Series A, bear interest at rates from 4.125% to 5.00%, maturing through September 2031, interest due semi-annually	\$ 36,670	\$ (1,195)	\$ -	\$ 35,475	\$ 1,245
Electric System Revenue Bonds, 2006 Series B, bear interest at rates from 4.00% to 4.25%, maturing through September 2025, interest due semi-annually	23,430	(1,770)	-	21,660	1,755
Electric System Revenue Bonds, 2008 Series A, bear interest at rates from 3.00% to 5.00%, maturing September 2013 through 2033, interest due semi-annually	219,830	-	-	219,830	3,000
Subtotal	\$ 279,930	\$ (2,965)	\$ -	\$ 276,965	\$ 6,000
Unamortized premium/(discount)	\$ 7,559	\$ (364)	\$ -	\$ 7,195	\$ -
Total Electric System Debt	\$ 287,489	\$ (3,329)	\$ -	\$ 284,160	\$ 6,000
Fiber Optics System					
Secured Term Promissory Note, bearing interest rate of LIBOR plus 1.75% with a 1% floor, repaid March 2013	\$ 14,412	\$ (14,412)	\$ -	\$ -	\$ -
Secured Term Promissory Note, bearing interest rate of 30 day LIBOR plus 1.12% (1.34% at June 30, 2013), repayable in thirty-six monthly installments	-	(639)	11,500	10,861	3,833
Secured Term Promissory Note, bearing interest rate of 3.5%, repaid April 2012	7,313	(7,313)	-	-	-
Total Fiber Optics System Debt	\$ 21,725	\$ (22,364)	\$ 11,500	\$ 10,861	\$ 3,833
Total Debt	\$ 309,214	\$ (25,693)	\$ 11,500	\$ 295,021	\$ 9,833

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

FISCAL YEAR	PRINCIPAL	INTEREST	TOTAL
2014	\$ 6,000	\$ 13,085	\$ 19,085
2015	7,040	12,832	19,872
2016	8,075	12,502	20,577
2017	9,390	12,139	21,529
2018	9,740	11,752	21,492
2019-2023	55,855	51,329	107,184
2024-2028	70,580	36,221	106,801
2029-2033	89,615	16,689	106,304
2034	20,670	517	21,187
Total	\$ 276,965	\$ 167,066	\$ 444,031

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

Concurrent with the 2006 Series A issue, EPB issued \$23.4 million of Electric System Refunding Revenue Bonds, Series 2006 B, to refinance a portion of the 2000 Series Bonds. These proceeds were used to purchase certain governmental securities and placed within an irrevocable trust, with an escrow agent. The proceeds were subsequently used to service and retire \$22.4 million of the series 2000 bonds on their call date of September 1, 2010.

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

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, 2013 was 4.2x.

In March 2013, a bank loan was obtained for \$11.5 million with principal and interest due in thirty-six monthly installments for the benefit of the Telecom System, guaranteed by the revenue and assets of the Telecom System. This loan refinanced an existing bank loan under more favorable terms. The outstanding balance bears interest equal to the 30-day LIBOR (London Interbank Offered Rate) plus 1.12%. At June 30, 2013, the balance on this loan was \$10.9 million. Annual maturities on this debt are as follows (in thousands):

FISCAL YEAR	PRINCIPAL
2014	\$ 3,833
2015	3,833
2016	3,195
Total	\$ 10,861

In FY 2012, EPB maintained a \$50 million bank line of credit with the execution of an Electric System Revenue Anticipate Note. During FY 2013, the bank line of credit was reduced to \$25 million. The purpose of the note is for financing the purchase of electric power. The note is payable from and secured by a pledge of the net revenues of the electric distribution system, subject to the prior pledge of such revenues in favor of the outstanding bonds. The unpaid principle balance shall bear interest of 30-day LIBOR plus 1.25%. As of June 30, 2013 and 2012, there was no amount outstanding on the note.

In March 2013, the Telecom System reduced the line of credit from \$5 million in fiscal year 2012 to \$2.5 million in fiscal year 2013. The line of credit is used for working capital needs. The line of credit is secured by the revenues and assets of the Telecom System. The outstanding balance shall bear interest equal to 30-day LIBOR (London Interbank Offered Rate) plus 1.15%. This line of credit shall become due and payable in March 2016. At June 30, 2013 and 2012, the outstanding balance under the line of credit was \$0 and \$2.1 million, respectively.

In August 2012, a revolving line of credit was obtained for \$60 million for the benefit of the Video and Internet system. The line of credit was used for repayment of all funds borrowed from the Electric System and retirement of the outstanding principal of a \$7.5 million bank loan obtained in October 2011. This loan is secured by the revenue, assets, and other incomes of the Video and Internet system. The loan shall mature in August 2015 and incur monthly interest payments equal to 30 Day LIBOR plus 2.5%; subject to a total 3.5% floor. At June 30, 2013, the outstanding balance under the revolving line of credit was \$51.8 million.

7. Other Long-Term Liabilities

Sick leave liabilities are composed of short-term and long-term portions. Short-term sick leave liability is included in current liabilities in the other current liabilities category, and long-term sick leave liability is included in long-term liabilities in the other non-current liabilities category. In 2002, the sick leave program was terminated, but employees were permitted to retain any accumulated sick leave hours. During December of each year, employees may elect to convert any unused annual leave hours to sick leave hours on a one for one basis. Under certain conditions employees may use sick leave hours. Annually, employees may elect to be paid at their current rate of pay for up to 48 hours of sick leave at the rate of one hour of pay for two hours of sick leave and for up to an additional 16 hours of sick leave at the rate of one hour of pay for one hour of sick leave. The valuation of the hours eligible for this annual payment is considered a short-term liability. This short-term sick leave liability was \$206,000 and \$210,000 at June 30, 2013 and 2012, respectively. Also, employees were eligible to be paid upon retirement at the rate of 38% for accumulated sick leave hours at June 30, 2013 and 2012, 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 \$580,000 and \$610,000 at June 30, 2013 and 2012, respectively.

8. Employee Benefit Plans

Pension Plan Description

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

Funding Policy

The contribution requirements of plan members and EPB are established and may be amended by EPB. Plan members are not required to contribute to the Plan. EPB’s contributions are calculated based on an actuarially determined rate, which is currently 11.60% of annual covered payroll.

Investment Policy

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

	EQUITY	BONDS	CASH EQUIVALENTS	REAL ESTATE	HEDGE STRATEGIES
Minimum	20%	20%	0%	0%	0%
Maximum	80%	80%	15%	15%	20%

Annual Pension Cost and Net Pension Obligation

EPB's annual pension cost of the Plan year was approximately \$3.6 million in FY 2013 and \$3.0 million in FY 2012. The Plan paid retirement benefits of approximately \$5.2 million in FY 2013 and \$4.6 million in FY 2012. The annual required contribution was determined as part of an actuarial valuation performed as of August 1, 2012, using the aggregate cost method. The aggregate cost method does not identify or separately amortize unfunded actuarial liabilities. For that reason, the information about the funded status and funding progress has been prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funding progress of the plan. Significant actuarial assumptions used in the valuation included (a) a rate of return on the investment of present and future assets of 7.5% per year compounded annually, (b) projected salary increases of 3.0% per year compounded annually, (c) no post-employment benefit increases, and (d) a discount rate of 7.5% for preretirement and a blend of 7.5% and 3.5% for post-retirement. The schedule of funding progress presents multi-year information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. EPB has contributed the annual required contributions as calculated by actuarial valuation. Therefore, EPB has no net pension obligation at June 30, 2013 and 2012. The projection of future benefit payments for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations. The estimated annual contribution for 2014 is \$3.8 million.

Schedule of Funding Progress for the Pension Plan (in thousands)

ACTUARIAL VALUATION DATE	(1) ACTUARIAL VALUE OF PLAN ASSETS	(2) ACTUARIAL ACCRUED LIABILITY (AAL)	(3) UNFUNDED AAL (UAAL) (2)-(1)	(4) FUNDED RATIO (1)/(2)	(5) ANNUAL COVERED PAYROLL	(6) UAAL AS A % OF COVERED PAYROLL (3)/(5)
8/1/12	\$ 31,150	\$ 43,677	\$ 12,527	71.3%	\$ 31,045	40.3%
8/1/11	30,759	38,849	8,090	79.2%	28,703	28.2%
8/1/10	30,516	37,496	6,980	81.4%	28,267	24.7%
8/1/09	30,259	34,299	4,040	88.2%	25,629	15.8%
8/1/08	30,645	36,740	6,095	83.4%	24,276	25.1%

The Actuarial Accrued Liability (AAL) calculated above is an estimation of projected total liabilities (including both past and future service and compensation), allocated to past service in accordance with GASB Statement Number 50. This includes estimates of future service and compensation increases at various actuarial assumptions that may or may not occur.

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, 2012, this Actuarial Accrued Liability has been calculated to be \$30.6 million; with the Actuarial Value of Plan Assets being \$31.2 million. Therefore, the Actuarial Accrued Liability strictly devoted to past service and compensation is entirely covered by Plan Assets.

Schedule of Employer Contributions (in thousands)

ACTUARIAL VALUATION DATE	ANNUAL REQUIRED CONTRIBUTION	ACTUAL CONTRIBUTION	PERCENTAGE CONTRIBUTED
8/1/12	\$ 3,570	\$ 3,570	100.0%
8/1/11	2,796	3,400	121.6%
8/1/10	2,726	2,726	100.0%
8/1/09	2,048	2,500	122.1%
8/1/08	2,406	2,500	103.9%

Estimated Future Benefit Payments (in thousands)

DATE	PENSION BENEFITS
2014	\$ 2,981
2015	3,344
2016	3,372
2017	4,267
2018	4,289
2019-2023	25,669

401(k) Plan

Effective August 1, 1984, EPB implemented a 401(k) defined contribution plan, the EPB Retirement Savings Plan, which allows employees to invest up to 15.0% of their salary in a tax-deferred savings plan. EPB contributes 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 \$1.1 million and \$1.0 million in fiscal years 2013 and 2012, respectively. Employee contributions were approximately \$2.6 million and \$2.4 million in fiscal years 2013 and 2012, respectively. The EPB Retirement Savings Plan is administered by an individual designated by EPB. Article XII of the EPB Retirement Savings Plan assigns the authority to establish and amend the plan to EPB.

9. Post-Employment Benefits

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

The contribution requirements of plan members and EPB are established and may be amended by EPB. Plan members receiving benefits contribute based on retiree’s age, retirement date, and years of service. Contribution rates for FY 2013 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	\$ -	\$ 340.00	\$ 300.00	\$ 220.00	\$ 140.00	\$ 60.00
Employee +1	-	680.00	600.00	440.00	280.00	120.00
Family	-	1,020.00	900.00	660.00	420.00	180.00
Pre-Age 65-PPO						
Individual	\$ -	\$ 272.00	\$ 240.00	\$ 176.00	\$ 112.00	\$ 48.00
Employee +1	-	544.00	480.00	352.00	224.00	96.00
Family	-	816.00	720.00	528.00	336.00	144.00

CATEGORY	RETIREMENT BEFORE MARCH 1, 1991	RETIREMENT AFTER MARCH 1, 1991				
		YEARS OF SERVICE/PERCENT OF CONTRIBUTIONS				
		5-9/85%	10-14/77.5%	15-19/57.5%	20-24/37.5%	25+/17.5%
Age 65 & Over						
Individual	\$ -	\$ 129.66	\$ 118.22	\$ 87.71	\$ 57.20	\$ 26.69
Spouse	-	129.66	118.22	87.71	57.20	26.69

The required contribution is based on pay-as-you-go financing requirements. For FY 2013, EPB contributed approximately \$1.9 million (approximately 84 percent of total claims). Presently, EPB has the option of prefunding a “Voluntary Employees’ Beneficiary Association Trust” (VEBA) to pay post-employment benefit claims. During FY 2013, EPB had no additional funding to the VEBA for post-employment benefit claims.

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

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

ANNUAL REQUIRED CONTRIBUTION	\$	2,180
INTEREST ON NET OPEB OBLIGATION		582
ADJUSTMENT TO ANNUAL REQUIRED CONTRIBUTION		(763)
ANNUAL OPEB COST (EXPENSE)		1,999
CONTRIBUTIONS MADE		1,899
INCREASE IN NET OPEB OBLIGATION		100
NET OPEB OBLIGATION - BEGINNING OF YEAR		8,955
NET OPEB OBLIGATION - END OF YEAR	\$	9,055

EPB's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for FY 2013 and the four preceding years were as follows (in thousands):

FISCAL YEAR ENDED	ANNUAL OPEB COST	PERCENTAGE OF ANNUAL OPEB COST CONTRIBUTION	NET OPEB OBLIGATION
6/30/13	\$ 1,999	95%	\$ 9,055
6/30/12	1,888	93%	8,955
6/30/11	1,764	125%	8,830
6/30/10	1,766	93%	9,272
6/30/09	1,864	99%	9,141

The funded status of the plan as of July 1, 2012, was as follows (in thousands):

ACTUARIAL ACCRUED LIABILITY (AAL)	\$ 25,463
ACTUARIAL VALUE OF PLAN ASSETS	15,045
UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	\$ 10,418
FUNDED RATIO (ACTUARIAL VALUE OF PLAN ASSETS/AAL)	59%
COVERED PAYROLL (ACTIVE PLAN MEMBERS)	\$ 32,045
UAAL AS A PERCENTAGE OF COVERED PAYROLL	33%

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

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

In the July 1, 2012 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 6.5% investment rate of return, which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 7.5% initially, reduced by decrements of .25% per year to an ultimate rate of 5.5% in 2021. The actuarial value of assets was determined using techniques that spread the effect of short-term volatility in the market value of investments over a three-year period. The UAAL is being amortized as a level dollar. The remaining amortization period at July 1, 2012 was twenty years.

Required Supplementary Information

Schedule of Funding Progress for Electric Power Board of Chattanooga Post Employment Health and Welfare Benefit Plan (in thousands):

ACTUARIAL VALUATION DATE	(1) ACTUARIAL VALUE OF PLAN ASSETS	(2) ACTUARIAL ACCRUED LIABILITY (AAL)	(3) UNFUNDED AAL (UAAL) (2) - (1)	(4) FUNDED RATIO (1) / (2)	(5) ANNUAL COVERED PAYROLL	(6) UAAL AS A % OF COVERED PAYROLL (3)/(5)
7 / 1 / 12	\$ 15,045	\$ 25,463	\$ 10,418	59.1%	\$ 32,045	32.5%
7 / 1 / 11	14,604	24,667	10,063	59.2%	29,998	33.5%
7 / 1 / 10	13,081	23,128	10,047	56.6%	28,267	35.5%
7 / 1 / 09	13,051	24,044	10,993	54.2%	25,629	42.9%
7 / 1 / 08	14,675	26,264	11,589	55.8%	24,325	47.6%
7 / 1 / 07	14,721	24,857	10,136	59.2%	24,234	41.8%

10. Commitments and Contingencies

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

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

11. Risk Management

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

Pursuant to the Tennessee Governmental Tort and Liability Act, EPB's maximum corporate liability is set at \$300,000 per person for bodily injury (\$700,000 per incident) and \$100,000 for destruction of property for incidents occurring after July 1, 2007. EPB has elected to self-insure this corporate liability. EPB's commercial property is covered for a total insured value of \$137 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 2013 or 2012. There are no significant claims liabilities outstanding at June 30, 2013 and 2012.

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

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

Changes in the balances of claims liabilities for these three areas during the fiscal years ended June 30, 2013 And 2012 are as follows (in thousands):

UNPAID CLAIMS, JUNE 30, 2011	\$	1,304
INCURRED CLAIMS (INCLUDING IBNRS)		5,965
CLAIM PAYMENTS		(5,827)
UNPAID CLAIMS, JUNE 30, 2012		1,442
INCURRED CLAIMS (INCLUDING IBNRS)		5,507
CLAIM PAYMENTS		(5,607)
UNPAID CLAIMS, JUNE 30, 2013	\$	1,342

12. U.S. Department of Energy Grant

In FY 2010, EPB was awarded a \$111.6 million Smart Grid Investment Grant from the U.S. Department of Energy. For the fiscal years ended June 30, 2013 and 2012, grant expenditures of \$10.7 million and \$31.5 million, respectively, were recorded in plant costs and a corresponding \$10.7 million and \$31.5 million, respectively, were recorded as plant costs recovered through contributions in aid of construction. In FY 2013 and 2012, EPB received \$10.7 million and \$37.6 million, respectively, in grant reimbursements. At June 30, 2013 and 2012, approximately \$1.0 million and \$1.4 million, respectively, of EPB costs that had been submitted to the U.S. Department of Energy for reimbursement were outstanding.

13. Federal Emergency Management Assistance Grant

During February 2011 and April 2011, EPB sustained extensive power outages and equipment damage as a result of a series of tornadoes. EPB incurred costs of approximately \$28.0 million to restore power to approximately 191,000 customers collectively. Due to the significance of the storms and the resulting damage, EPB applied for assistance from the Federal Emergency Management Agency (FEMA). At June 30, 2013 and 2012, EPB included approximately \$6.7 million in FEMA grants receivable.



Supplemental Information

EPB Electric System Schedules of Net Position

June 30, 2013 and 2012

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 123,629,000	\$ 78,802,000
Accounts receivable, less allowance for doubtful accounts of \$713,000 and \$765,000 in 2013 and 2012, respectively	21,446,000	18,929,000
Unbilled electric sales	34,535,000	38,299,000
Grants receivable	7,739,000	8,099,000
Materials and supplies, at average cost	12,478,000	13,872,000
Prepayments and other current assets	6,926,000	8,572,000
	206,753,000	166,573,000
NON-CURRENT ASSETS		
Notes receivable from Fiber Optics System	--	45,874,000
Utility plant -		
Utility plant	762,950,000	737,883,000
Less - accumulated provision for depreciation	(263,144,000)	(239,289,000)
Net utility plant	499,806,000	498,594,000
Other assets -		
Other non-current assets	2,646,000	2,795,000
Unamortized bond issue cost	2,120,000	2,233,000
TVA discounted energy units	--	375,000
	504,572,000	549,871,000
TOTAL ASSETS	\$ 711,325,000	\$ 716,444,000
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable -		
Tennessee Valley Authority, for power purchased	\$ 71,878,000	\$ 78,272,000
Other	11,286,000	13,485,000
Customer deposits	2,396,000	2,202,000
Revenue bonds, current portion	6,000,000	2,965,000
Accrued tax equivalents	16,399,000	15,197,000
Accrued interest payable	4,398,000	4,438,000
Other current liabilities	7,874,000	8,637,000
	120,231,000	125,196,000
NON-CURRENT LIABILITIES		
Revenue bonds, net	278,160,000	284,524,000
Accrued postretirement benefit obligation	7,621,000	7,664,000
Customer deposits	22,932,000	20,887,000
Other non-current liabilities	8,873,000	10,271,000
	317,586,000	323,346,000
NET POSITION		
Net investment in capital assets	215,646,000	211,105,000
Unrestricted	57,862,000	56,797,000
	273,508,000	267,902,000
TOTAL LIABILITIES AND NET POSITION	\$ 711,325,000	\$ 716,444,000

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

EPB Electric System Schedules of Revenues, Expenses, and Changes in Net Position

For the years ended June 30, 2013 and 2012

	2013	2012
OPERATING REVENUES		
Electric sales		
Residential	\$ 226,763,000	\$ 218,628,000
Small commercial	42,157,000	40,060,000
Large commercial	264,723,000	268,828,000
Outdoor lighting systems	6,666,000	6,599,000
TOTAL BILLED ELECTRIC SALES	540,309,000	534,115,000
Change in unbilled electric sales	(3,764,000)	10,651,000
Less uncollectible electric sales	(577,000)	(589,000)
TOTAL ELECTRIC SALES	535,968,000	544,177,000
Other operating revenues	18,332,000	16,819,000
TOTAL OPERATING REVENUES	554,300,000	560,996,000
OPERATING EXPENSES		
Operation		
Power purchased from Tennessee Valley Authority	426,696,000	434,816,000
Other operation expenses	35,895,000	41,111,000
Maintenance	25,316,000	23,371,000
Provision for depreciation	32,348,000	30,884,000
City, county, and state tax equivalents	10,689,000	9,750,000
TOTAL OPERATING EXPENSES	530,944,000	539,932,000
NET OPERATING INCOME	23,356,000	21,064,000
OTHER REVENUES (DEDUCTIONS)		
Interest revenue on invested funds	372,000	398,000
Interest expense on long-term debt	(12,711,000)	(12,370,000)
Intercompany interest	159,000	1,073,000
Other, net	220,000	102,000
Plant cost recovered through contributions in aid of construction	(18,283,000)	(38,854,000)
TOTAL OTHER DEDUCTIONS	(30,243,000)	(49,651,000)
LOSS BEFORE TRANSFERS AND CONTRIBUTIONS	(6,887,000)	(28,587,000)
TAX EQUIVALENTS TRANSFERRED TO CITY OF CHATTANOOGA	(5,790,000)	(5,518,000)
CONTRIBUTIONS IN AID OF CONSTRUCTION	18,283,000	38,854,000
CHANGE IN NET POSITION	5,606,000	4,749,000
NET POSITION, BEGINNING OF THE YEAR	267,902,000	263,153,000
NET POSITION, END OF YEAR	\$ 273,508,000	\$ 267,902,000

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

EPB Electric System Schedules of Cash Flows

For the years ended June 30, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 557,132,000	\$ 575,511,000
Payments to suppliers for goods and services	(464,454,000)	(476,012,000)
Payments to employees for services	(28,070,000)	(27,311,000)
Payments in lieu of taxes	(15,294,000)	(13,848,000)
NET CASH PROVIDED BY OPERATING ACTIVITIES	49,314,000	58,340,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Additions to utility plant	(52,811,000)	(108,590,000)
Removal cost	(1,159,000)	(1,052,000)
Salvage	160,000	1,281,000
Contributions in aid of construction	18,283,000	38,854,000
Bond principal payment	(2,965,000)	(2,750,000)
Bond interest payment	(13,256,000)	(13,377,000)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(51,748,000)	(85,634,000)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	343,000	424,000
Interest from notes to Fiber Optics System	1,044,000	1,158,000
Notes to Fiber Optics System	--	(7,000,000)
Principal received from notes to Fiber Optics System	45,874,000	7,889,000
Sale of investments	--	5,105,000
NET CASH PROVIDED BY INVESTING ACTIVITIES	47,261,000	7,576,000
NET CHANGE IN CASH AND CASH EQUIVALENTS	44,827,000	(19,718,000)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	78,802,000	98,520,000
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 123,629,000	\$ 78,802,000
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net operating income	\$ 23,356,000	\$ 21,064,000
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation and amortization	33,486,000	31,798,000
Miscellaneous non-operating expenses, net	220,000	102,000
Tax equivalents transferred to City of Chattanooga	(5,790,000)	(5,518,000)
Changes in assets and liabilities:		
Accounts receivable, net	(2,517,000)	2,161,000
Unbilled electric sales	3,764,000	(10,651,000)
Grants receivable	360,000	20,699,000
Materials and supplies	1,394,000	(1,349,000)
Prepayments and other current assets	791,000	4,414,000
TVA discounted energy units	375,000	417,000
Other charges	149,000	75,000
Accounts payable, net	(8,593,000)	(8,765,000)
Customer deposits	2,239,000	1,833,000
Accrued tax equivalents	1,202,000	1,418,000
Other current liabilities	(763,000)	768,000
Other credits	(316,000)	(105,000)
Accrued postretirement benefit obligation	(43,000)	(21,000)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 49,314,000	\$ 58,340,000

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

EPB Fiber Optics System Schedules of Net Position

June 30, 2013 and 2012

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 859,000	\$ 1,640,000
Accounts receivable, less allowance for doubtful accounts of \$444,000 and \$457,000 in 2013 and 2012, respectively	5,484,000	3,982,000
Prepayments and other current assets	1,051,000	658,000
	<u>7,394,000</u>	<u>6,280,000</u>
NON-CURRENT ASSETS		
Utility plant -		
Utility plant	117,799,000	103,383,000
Less - accumulated provision for depreciation	(47,714,000)	(36,222,000)
Net utility plant	<u>70,085,000</u>	<u>67,161,000</u>
Other non-current assets -	252,000	150,000
TOTAL ASSETS	<u>\$ 77,731,000</u>	<u>\$ 73,591,000</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	\$ 6,248,000	\$ 3,780,000
Accrued tax equivalents	1,559,000	1,547,000
Accrued interest payable	164,000	923,000
Line of credit	--	2,112,000
Notes payable-other	3,833,000	3,613,000
Other current liabilities	2,945,000	2,904,000
	<u>14,749,000</u>	<u>14,879,000</u>
NON-CURRENT LIABILITIES		
Notes payable to Electric System	--	45,874,000
Notes payable - other	7,028,000	18,112,000
Line of credit	51,828,000	--
Accrued postretirement benefit obligation	1,434,000	1,291,000
Other non-current liabilities	3,016,000	2,381,000
	<u>63,306,000</u>	<u>67,658,000</u>
NET POSITION		
Net investment in capital assets	70,085,000	67,161,000
Unrestricted	(70,409,000)	(76,107,000)
	<u>(324,000)</u>	<u>(8,946,000)</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 77,731,000</u>	<u>\$ 73,591,000</u>

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

EPB Fiber Optics System Schedules of Revenues, Expenses, and Changes in Net Position

For the years ended June 30, 2013 and 2012

	2013	2012
OPERATING REVENUES		
Fiber optics sales		
Commercial basic local services revenue	\$ 20,746,000	\$ 18,537,000
Commercial long distance message revenue	1,164,000	1,250,000
Residential services revenue	52,032,000	41,438,000
TOTAL BILLED FIBER OPTICS SALES	73,942,000	61,225,000
Less uncollectible accounts	(764,000)	(481,000)
TOTAL FIBER OPTICS SALES	73,178,000	60,744,000
Other operating revenues	7,537,000	5,758,000
TOTAL OPERATING REVENUES	80,715,000	66,502,000
OPERATING EXPENSES		
Cost of services	27,868,000	21,183,000
Operation expenses	26,058,000	22,401,000
General and administrative	2,201,000	2,362,000
Provision for depreciation	12,343,000	10,829,000
City, county, and state tax equivalents	975,000	924,000
TOTAL OPERATING EXPENSES	69,445,000	57,699,000
Net operating income	11,270,000	8,803,000
OTHER DEDUCTIONS		
Interest expense on long term debt and line of credit	(2,047,000)	(1,555,000)
Plant cost recovered through contributions in aid of construction	--	(352,000)
TOTAL OTHER DEDUCTIONS	(2,047,000)	(1,907,000)
INCOME BEFORE TRANSFERS AND CONTRIBUTIONS	9,223,000	6,896,000
TAX EQUIVALENTS TRANSFERRED TO CITY OF CHATTANOOGA	(601,000)	(623,000)
CONTRIBUTIONS IN AID OF CONSTRUCTION	--	352,000
CHANGE IN NET POSITION	8,622,000	6,625,000
NET POSITION, BEGINNING OF YEAR	(8,946,000)	(15,571,000)
NET POSITION, END OF YEAR	\$ (324,000)	\$ (8,946,000)

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

EPB Fiber Optics System Schedules of Cash Flows

For the years ended June 30, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 79,216,000	\$ 64,963,000
Payments to suppliers for goods and services	(49,619,000)	(42,954,000)
Payments to employees for services	(3,630,000)	(4,155,000)
Payments in lieu of taxes	(1,548,000)	(1,412,000)
NET CASH PROVIDED BY OPERATING ACTIVITIES	24,419,000	16,442,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Additions to utility plant	(15,051,000)	(16,250,000)
Contributions in aid of construction	--	352,000
Interest paid on notes payable to Electric System	(1,044,000)	(1,158,000)
Interest paid on long term debt	(282,000)	(739,000)
Interest paid on line of credit	(1,542,000)	(58,000)
Changes in line of credit, net	49,716,000	360,000
Debt issuance costs	(259,000)	(12,000)
Repayment of notes payable to Electric System	(45,874,000)	(7,889,000)
Borrowings under notes payable to Electric System	--	7,000,000
Borrowings under notes payable	11,500,000	7,500,000
Repayments of notes payable	(22,364,000)	(4,682,000)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(25,200,000)	(15,576,000)
NET INCREASE IN CASH AND CASH EQUIVALENTS	(781,000)	866,000
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,640,000	774,000
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 859,000	\$ 1,640,000
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net operating income	\$ 11,270,000	\$ 8,803,000
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation and amortization	12,343,000	10,829,000
Tax equivalents transferred to City of Chattanooga	(601,000)	(623,000)
Changes in assets and liabilities:		
Accounts receivable, net	(1,502,000)	(1,525,000)
Prepayments and other current assets	(393,000)	(17,000)
Accounts payable, net	2,468,000	670,000
Accrued tax equivalents	12,000	135,000
Other current liabilities	41,000	(2,477,000)
Other credits	638,000	501,000
Accrued postemployment benefit obligation	143,000	146,000
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 24,419,000	\$ 16,442,000

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

EPB Telecom System Schedules of Net Position

June 30, 2013 and 2012

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 633,000	\$ 116,000
Accounts receivable, less allowance for doubtful accounts of \$25,000 and \$37,000 in 2013 and 2012, respectively	1,063,000	1,087,000
Prepayments and other current assets	106,000	111,000
	1,802,000	1,314,000
NON-CURRENT ASSETS		
Utility plant -		
Utility plant	32,102,000	32,559,000
Less - accumulated provision for depreciation	(21,718,000)	(19,929,000)
Net utility plant	10,384,000	12,630,000
Other non-current assets	45,000	94,000
TOTAL ASSETS	\$ 12,231,000	\$ 14,038,000
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	\$ 1,197,000	\$ 378,000
Accrued tax equivalents	817,000	906,000
Accrued interest payable	13,000	39,000
Line of credit	--	2,112,000
Notes payable	3,833,000	3,613,000
Other current liabilities	169,000	168,000
	6,029,000	7,216,000
NON-CURRENT LIABILITIES		
Note payable	7,028,000	10,799,000
Unearned revenue	297,000	218,000
	7,325,000	11,017,000
NET POSITION		
Net investment in capital assets	10,384,000	12,630,000
Unrestricted	(11,507,000)	(16,825,000)
	(1,123,000)	(4,195,000)
TOTAL LIABILITIES AND NET POSITION	\$ 12,231,000	\$ 14,038,000

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

EPB Telecom System Schedules of Revenues, Expenses, and Changes in Net Position

For the years ended June 30, 2013 and 2012

	2013	2012
OPERATING REVENUES		
Fiber optics sales		
Commercial basic local services revenue	\$ 11,228,000	\$ 11,721,000
Commercial long distance message revenue	1,164,000	1,250,000
TOTAL BILLED FIBER OPTICS SALES	12,392,000	12,971,000
Less uncollectible accounts	(6,000)	--
TOTAL FIBER OPTICS SALES	12,386,000	12,971,000
Other operating revenues	1,573,000	1,294,000
TOTAL OPERATING REVENUES	13,959,000	14,265,000
OPERATING EXPENSES		
Cost of services	2,634,000	2,729,000
Operation expenses	3,912,000	3,919,000
General and administrative	503,000	633,000
Provision for depreciation	2,585,000	2,928,000
City, county, and state tax equivalents	483,000	529,000
TOTAL OPERATING EXPENSES	10,117,000	10,738,000
Net operating income	3,842,000	3,527,000
OTHER DEDUCTIONS		
Interest expense on long term debt and line of credit	(436,000)	(611,000)
Plant cost recovered through contributions in aid of construction	--	(352,000)
TOTAL OTHER DEDUCTIONS	(436,000)	(963,000)
INCOME BEFORE TRANSFERS AND CONTRIBUTIONS	3,406,000	2,564,000
TAX EQUIVALENTS TRANSFERRED TO CITY OF CHATTANOOGA	(334,000)	(377,000)
CONTRIBUTIONS IN AID OF CONSTRUCTION	--	352,000
CHANGE IN NET POSITION	3,072,000	2,539,000
NET POSITION, BEGINNING OF THE YEAR	(4,195,000)	(6,734,000)
NET POSITION, END OF YEAR	\$ (1,123,000)	\$ (4,195,000)

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

EPB Telecom System Schedules of Cash Flows

For the years ended June 30, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 13,977,000	\$ 13,891,000
Payments to suppliers for goods and services	(6,135,000)	(7,928,000)
Payments in lieu of taxes	(907,000)	(947,000)
NET CASH PROVIDED BY OPERATING ACTIVITIES	6,935,000	5,016,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Additions to utility plant	(339,000)	(599,000)
Contributions in aid of construction	--	352,000
Interest paid on long term debt	(282,000)	(548,000)
Interest paid on line of credit	(82,000)	(58,000)
Change in line of credit, net	(2,112,000)	360,000
Debt issuance costs	(52,000)	(12,000)
Borrowing under notes payable	11,500,000	--
Repayments of notes payable	(15,051,000)	(4,495,000)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(6,418,000)	(5,000,000)
NET CHANGE IN CASH AND CASH EQUIVALENTS	517,000	16,000
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	116,000	100,000
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 633,000	\$ 116,000
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net operating income	\$ 3,842,000	\$ 3,527,000
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation and amortization	2,585,000	2,928,000
Tax equivalents transferred to City of Chattanooga	(334,000)	(377,000)
Changes in assets and liabilities:		
Accounts receivable, net	24,000	(361,000)
Prepayments and other current assets	5,000	42,000
Accounts payable, net	819,000	(325,000)
Accrued tax equivalents	(89,000)	(41,000)
Other current liabilities	1,000	(394,000)
Other credits	82,000	17,000
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 6,935,000	\$ 5,016,000

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

EPB Video & Internet System Schedules of Net Position

June 30, 2013 and 2012

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 226,000	\$ 1,524,000
Accounts receivable, less allowance for doubtful accounts of \$419,000 and \$420,000 in 2013 and 2012, respectively	4,421,000	2,895,000
Prepayments and other current assets	945,000	547,000
	5,592,000	4,966,000
NON-CURRENT ASSETS		
Utility plant -		
Utility plant	85,697,000	70,824,000
Less - accumulated provision for depreciation	(25,996,000)	(16,293,000)
Net utility plant	59,701,000	54,531,000
Other non-current assets	207,000	56,000
	\$ 65,500,000	\$ 59,553,000
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	\$ 5,051,000	\$ 3,402,000
Accrued tax equivalents	742,000	641,000
Accrued interest payable	151,000	884,000
Other current liabilities	2,776,000	2,736,000
	8,720,000	7,663,000
NON-CURRENT LIABILITIES		
Notes payable to Electric System	--	45,874,000
Notes payable - bank	--	7,313,000
Line of credit	51,828,000	--
Accrued postemployment benefit obligation	1,434,000	1,291,000
Deferred credits	2,719,000	2,163,000
	55,981,000	56,641,000
NET POSITION		
Net investment in capital assets	59,701,000	54,531,000
Unrestricted	(58,902,000)	(59,282,000)
	799,000	(4,751,000)
TOTAL LIABILITIES AND NET POSITION	\$ 65,500,000	\$ 59,553,000

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

EPB Video & Internet System Schedules of Revenues, Expenses, and Changes in Net Position

For the years ended June 30, 2013 and 2012

	2013	2012
OPERATING REVENUES		
Fiber optics sales		
Commercial basic local services revenue	\$ 9,518,000	\$ 6,816,000
Residential services revenue	52,032,000	41,438,000
TOTAL BILLED FIBER OPTICS SALES	61,550,000	48,254,000
Less uncollectible accounts	(758,000)	(481,000)
TOTAL FIBER OPTICS SALES	60,792,000	47,773,000
Other operating revenues	5,964,000	4,464,000
TOTAL OPERATING REVENUES	66,756,000	52,237,000
OPERATING EXPENSES		
Cost of services	25,234,000	18,454,000
Operation expenses	22,146,000	18,482,000
General and administrative	1,698,000	1,729,000
Provision for depreciation	9,758,000	7,901,000
City, county, and state tax equivalents	492,000	395,000
TOTAL OPERATING EXPENSES	59,328,000	46,961,000
Net operating income	7,428,000	5,276,000
OTHER DEDUCTIONS		
Interest expense on long term debt	(1,611,000)	(944,000)
INCOME BEFORE TRANSFERS	5,817,000	4,332,000
TAX EQUIVALENTS TRANSFERRED TO CITY OF CHATTANOOGA	(267,000)	(246,000)
CHANGE IN NET POSITION	5,550,000	4,086,000
NET POSITION, BEGINNING OF YEAR	(4,751,000)	(8,837,000)
NET POSITION, END OF YEAR	\$ 799,000	\$ (4,751,000)

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

EPB Video & Internet System Schedules of Cash Flows

For the years ended June 30, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 65,239,000	\$ 51,072,000
Payments to suppliers for goods and services	(43,484,000)	(35,026,000)
Payments to employees for services	(3,630,000)	(4,155,000)
Payments in lieu of taxes	(641,000)	(465,000)
NET CASH PROVIDED BY OPERATING ACTIVITIES	17,484,000	11,426,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Additions to utility plant	(14,712,000)	(15,651,000)
Debt insurance costs	(207,000)	--
Interest paid on notes payable to Electric System	(1,044,000)	(1,158,000)
Interest paid on long term debt	--	(191,000)
Interest paid on line of credit	(1,460,000)	--
Changes in line of credit, net	51,828,000	--
Repayment of notes payable to Electric System	(45,874,000)	(7,889,000)
Borrowings under notes payable to Electric System	--	7,000,000
Borrowings under notes payable	--	7,500,000
Repayments of notes payable	(7,313,000)	(187,000)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(18,782,000)	(10,576,000)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,298,000)	850,000
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,524,000	674,000
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 226,000	\$ 1,524,000
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net operating income	\$ 7,428,000	\$ 5,276,000
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation and amortization	9,758,000	7,901,000
Tax equivalents transferred to City of Chattanooga	(267,000)	(246,000)
Changes in assets and liabilities:		
Accounts receivable, net	(1,526,000)	(1,164,000)
Prepayments and other current assets	(398,000)	(59,000)
Accounts payable, net	1,649,000	995,000
Accrued tax equivalents	101,000	176,000
Other current liabilities	40,000	(2,083,000)
Other credits	556,000	484,000
Accrued postemployment benefit obligation	143,000	146,000
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 17,484,000	\$ 11,426,000

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



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 Board of Directors, Electric Power Board of Chattanooga
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 (“EPB”, an enterprise fund of the City of Chattanooga) as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise EPB’s basic financial statements, and have issued our report thereon dated August 26, 2013.

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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of EPB’s internal control. Accordingly, we do not express an opinion on the effectiveness of EPB’s internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Chattanooga, Tennessee

August 26, 2013

Henderson Hutcherson
& McCullough, PLLC

