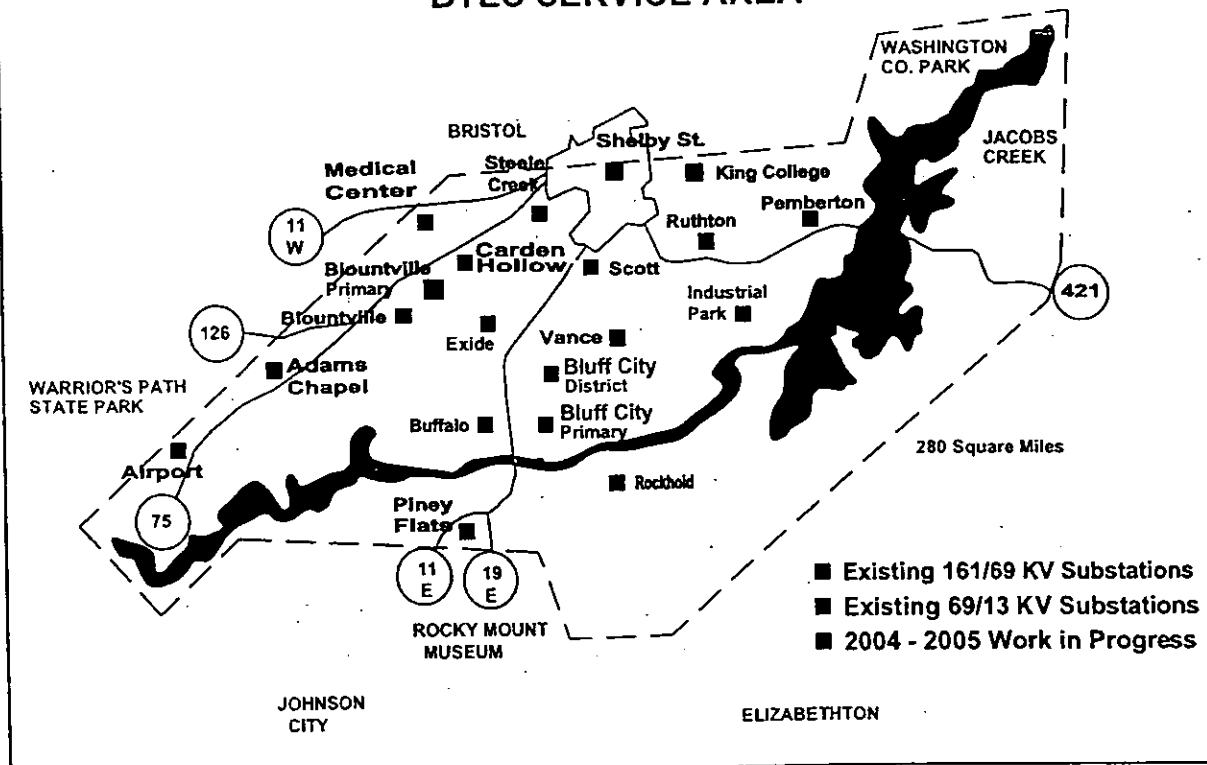


## General Philosophy

- ***Reliable Electric Service For Our Customers Is Essential***  
The customer is our reason for being and ultimately judges the quality of our service. We must provide safe, reliable, cost-effective service and properly allocate costs for BTES to survive, grow and meet the needs of our present and future customers.
- ***BTES Employees Are Our Most Important Asset***  
They provide the intelligence and determine the reputation of our organization. They are respected as valuable teamworkers striving to meet our goals of quality service. We are committed to providing a safe and healthy workplace for all BTES employees who are the driving force behind all we do.
- ***Resources Must Be Wisely Allocated And Used***  
Our resources (time, money, facilities and equipment) must be wisely allocated, utilized and invested to enable us to provide quality service at reasonable long-term rates.
- ***Our Vendors And Suppliers Are Our Partners***  
They provide goods and services that enable us to meet the needs of our customers. We will treat our vendors and suppliers with respect and create an environment which will ensure mutual success.
- ***Increasing Sales Helps Keep Rates Down***  
We are committed to increasing sales by developing additional load such as residential heat pumps, water heaters and industrial and commercial loads. This will help provide us a broader base to divide expenses which helps keep rates down.
- ***Safety, Conservation And Efficient Use Of Electricity Are Essential***  
We must provide a customer communication program through all area news media, school and civic programs, direct mail, in-house seminars, trade shows, etc., in order to educate and assist customers in the safety, conservation and efficient use of electricity.
- ***Planning Is Vital To Achievement***  
To achieve our objectives at BTES, it is necessary that we clearly understand our plans, objectives and strategies as we strive to maintain our excellence in service.
- ***Continuous Improvement Is The Key To Long-Term Success***  
We must continually strive for excellence and quality in everything we do - in our workmanship and services, the appearance and safety of our workplace, human relations and our commitment to our community and ourselves.
- ***We Want To Earn And Deserve The Trust And Respect Of Our Customers***  
The customer entrusts his family's welfare to us to provide his electrical power needs. He must have complete confidence in the quality service we provide and the people who work for us.
- ***A Positive Image Is A Valuable Asset***  
We strongly believe in a professional image and we will strive to maintain such an image in the eyes of our customers, vendors and business associates to improve the quality of life in our community.

## BTES SERVICE AREA



### Substations Owned and Operated by BTES

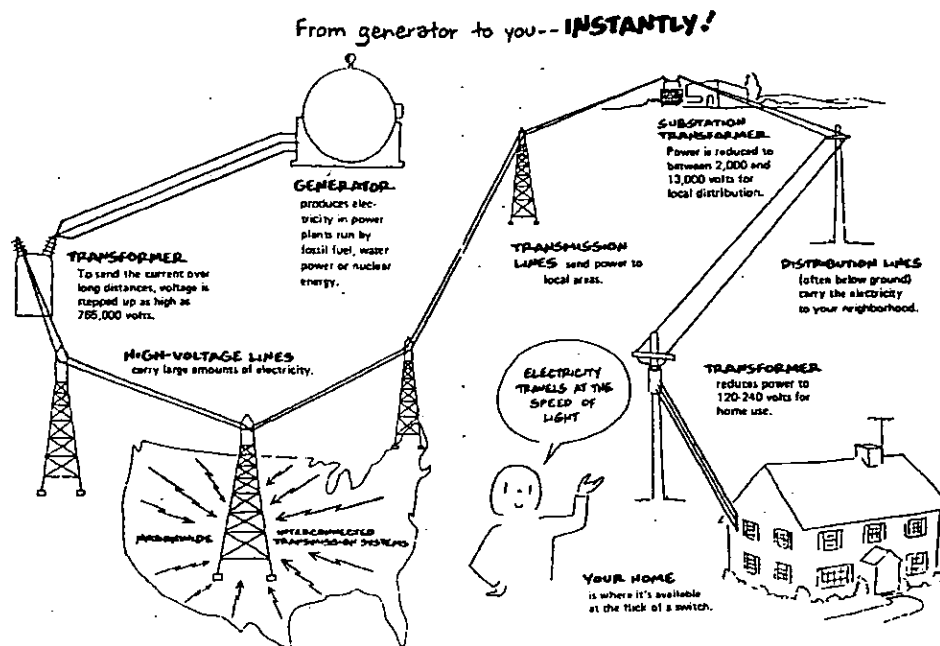
Bluff City Primary	*161/69 KV	200 MVA
Blountville Primary	*161/69 KV	200 MVA
Adams Chapel	69/13 KV	20 MVA
Airport	69/13 KV	20 MVA
Blountville	69/13 KV	25 MVA
Bluff City	69/13 KV	50 MVA
Buffalo	69/13 KV	20 MVA
Carden Hollow	69/13 KV	20 MVA
Exide	69/13 KV	40 MVA
Industrial Park	69/13 KV	20 MVA
King College	69/13 KV	20 MVA
Medical Center	69/13 KV	20 MVA
Pemberton	69/13 KV	20 MVA
Piney Flats	69/13 KV	20 MVA
Scott	69/13 KV	20 MVA
Shelby Street	69/13 KV	80 MVA
Steele Creek	69/13 KV	20 MVA
Ruthton	69/13 KV	10 MVA
Vance	69/13 KV	25 MVA

\*Delivery Point from TVA

#### Substations in the 2004-2005 Work Plan

Rockhold	69/13 KV	20 MVA
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## Electric Utility Terms



**Air-Source Heat Pump** - A system that can supply both space heating and cooling. In the heating cycle, the heat pump removes heat from the outside air and pumps it indoors. When cooling, the heat pump absorbs heat from the indoors and rejects it to the outside.

**Ampere** - Unit of measurement of electric current. It's proportional to the quantity of electrons flowing through a conductor past a given point in one second.

**Base Load** - The minimum load over a given period of time.

**Blackout** - A temporary loss of electricity in an area because of failure of generation or transmission equipment.

**Brownout** - A voltage reduction during an electrical shortage that causes conditions such as dim lights.

**Bus** - An electrical conductor which serves as a common connection for two or more electrical circuits.

**Capacity** - The load for which a generating unit, generating station or other electrical apparatus is rated by the user or the manufacturer.

**Circuit Breaker** - A switch that opens an electric circuit when a short occurs.

**Conductor** - Any substance, usually metallic, that will carry electricity.

**Degree Day** - A unit measuring the extent to which the average daily temperature varies from a standard reference temperature. Based on a reference temperature of 65 degrees Fahrenheit, if the average temperature (high plus low divided by 2) for a day is 70, then there are five cooling degree days for that day. Likewise, if the average temperature was 60, then there were five heating degree days. This historical information can be used for forecasting system load and planning unit maintenance outages, to name a few.

## **Electric Utility Terms (continued)**

**Delivery Point** - The point, usually a substation, to which electricity is transmitted from its generating sources.

**Demand** - The rate at which electric energy is delivered to a system. The primary source of demand is the power consuming equipment of the customers.

**Depreciation** - Charges made against income to equitably distribute the cost of the decrease in plant value during the period when services are obtained from use of the facilities. The decrease in plant value is caused by wear, deterioration or obsolescence.

**Deregulation** - Movement of an industry from one of monopolistic entities or environments to one free market enterprise; in the electric industry this involves elimination of service area and rate restrictions and obligation to serve; results in distributor choice of supplier and eventually customer choice of supplier.

**Dispatching** - The control of an electric system involving switching substations, transmission/distribution lines and other equipment. Monitoring and operating the SCADA system. Dispatching crews for emergencies and maintaining a log of work locations and purpose for outside crews.

**Distribution System** - A system that enables delivering electric energy at 2.4 kV to 25 kV from convenient points (substations) on the transmission system to the customers.

**Earth Coupled Heat Pump** - An efficient electrical device that heats or cools by moving heat into or out of a building. It uses an antifreeze solution or refrigerant in a pipe buried in the ground to collect or disperse heat. Also called geothermal system, ground source heat pump or water source heat pump.

**Easement** - A right obtained from property owners that allows utility companies to construct, operate, maintain, and control facilities such as transmission lines on the property.

**Eminent Domain** - The right of government to take, or to authorize the taking of, private property for public use, just compensation usually being given to the owner.

**Electric Current** - The flow of electric charge in a conductor between two points having a difference in potential, generally expressed in amperes.

**Electric and Magnetic Fields (EMF)** - Radiation surrounding conductors that carry electricity - present wherever electric power is being used.

**Fault** - A point of defect in an electric circuit that prevents the current from following the intended course.

**Fiber Optic Cable** - Cable capable of conducting modulated light transmission over a glass strand.

**Fiber Optic System** - A system which includes fiber optic cable plant, along with the necessary electronics, amplifiers, splitters, splice points and termination points to provide end-to-end communications and are capable of transporting voice, video and data over long distances.

**Insulator** - A non conductor, usually of glass or porcelain, for insulating and supporting electric wires.

**Kilowatt** - The basic unit of electric demand, equal to 1,000 watts - average household demand is 10 to 20 kilowatts.

### **Electric Utility Terms (continued)**

**Kilowatt Hour** - A unit of energy or work equal to 1,000 watt-hours. The basic measure of electric energy generation or use. A 100-watt light bulb burning for 10 hours uses one kilowatt hour.

## **\ Deregulation Dictionary**

The following are terms that you may encounter when reading about upcoming deregulation in the electric utilities industry.

**Access Charge** - a charge levied on a power supplier, or its customer, for access to a utility's transmission or distribution system. It is a charge for the right to send electricity over another's wires.

**Aggregator** - an entity that combines the needs of several smaller customers into a larger block of power in order to get a better price.

**Capacity** - the amount of electricity for which a generating plant or transmission system is rated.

**Commercial Customer** - non-manufacturing business customer.

**Customer Choice** - allows retail customers to select the power supplier or generator they buy electricity from.

**Demand** - the amount of power a customer takes at a given moment.

**Direct Access** - the ability of an electric end-user to connect directly with a power supplier, thus bypassing its local utility.

**Distribution System** - local delivery system of electricity to the retail customer's home or business through distribution lines. BTES is a distribution system.

**Electric Cooperative** - a member-owned electric utility company that distributes electricity on a nonprofit basis. Example: Mountain Electric Cooperative.

**Federal Energy Regulatory Commission (FERC)** - the agency that has jurisdiction over natural gas pricing, hydroelectric licensing, oil pipeline rates and gas pipeline certification.

**Generation Company (genco)** - an entity that operates electricity-generating plants. The genco may own the generation plants or interact with short-term marketers on behalf of plant owners.

**Independent Power Producer (IPP)** - a private entity that generates electricity and sells it to other businesses, including utilities.

**Independent System Operator (ISO)** - the independent operator of a transmission system, responsible for guaranteeing open access, scheduling, system reliability and accounting.

**Industrial Customer** - business customer engaged in manufacturing.

**Investor-owned Utility (IOU)** - a stockholder-owned power company that generates and distributes electric energy for profit. Example: American Electric Power.

**Municipal** - electric distribution system owned by a city to provide service for its residents. Example: BTES.

**Non-power Services** - includes such services as gas, home security and telecommunications.

**Power Marketer** - an entity that provides bulk wholesale power for use at a specific place and time. The marketer may or may not generate the power. Example: Cinergy.

**Regional Transmission Organization (RTO)** - FERC Order 2000 requires all investor-owned utilities to consider joining a RTO.

**Retail Wheeling** - a system in which individual retail electric customers are allowed to choose their electric supplier. Also known as retail competition.

## **Deregulation Dictionary (continued)**

**Service Area** - the geographic region that a utility is required to serve, or has the exclusive right to serve, in supplying electricity to the ultimate consumer.

**Stranded Costs** - costs of a utility that have already been legitimately and prudently incurred that are not economically viable in a competitive market.

**Tennessee Valley Authority** - generation and transmission company supplying power to 158 electric utilities in a seven-state region including Tennessee.

**Transmission System** - all the lines, poles and other equipment used to move bulk electricity from a generating plant to a distribution system.

**Unbundling** - separating the costs of operations of generation, transmission and distribution of electricity. An unbundled electric bill would list all costs associated with providing electricity to the consumer.

**Wheeling** - transmitting bulk electricity from a generating plant to a distribution system across a third system's lines.

**Wheeling Charge** - an amount charged to an electric system by another for the transmission of energy to and from another system.

**Wholesale Customer** - a power purchaser that buys for resale to retail customers. Example: BTES.

*Source: Tennessee Magazine*



## Report of Independent Auditors

Power Board  
Bristol Tennessee Electric System

We have audited the accompanying balance sheets of Bristol Tennessee Electric System (the "System"), an enterprise fund of the City of Bristol, Tennessee, as of June 30, 2004 and 2003, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the System and are not intended to present fairly the financial position and results of operations of the City of Bristol, Tennessee, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bristol Tennessee Electric System at June 30, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the System determined that Governmental Accounting Standards Board Statement No. 34 requires internal tax equivalent payments to the City of Bristol, Tennessee be reported as transfers. The amounts have previously been reported as an expense of the System. Accordingly, the 2003 financial statements have been restated to reflect this change.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2004, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.





COULTER & JUSTUS, P.C.

Power Board  
Bristol Tennessee Electric System

The Management's Discussion and Analysis on pages 3 through 9 is not a required part of the financial statements but is supplementary information required by generally accepted accounting principles in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The other supplementary information listed in the introductory and statistical sections of the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the System. Such information has not been subjected to the auditing procedures applied in our audit of the financial statements and, accordingly, we express no opinion on it.

*Coulter & Justus, P.C.*

September 14, 2004

**Bristol Tennessee Electric System**  
**Management's Discussion and Analysis**  
**June 30, 2004**

This discussion and analysis is intended to be an introduction to the financial statements and notes that follow this section and should be read in conjunction with them. Bristol Tennessee Electric System (the "System") implemented the Governmental Accounting Standards Board's ("GASB") Statement No. 34 ("Statement 34"), Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, for the comprehensive annual financial report for the year ended June 30, 2002. This section will provide narrative discussion and analysis of the financial activities of the System. The financial performance of the System is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section. The Introductory Section covers management's letter of transmittal and other System information.

**Financial Statement Overview**

The financial statements herein are comprised of the Balance Sheets, the Statements of Revenues, Expenses and Changes in Net Assets, the Statements of Cash Flows and the accompanying Notes to Financial Statements.

The System is a self-supporting enterprise of the City of Bristol, Tennessee operated under the general supervision and control of a five-member Power Board as per Chapter 32 Public Acts of Tennessee 1935. The System issues a comprehensive annual financial report which is incorporated in the City's comprehensive annual financial report.

**Operating Highlights**

**Net Assets and Capital Assets**

As indicated in Table 1, net assets were \$58,411,545 in 2004, compared to \$56,753,318 in 2003, and \$55,643,424 in 2002. Approximately 55% of the 2004 net assets are invested in capital assets. All remaining net assets are unrestricted and can be used for on-going operations of the System, although the Power Board has established a renewal and replacement fund totaling \$8,000,000 for future construction, improvements and extensions of the System.

**Table 1**

Bristol Tennessee Electric System Condensed Balance Sheets			
June 30,			
	2004	2003	2002
Current and other assets	\$ 33,241,589	\$ 31,790,663	\$ 31,296,910
Capital assets	31,895,221	31,567,958	29,297,114
Total assets	65,136,810	63,358,621	60,594,024
Current liabilities	6,725,265	6,605,303	4,950,600
Total liabilities	6,725,265	6,605,303	4,950,600
Net assets:			
Invested in capital assets	31,895,221	31,567,958	29,297,114
Unrestricted	26,516,324	25,185,360	26,346,310
Total net assets	\$ 58,411,545	\$ 56,753,318	\$ 55,643,424

### Management's Discussion and Analysis (continued)

As indicated in Table 2, during the year gross capital assets increased by \$2,238,660 or 3.3%. The System continues the installation of the fiber optic cable system in order to establish a communication link with all substations. Note in Table 3 that the increase in utility plant in 2004 was 3.1% as compared to 4.5% in 2003. Refer to the notes of the audited financial statements for more information regarding capital assets.

**Table 2**

Bristol Tennessee Electric System – Capital Assets				
	June 30 2004	Net of Accumulated Depreciation	June 30 2003	Net of Accumulated Depreciation
<b>Transmission Plant</b>				
Land and land rights	\$ 94,696	\$ 94,696	\$ 89,610	\$ 89,610
Station equipment	2,823,269	1,674,028	2,254,000	1,217,577
<b>Total Transmission Plant</b>	2,917,965	1,768,724	2,343,610	1,307,187
<b>Distribution Plant</b>				
Land & land rights	855,111	855,111	860,197	860,197
Structures & improvements	857,291	244,142	857,089	271,813
Station equipment	11,235,683	3,347,045	10,548,887	2,848,094
Poles, towers, and fixtures	11,904,362	4,672,130	11,768,809	4,956,417
Overhead conductors and devices	6,730,393	3,641,857	6,783,334	3,888,288
Underground conduit	1,072,978	376,256	1,075,579	398,938
Underground conductors and devices	3,293,308	861,978	3,257,785	956,651
Line transformers	10,926,265	5,707,588	10,807,297	5,858,463
Services	2,835,857	1,044,636	2,763,294	1,065,491
Meters	2,611,145	1,289,187	2,505,427	1,259,192
Installation on customers' premises	949,629	45,575	938,984	103,291
Street lighting and signal systems	2,876,321	691,620	2,752,832	736,954
<b>Total Distribution Plant</b>	56,148,343	22,777,125	54,919,514	23,203,789
<b>General Plant</b>				
Land and land rights	101,831	101,831	101,831	101,831
Structures and Improvements	1,158,943	609,780	1,158,943	623,484
Office Furniture and Equipment	387,411	161,580	350,663	131,028
Transportation Equipment	1,722,700	355,240	1,772,701	444,836
Stores Equipment	24,143	8,000	24,143	9,236
Tools, shop, and garage equipments	131,389	10,133	131,389	10,133
Laboratory equipment	104,035	5,965	104,035	6,302
Power operated equipment	104,946	11,435	104,946	17,859
Communication equipment	461,658	295,024	374,980	233,803
Miscellaneous equipment	43,408	3,652	43,408	3,787
<b>Total General Plant</b>	4,240,464	1,562,640	4,117,039	1,582,301
<b>Total Utility Plant in Service</b>	63,306,772	26,108,489	61,380,163	26,093,277
Construction work in progress	4,710,427	4,710,427	4,406,671	4,406,671
Non-utility property	1,076,305	1,076,305	1,068,010	1,068,010
<b>Total Capital Assets All Sources</b>	<b>\$69,093,504</b>	<b>\$ 31,895,221</b>	<b>\$ 66,854,844</b>	<b>\$ 31,567,958</b>

# Management's Discussion and Analysis (continued)

Table 3

Bristol Tennessee Electric System Changes to Utility Plant in Service Years ended June 30,		
	2004	2003
Utility plant in service beginning	\$ 61,380,163	\$ 58,712,902
Increases	2,998,387	3,193,162
Decreases	1,071,778	525,901
Utility plant in service ending	\$ 63,306,772	\$ 61,380,163

Note: Utility plant in service does not include non-utility property or construction work in progress.

## Results of Operations

As indicated in Table 4, net assets of the System increased by \$1,658,227 from fiscal year 2003 to 2004 and increased by \$1,109,894 from fiscal year 2002 to 2003. Operating revenues were principally derived from retail sales of electricity. Operating revenues were \$57,758,354 in 2004 as compared to \$53,346,617 in 2003, and \$49,995,435 in 2002; resulting in an 8.3% increase from 2003 to 2004 and a 6.7% increase from 2002 to 2003. Temperature throughout the year has historically been a main driver of electric sales. However, in October 2003 a rate increase of approximately 6% for residential customers and 7% for small general power took effect. Operating revenues are characterized in four major customer class types: residential, commercial, industrial and street and outdoor lighting, plus other revenue. The percentage of total operating revenue by category has stayed consistent from 2002 to 2004. See Figures 1, 2 and 3. As shown in Table 4, the internal tax equivalent payments made to the City of Bristol, Tennessee are reported as transfers. These amounts were previously reported as an expense. These changes were due to requirements of Statement 34. Fiscal year 2003 has been restated to reflect the change. The effective on net assets in fiscal year 2002 was not significant.

Table 4

Bristol Tennessee Electric System Condensed Statement of Revenues, Expenses and Changes in Net Assets Years ended June 30,			
	2004	2003 (Restated)	2002
Revenues:			
Operating revenues	\$ 57,758,354	\$ 53,346,617	\$ 49,995,435
Non-operating revenues	628,270	586,380	591,180
Total Revenues	58,386,624	53,932,997	50,586,615
Expenses:			
Purchased power	48,328,235	44,700,229	41,631,320
Operation expenses	2,742,670	2,599,092	2,412,090
Maintenance	2,634,557	2,532,830	2,319,609
Depreciation	1,897,728	1,960,025	1,917,691
Tax equivalents	212,113	205,435	195,369
Social security taxes	206,462	213,225	192,984
Interest exp on customer deposits	6,612	6,409	10,962
Total Expenses	56,028,377	52,217,245	48,680,025
Transfers out – tax equivalents to City of Bristol	(700,020)	(605,858)	(665,529)
Changes in Net Assets	1,658,227	1,109,894	1,241,061
Beginning net assets	56,753,318	55,643,424	54,402,363
Ending net assets	\$ 58,411,545	\$ 56,753,318	\$ 55,643,424

Management's Discussion and Analysis (continued)

Figure 1

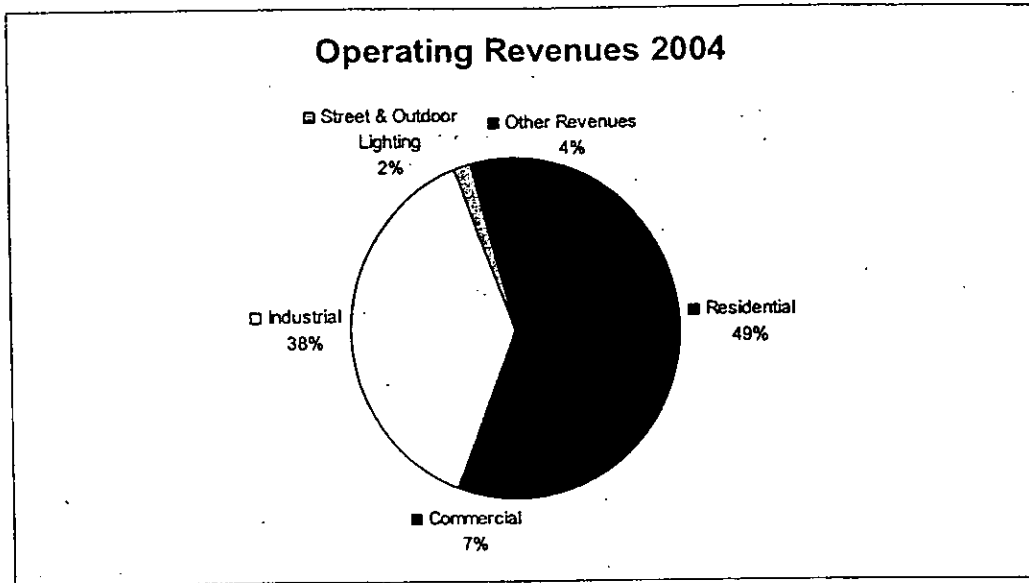
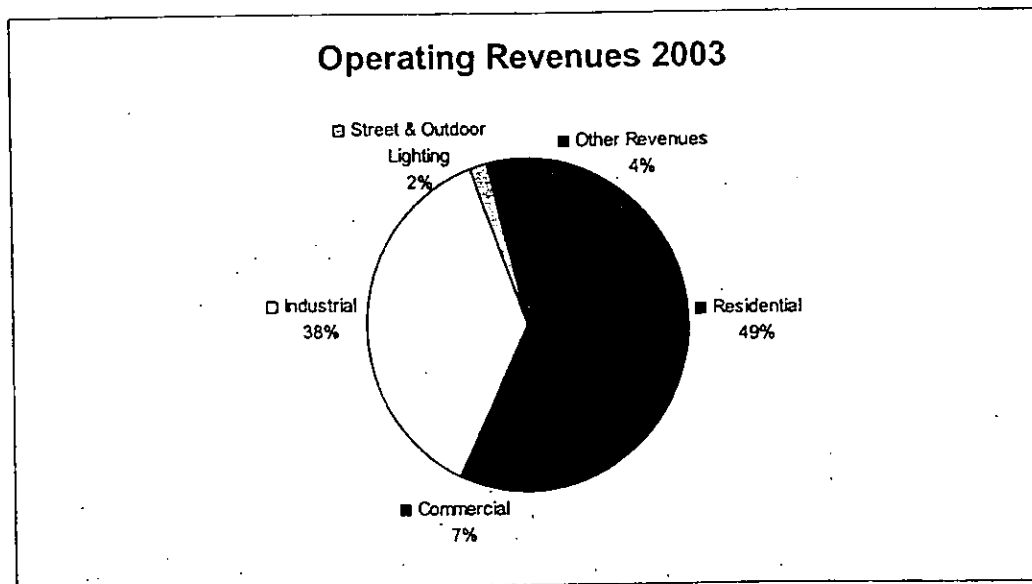
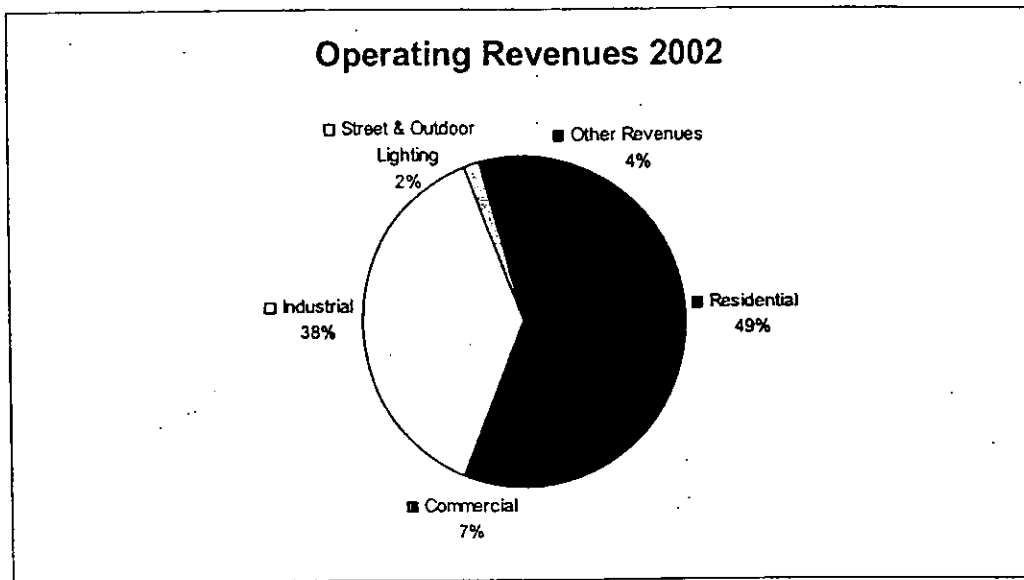


Figure 2



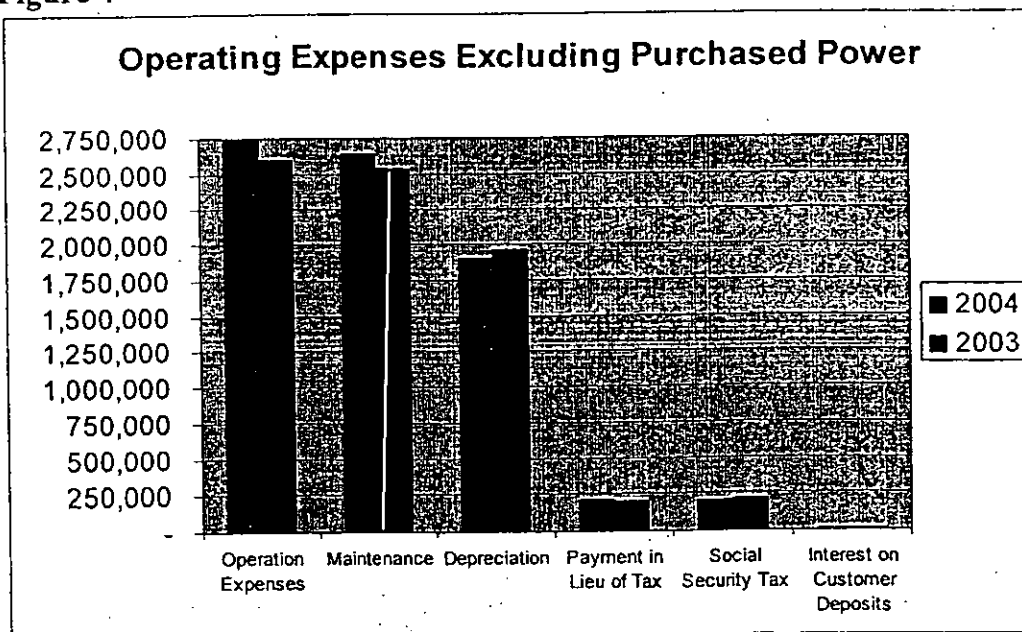
Management's Discussion and Analysis (continued)

Figure 3



Operating expenses, not including purchased power, increased from 2003 to 2004, as indicated in Figure 4. The total was \$7,700,142 in 2004 compared to \$7,517,016 in 2003, resulting in a 2.4% increase.

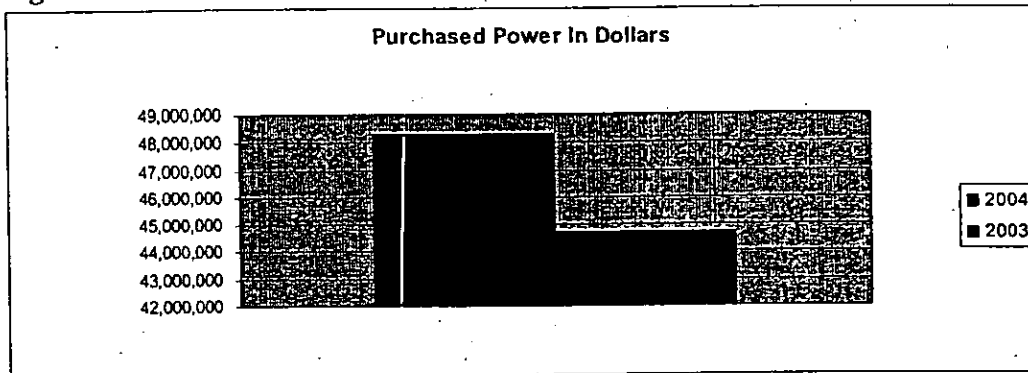
Figure 4



## Management's Discussion and Analysis (continued)

As indicated in Figure 5, purchased power costs were \$48,328,235 in 2004 as compared to \$44,700,229 in 2003, resulting in an 8.1% increase. The correlation between electric sales and purchased power and weather is clearly shown as discussed on page 5. Temperature is a main driver.

**Figure 5**



### Power Rates

The System purchases its entire year power supply requirements from Tennessee Valley Authority ("TVA"). Rate options available to the System's retail customers include firm, seasonal and interruptible service rates. The contract between TVA and the System provides for TVA regulation over retail rates to customers. The interruptible rate programs provide large commercial and industrial customers with the potential for reduced rates along with the right for TVA to interrupt service as needed.

There are four customers participating in interruptible rate programs with a combined interruptible load of 31,017 kilowatts or about 10% of the System's 2004 peak load. TVA's last curtailment of interruptible customers occurred in January 2004. Rate surveys show that the System's rates are some of the most competitive in the U.S.

### Deregulation

Over the last few years, Congress has been debating legislation to restructure the electric utility industry. Because of TVA's unique situation, deregulation and competition at both national and state levels are moving more slowly to the Tennessee Valley. Under the existing law, TVA is the exclusive supplier of power within its statutorily defined service territory, an 80,000 square-mile area that includes virtually the entire state of Tennessee and parts of Kentucky, Mississippi, Alabama, Georgia, North Carolina and Virginia. The System is shielded from competition until federal restructuring addresses the current law. The System continues to be involved in the restructuring effort individually and also as a member of the Tennessee Valley Public Power Association, the American Public Power Association, Tennessee Municipal Electric Power Association and the State of Tennessee Legislature.

## **Management's Discussion and Analysis (continued)**

### **Debt**

The System does not have bonds or notes payable for the years ended June 30, 2004 and June 30, 2003. However, the System posts interest on customer deposits on a monthly basis. The interest rate is based on the passbook savings account at local financial institutions and is reviewed from time to time. The annual interest rate for deposits was 0.6% as of June 30, 2004. The interest paid was \$6,612 for the year ended June 30, 2004 and \$6,409 for the year ended June 30, 2003. As shown in Figure 3, interest on deposits is insignificant compared to total operating expenses. The decrease in the Federal Reserve's prime rate has pushed the interest rates downward.

### **Payment In Lieu of Taxes**

The System makes an in-lieu-of-tax payment to the municipalities and counties in which it sells power and has electric utility plant. For the City of Bristol, Tennessee, City of Bluff City, Tennessee and Sullivan County, Tennessee, the in-lieu-of-tax payment is based on the formula provided by the State of Tennessee Municipal Electric System Tax Equivalent Law of 1987. The formula includes a property tax equivalency calculation plus 4% of operating revenue less power costs (three-year average). For Washington County, Virginia the in-lieu-of-tax payment is based on the real property tax rate of the electric utility plant. The total in lieu of taxes paid during the years ended June 30, 2004 and 2003 were approximately \$910,000 and \$810,000, respectively.

### **Non-Operating Revenue**

Interest from investments increased from \$586,380 in 2003 to \$628,270 in 2004, resulting in a less than 7.1% increase. As shown in Table 4, interest from investments is categorized as non-operating revenue. The System continues to look for ways to maximize their earnings, such as the TVA's Discounted Energy Units Program discussed below.

### **Discounted Energy Units (DEU) Program**

The System invested \$8,000,000 in TVA's Discounted Energy Units ("DEU") Program in December 2003. The goal of the DEU Program is to create a financial partnership between TVA and its distributors, such as the System, to help finance the re-start of the Browns Ferry Unit One power generator. This facility uses nuclear fuel to generate electricity. The potential benefits for the System are to ensure a reliable, low-cost power supply and provide a vehicle to better use operating cash and improve working capital liquidity. This program provides the System discounted monthly electric purchases that are equal to the monthly principle and interest payments. The discount rate is 5.5% and has a term of 10 years. The System may borrow against part of the DEU investment in emergency situations, if needed. During 2004 and 2003, the System recognized \$408,204 and \$233,820, respectively, in interest income from the amortization of the DEU's which is included in non-operating revenues discussed above.



# Bristol Tennessee Electric System

## Balance Sheets

June 30, 2004 and 2003

	June 30	
	2004	2003
		(Restated)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 6,177,910	\$ 6,213,804
Accounts receivable:		
Trade	3,379,310	2,511,627
Other	379,053	295,518
Total accounts receivable	3,758,363	2,807,145
Accrual for unbilled revenues	2,918,421	2,116,385
Materials and supplies inventories	601,047	668,645
Prepaid power purchased from Tennessee Valley Authority	942,840	-
Current portion of customer notes receivable	675,000	625,000
Current portion of discounted energy units	671,653	635,796
Prepaid expenses and other current assets	183,141	302,930
Total current assets	15,928,375	13,369,705
Noncurrent assets:		
Capital assets:		
Capital assets in service	63,306,772	61,380,163
Less accumulated depreciation	(37,198,283)	(35,286,886)
	26,108,489	26,093,277
Construction in progress	4,710,427	4,406,671
Non-utility property	1,076,305	1,068,010
Net capital assets	31,895,221	31,567,958
Other assets:		
Customer notes receivable, less current portion	2,104,136	2,328,463
Long-term investments	8,000,000	8,000,000
Prepaid pension cost	791,151	933,077
Discounted energy units, less current portion	6,404,371	7,076,024
Other	13,556	83,394
Total other assets	17,313,214	18,420,958
Total noncurrent assets	49,208,435	49,988,916
Total assets	\$65,136,810	\$63,358,621

Bristol Tennessee Electric System

Balance Sheets (continued)

June 30, 2004 and 2003

	June 30	
	2004	2003 (Restated)
<b>Liabilities and net assets</b>		
Current liabilities:		
Trade accounts payable	\$ 526,601	\$ 1,143,644
Accrual for unbilled power expense	2,510,084	1,862,321
Customer deposits and prepayments	1,943,072	1,774,042
Due to City of Bristol, Tennessee:		
Economic development funds passed through from Tennessee Valley Authority	811,039	944,011
Other	56,618	-
Other accrued liabilities	877,851	881,285
Total current liabilities	6,725,265	6,605,303
Net assets:		
Invested in capital assets	31,895,221	31,567,958
Unrestricted	26,516,324	25,185,360
Total net assets	58,411,545	56,753,318

Total liabilities and net assets

\$65,136,810      \$63,358,621

*See accompanying Notes to Financial Statements.*

Bristol Tennessee Electric System  
Statements of Revenues, Expenses and Changes in Net Assets  
Years ended June 30, 2004 and 2003

	Year ended June 30	
	2004	2003
		(Restated)
Operating revenues:		
Residential	\$28,368,050	\$26,699,205
Commercial (general power - under 50 kw)	3,887,931	3,620,629
Industrial (general power - 50 kw and over)	22,143,093	20,071,592
Street and outdoor lighting	911,629	854,866
	<u>55,310,703</u>	<u>51,246,292</u>
Other revenues	2,447,651	2,100,325
Total operating revenues	<u>57,758,354</u>	<u>53,346,617</u>
Power purchased from Tennessee Valley Authority	48,328,235	44,700,229
Gross profit	<u>9,430,119</u>	<u>8,646,388</u>
Operating expenses:		
Operation expenses	2,742,670	2,599,092
Maintenance	2,634,557	2,532,830
Depreciation	1,897,728	1,960,025
Tax equivalents	212,113	205,435
Social security taxes	206,462	213,225
Interest expense on customer deposits	6,612	6,409
Total operating expenses	<u>7,700,142</u>	<u>7,517,016</u>
Operating income	<u>1,729,977</u>	<u>1,129,372</u>
Nonoperating revenue--interest income (including \$408,204 in 2004 and \$233,820 in 2003 related to amortization of discounted energy units)	628,270	586,380
Income before transfers	<u>2,358,247</u>	<u>1,715,752</u>
Transfers out--tax equivalents to the City of Bristol, Tennessee	<u>(700,020)</u>	<u>(605,858)</u>
Change in net assets	<u>1,658,227</u>	<u>1,109,894</u>
Net assets at beginning of year	<u>56,753,318</u>	<u>55,643,424</u>
Net assets at end of year	<u>\$58,411,545</u>	<u>\$56,753,318</u>

*See accompanying Notes to Financial Statements.*

Bristol Tennessee Electric System  
Statements of Cash Flows  
Years ended June 30, 2004 and 2003

	Year ended June 30 2004	2003 (Restated)
<b>Cash flows from operating activities</b>		
Cash received from customers	\$54,322,743	\$52,984,752
Cash received from City of Bristol, Tennessee	1,901,676	1,201,865
Cash paid to suppliers and vendors	(49,884,474)	(41,685,814)
Cash paid to employees for services	(2,834,374)	(2,904,642)
Cash paid to City of Bristol, Tennessee	(746,924)	(665,529)
Net cash provided by operating activities	<u>2,758,647</u>	<u>8,930,632</u>
<b>Cash flows from noncapital financing activities</b>		
Transfers to City of Bristol, Tennessee	(700,020)	(605,858)
<b>Cash flows from investing activities</b>		
Interest received on investments	220,066	353,793
Payment for discounted energy units	—	(8,000,000)
Net cash provided by (used in) investing activities	<u>220,066</u>	<u>(7,646,207)</u>
<b>Cash flows from capital and related financing activities</b>		
Net additions to property, plant and equipment	(2,314,587)	(4,308,501)
Decrease in cash and cash equivalents	(35,894)	(3,629,934)
Cash and cash equivalents at beginning of year	6,213,804	9,843,738
Cash and cash equivalents at end of year	<u>\$ 6,177,910</u>	<u>\$ 6,213,804</u>

Bristol Tennessee Electric System  
Statements of Cash Flows (continued)  
Years ended June 30, 2004 and 2003

	Year ended June 30	
	2004	2003
		(Restated)
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 1,729,977	\$ 1,129,372
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,987,324	2,037,657
Provision for losses on accounts receivable	124,038	113,136
Redemption of discounted energy units	1,044,000	522,000
Changes in operating assets and liabilities:		
Accounts receivable	(1,075,256)	645,313
Accrual for unbilled revenues	(802,036)	(218,860)
Prepaid power purchased from Tennessee Valley Authority	(942,840)	3,022,569
Materials and supplies inventories	67,598	3,667
Customer notes receivable	174,327	82,229
Prepaid pension cost	141,926	-
Other assets	189,627	(61,154)
Trade accounts payable	(617,043)	1,142,390
Due to City of Bristol, Tennessee	(76,354)	(32,815)
Unbilled power expense	647,763	206,582
Customer deposits and prepayments	169,030	331,318
Other liabilities	(3,434)	7,228
Net cash provided by operating activities	\$2,758,647	\$ 8,930,632

*See accompanying Notes to Financial Statements.*

# Bristol Tennessee Electric System

## Notes to Financial Statements

June 30, 2004 and 2003

### 1. Significant Accounting Policies

#### General

The Bristol Tennessee Electric System (the "System") is a self-supporting enterprise fund of the City of Bristol, Tennessee (the "City"). The City is the primary reporting entity. An enterprise fund is used to account for the financing of services to the general public on a continuing basis with costs recovered primarily through user charges. The Power Board of the System is the level of responsibility that has oversight and control of the electric distribution system. The Power Board sets all policies, local rates and appoints the General Manager. The Power Board is composed of five members, one of whom is also a member of the City Council, who are appointed by the mayor and confirmed by the City Council. They serve four-year staggered terms. The System manages, operates and maintains the electric utility servicing the citizens of the City and surrounding areas. The System issues a comprehensive annual financial report which is combined in the City's comprehensive annual financial report.

The System utilizes the accrual basis of accounting whereby revenues are recorded in the period the related services are provided, and expenses are recorded in the period incurred. Accordingly, the System has recorded an estimate of unbilled revenue and unbilled power expense. The System considers all revenues and expenses to be operating, except for interest income which is classified as nonoperating.

The System applies Financial Accounting Standards Board ("FASB") pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board ("GASB") pronouncements, in which case, GASB prevails. The System has elected not to adopt the FASB Statements and Interpretations issued after November 30, 1989, in accordance with GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting".

The System applies the provisions GASB No. 34, "Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments" ("Statement 34"), as amended by GASB No. 37, "Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Government: Omnibus" ("Statement 37"). Statements 34 and 37 established standards for external financial reporting and disclosure for all state and local governmental entities, which includes a balance sheet, a statement of revenues, expenses and changes in net assets and a statement of cash flows. Statement 34 requires the classification of net assets into three components -- invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

**Bristol Tennessee Electric System**  
**Notes to Financial Statements (continued)**  
**June 30, 2004 and 2003**

**1. Significant Accounting Policies (continued)**

**General (continued)**

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
- Restricted – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted – This component of net assets consists of net assets that do not meet the definition of "restricted or "invested in capital assets, net of related debt."

The System has no outstanding debt related to the acquisition, construction or improvement of capital assets nor does it have any assets restricted via constraints. Accordingly, the System's net assets are categorized as invested in capital assets and unrestricted. The unrestricted category includes a renewal and replacement fund of \$8,000,000 which was established by the Power Board to set aside funds for future construction, improvements and extensions of the System.

During 2004, the System determined that Statement 34 requires internal tax equivalent payments to the City of Bristol, Tennessee be reported as transfers. The amounts have previously been reported as an expense of the System. Accordingly, the 2003 amounts have been restated to reflect this change. The effect of this restatement was to increase the System's 2003 change in net assets by \$700,020.

**Measurement Focus**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The System's operations are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the enterprise fund are included on the balance sheet. Operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in net total assets.

**Fiscal Year-End**

The System operates on a fiscal year ending June 30. All references in these notes refer to the fiscal year-end unless otherwise specified.

**Bristol Tennessee Electric System**  
**Notes to Financial Statements (continued)**  
**June 30, 2004 and 2003**

**1. Significant Accounting Policies (continued)**

**Materials and Supplies Inventories**

Materials and supplies are valued at the lower of cost or market, utilizing the moving average method of determining cost.

**Capital Assets**

Capital assets are carried at historical cost, including applicable general and administrative costs and payroll related costs such as pensions, taxes and other employee benefits. Substantially all renewals and betterments are capitalized in accordance with the System's capitalization policy. When property is retired or otherwise disposed of, its average cost, together with its cost of removal less salvage, is charged to accumulated depreciation; no gain or loss is recognized.

Capital assets other than land, construction in progress and non-utility property, are depreciated using the straight-line method at rates which will amortize costs over the estimated useful lives of the assets. The estimated useful lives of depreciable capital assets are as follows:

Transmission equipment, fixtures and devices	30 to 40 years
Distribution transformers, meters, fixtures and devices	15 to 50 years
Buildings and improvements	50 years
Furniture, fixtures and equipment	5 to 25 years

The provision for depreciation does not include depreciation on transportation equipment. Those amounts are reported as operating expenses in the Statements of Revenues, Expenses and Changes in Net Assets and totaled \$89,596 in 2004 and \$77,632 in 2003. The cost of maintenance and repairs is charged to expense as incurred.

**Investments**

Temporary investments, consisting entirely of certificates of deposit, are stated at cost which approximates fair value.

**Compensated Absences**

The System recognizes the cost of vacation pay as earned. In the event of termination or retirement, an employee is reimbursed for accumulated vacation days. In general, accumulated vacation days are limited to thirty days.

**Use of Estimates**

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



**Bristol Tennessee Electric System**  
**Notes to Financial Statements (continued)**  
**June 30, 2004 and 2003**

**1. Significant Accounting Policies (continued)**

**Cash and Cash Equivalents and Investments**

Cash and cash equivalents include cash on hand and in demand deposits, and those investments which are generally a part of the System's short-term cash management activities. State statutes authorize the System to invest in certificates of deposit, U.S. Treasury obligations, U.S. Agency issues and the State Local Government Investment Pool.

**Reclassifications**

Certain amounts in the 2003 financial statements have been reclassified to conform with 2004 classifications.

**2. Power Contract**

The System has a power contract with the Tennessee Valley Authority ("TVA") whereby the System purchases all its electric power from TVA and is subject to certain restrictions and conditions as provided in the contract. Either party may terminate this contract at any time upon not less than five years prior written notice.

**3. Residential Energy Efficiency Program Loans**

The System provides loans to customers for heat pump and insulation costs under the System's Residential Energy Efficiency Program. The majority of these loans bears interest at rates ranging from 8% to 10.25% and has maturities of up to 10 years. Satisfactory credit reports are required prior to loan approval. Additionally, these loans are secured by a deed of trust on the property. The System recorded interest income of approximately \$237,000 in 2004 and \$270,000 in 2003 related to these loans. These amounts offset operating expenses in the Statements of Revenues, Expenses and Changes in Net Assets, since management believes this is an operating activity and the income should offset the additional expenses associated with maintaining this loan program.

**4. Concentration of Credit Risk**

The System provides electric service primarily to customers in northeastern Tennessee. Customers include residential and industrial service. Residential customers are required to have satisfactory credit reports or place deposits with the System that approximate two month's account balance. Industrial customers are generally required to either place deposits with the System that approximate two month's account balance or obtain a letter of credit or surety bond as security. Interest accrues on any deposits at the passbook interest rate of the bank where the funds are deposited and totaled \$6,611 in 2004 and \$6,409 in 2003. The System also makes and services loans to customers for heat pump and insulation costs. A subordinate deed of trust is obtained on the related property for these loans. Loss experience on accounts and notes receivable has not been significant to the System's operations.

Bristol Tennessee Electric System  
Notes to Financial Statements (continued)

June 30, 2004 and 2003

**5. Pension Plan**

**Plan Description**

Certain employees of the System are members of the Political Subdivision Pension Plan ("PSPP"), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System ("TCRS"). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with 5 years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with 5 years of service who became disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the System after July 1, 1979, become vested after 5 years of service and members joining prior to July 1, 1979, were vested after 4 years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the *Tennessee Code Annotated* ("TCA"). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as the System participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230 or can be accessed at [www.treasury.state.tn.us](http://www.treasury.state.tn.us).

**Funding Policy**

The System requires employees to contribute 5% of earnable compensation.

The System is required to contribute at an actuarially determined rate using the frozen entry age actuarial cost method; the rate for 2004 and 2003 was 5.44% of annual covered payroll. The 2004 and 2003 required contributions were determined as part of the July 1, 2001, actuarial valuation. The contribution requirements for plan members are set by state statute. The contribution requirements for the System are established and may be amended by the TCRS Board of Trustees.

Bristol Tennessee Electric System  
Notes to Financial Statements (continued)  
June 30, 2004 and 2003

**5. Pension Plan (continued)**

**Prepaid Pension Cost**

GASB Statement No. 27, "Accounting for Pensions by State and Local Governmental Employers", requires employers to record contributions to a pension plan in excess of the annual pension cost as an asset. The System has previously contributed amounts in excess of the annual pension cost to the PSPP and recorded these amounts as a prepaid pension cost. Activity in the prepaid pension cost is as follows for the years ended June 30:

	2004	2003
Balance at beginning of year	\$933,077	\$933,077
Annual pension cost:		
Annual required contribution	148,723	152,248
Interest on prepaid pension cost	(63,238)	(66,867)
Adjustment to the annual required contribution	205,164	66,867
Total annual pension cost	290,649	152,248
Contributions made	148,723	152,248
Decrease in prepaid pension cost	(141,926)	-
Balance at end of year	\$791,151	\$933,077

**Actuarial Assumptions**

Significant actuarial assumptions used in the July 1, 2001, valuation include (a) rate of return on investment of present and future assets of 7.5% a year compounded annually, (b) projected salary increases of 4.75% (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.5% annual increase in the Social Security wage base and (d) projected post-retirement increases of 3% annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the fair value of total investments over a five-year period. The System's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2001, was 14 years. An actuarial valuation was performed as of July 1, 2003, which established contribution rates effective July 1, 2004.

**Trend Information**

Year ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Prepaid Pension Cost
2004	\$290,649	51.2%	\$791,151
2003	152,248	100.0%	933,077
2002	60,625	214.6%	933,077

Bristol Tennessee Electric System  
Notes to Financial Statements (continued)

June 30, 2004 and 2003

**5. Pension Plan (continued)**

**Required Supplementary Information**

Schedule of Funding Progress (Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/01/03	\$11,831	\$12,907	\$1,076	91.66%	\$2,584	41.64%
7/01/01	11,492	12,584	1,092	91.32%	2,465	44.30%
7/01/99	10,589	11,083	494	95.54%	2,317	21.32%

**6. 401(k) Retirement Plan**

The System administers a defined contribution plan in the form of a 401(k) plan (Bristol Tennessee Electric System 401(k) Retirement Plan) available to all employees who have completed six months of employment. During 2004, the amount of payroll covered by the plan was \$2,495,331 of total payroll of \$2,771,405. During 2003, the amount of payroll covered by the plan was \$2,579,099 of total payroll of \$2,828,368. Under the plan terms, the System will match participant contributions up to 6% of the participant's salary (3% of participant's salary prior to October 2002). Participants are not required but may contribute up to a total of 15% of their pre-tax earnings, subject to IRS limitations.

Additionally, participants may contribute up to 10% of their after-tax earnings. Participants are 100% vested in the employer contributions when they are made. During 2004 and 2003, the System contributed \$138,682 and \$119,189, respectively, to the plan which represents 5.6% and 4.6%, respectively, of the covered payroll and 100% of the required contribution for each year. During 2004 and 2003, the participants contributed \$185,780 and \$167,070, respectively, which represents 7.5% and 6.5%, respectively, of the covered payroll.

Bristol Tennessee Electric System  
Notes to Financial Statements (continued)  
June 30, 2004 and 2003

**7. Capital Assets**

The following is a summary of capital assets for the year ended June 30, 2004:

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Capital assets not being depreciated:				
Land	\$ 1,051,638	\$ 5,086	\$ (5,086)	\$ 1,051,638
Non-utility property	1,068,010	10,795	(2,500)	1,076,305
Construction in progress	4,406,671	4,466,067	(4,162,311)	4,710,427
Total capital assets not being depreciated	6,526,319	4,481,948	(4,169,897)	6,838,370
Capital assets being depreciated:				
Transmission equipment, fixtures and devices	2,254,000	568,620	—	2,822,620
Distribution transformers, meters, fixtures and devices	53,202,228	2,298,553	(1,064,192)	54,436,589
Buildings and improvements	2,016,032	202	—	2,016,234
Furniture, fixtures and equipment	2,856,265	125,926	(2,500)	2,979,691
Total capital assets being depreciated	60,328,525	2,993,301	(1,066,692)	62,255,134
Less accumulated depreciation:				
Transmission equipment, fixtures and devices				
Distribution transformers, meters, fixtures and devices	(1,036,423)	(112,818)	—	(1,149,241)
Buildings and improvements	(30,502,106)	(1,747,477)	119,854	(32,129,729)
Furniture, fixtures and equipment	(1,749,075)	(41,578)	—	(1,790,653)
Total accumulated depreciation	(35,286,886)	(2,031,251)	119,854	(37,198,283)
Net capital assets being depreciated	25,041,639	962,050	(946,838)	25,056,851
Total net capital assets	\$31,567,958	\$5,443,998	\$ (5,116,735)	\$31,895,221

Bristol Tennessee Electric System  
Notes to Financial Statements (continued)  
June 30, 2004 and 2003

**8. Cash and Investments**

Cash and investments consist of the following as of June 30, 2004:

	Amount	Interest Rate	Purchase Date	Maturity Date
Renewal and replacement fund:				
Certificate of deposit	\$ 2,000,000	1.71%	4/01/04	4/15/05
Certificate of deposit	2,000,000	1.51%	1/16/04	7/16/04
Certificate of deposit	2,000,000	1.40%	4/30/04	7/30/04
Certificate of deposit	2,000,000	1.40%	4/30/04	7/30/04
Total renewal and replacement fund	8,000,000			
Other funds:				
Certificate of deposit	3,050,090	1.46%	1/30/04	7/30/04
Certificate of deposit	500,000	1.75%	6/23/04	12/23/04
Business money market account	2,256,005	1.29%	—	—
Cash on deposit	371,815	Various		
Total other funds	6,177,910			
Total cash and investments	<u>\$14,177,910</u>			

Cash and investments consist of the following as of June 30, 2003:

	Amount	Interest Rate	Purchase Date	Maturity Date
Renewal and replacement fund:				
Certificate of deposit	\$ 2,000,000	1.35%	4/16/03	1/16/04
Certificate of deposit	2,000,000	1.45%	4/30/03	7/30/03
Certificate of deposit	2,000,000	1.75%	4/30/04	10/30/03
Business money market account	2,000,000	1.35%	6/30/03	9/30/03
Total renewal and replacement fund	8,000,000			
Other funds:				
Certificate of deposit	3,007,274	1.45%	4/30/03	7/30/03
Certificate of deposit	500,000	1.99%	5/22/03	12/22/03
Business money market account	2,200,670	0.84%	—	—
Cash on deposit	505,860	Various	—	—
Total other funds	6,213,804			
Total cash and investments	<u>\$14,213,804</u>			

As of June 30, 2004, the System's deposits in financial institutions (including certificates of deposit) of \$15,251,760 were entirely insured or collateralized with securities held by the System's agent in the System's name. Carrying amounts differ from financial institution balances primarily due to outstanding checks and deposits in transit.

Bristol Tennessee Electric System  
Notes to Financial Statements (continued)  
June 30, 2004 and 2003

**8. Cash and Investments (continued)**

Purchases of certificates of deposit in the renewal and replacement fund totaled \$14,200,000 in 2004 and \$30,000,000 in 2003. Sales of certificates of deposit in the renewal and replacement fund totaled \$14,200,000 in 2004 and \$29,000,000 in 2003.

**9. Discounted Energy Units**

During 2003, the System purchased \$8,000,000 in discounted energy units from TVA which are redeemable on a straight-line basis over the next ten years. The units carry a discount of 5.5% and amounted to \$7,076,024 as of June 30, 2004.

**10. Self-Insurance Plan**

The System is self-insured for employee group health benefits. A liability is recorded for those claims incurred but not paid prior to year-end, both reported and unreported, based on prior experience and claims reported subsequent to year-end. Changes in estimates for claims incurred but not reported are recorded in the year the estimates are revised. The System's risk is \$30,000 per covered employee up to an annual maximum of \$315,779. An insurance company has insured all claims exceeding \$315,779.

Activity in the estimated liability for claims incurred but not paid is as follows for the years ended June 30:

	2004	2003
Balance at beginning of year	\$ -	\$ 19,690
Expense (benefit) recorded related to:		
Current year	193,630	213,497
Prior year	41,073	21,681
Net expense recorded	234,703	235,178
Payments related to:		
Current year	200,913	213,497
Prior year	33,790	41,371
Total payments	234,703	254,868
Balance at end of year	\$ -	\$ -

**11. Risk Management**

The System is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; natural disasters; and injuries of employees for which the System carries commercial insurance purchased from independent third parties. The System has not experienced a settlement in excess of insurance coverage in any of the past three fiscal years. The System bears the risk of loss up to the deductible amounts which are disclosed in the accompanying Statistical Section.

**Bristol Tennessee Electric System**  
**Notes to Financial Statements (continued)**  
**June 30, 2004 and 2003**

**12. Related Party Transactions**

As described in Note 1, the System is a self-supporting fund of the City of Bristol, Tennessee. In the normal course of operations, the System provides electrical service to the City at standard electric rates which generated revenues of \$1,894,211 in 2004 and \$1,224,533 in 2003. As of June 30, 2004 and 2003, \$88,431 and \$95,896, respectively, was receivable from the City for these revenues. Payment is due within approximately 30 days of the billing.

During 1997, the System received \$2,000,000 in purchased power credits from TVA for investments related to economic development of the City. At the City's request, the System remits these funds to the City. Remaining activity related to these funds is as follows for the years ended June 30:

	2004	2003
Balance at beginning of year	\$944,011	\$933,761
Interest accruals	9,748	10,250
Payments remitted to City	(142,720)	-
Balance at end of year	<u>\$811,039</u>	<u>\$944,011</u>

Interest accruals are netted against interest income in the accompanying financial statements.

The System made tax equivalent payments to the City of \$700,020 in 2004 and \$665,529 in 2003. These payments are based on the System's capital assets, along with average operating revenues less power costs.

**13. Postemployment Benefits**

As discussed in Note 10, the System is self-insured for employee group health benefits. The System also provides these benefits to certain retired employees, although not required by any statutory, contractual or other authority. As of June 30, 2004, there were 22 retirees eligible to receive these benefits. Benefits related to these retirees are expensed when paid and totaled approximately \$63,000 in 2004 and \$76,000 in 2003.

Additionally, the System is self-insured for certain life insurance benefits for retirees. Employees who retire with 30 years of service or age 60 with a minimum of 20 years of service receive \$5,000 in life insurance for annual salaries less than \$10,000 plus \$1,000 in life insurance for each additional \$5,000 of annual salary or fraction thereof. As of June 30, 2004, there were 11 retirees eligible to receive these benefits and, accordingly, a liability for \$117,250 has been recorded for these benefits. The System made payments of \$5,000 in 2004 related to these benefits. No such payments were made in 2003.



# Bristol Tennessee Electric System

## Statement of Revenues and Expenses (Last Ten Years)

Fiscal Years 2004-1995 (in thousands)

	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
<b>Operating revenues:</b>										
Residential	\$28,368	\$26,699	\$24,746	\$25,877	\$24,212	\$23,575	\$23,408	\$21,993	\$23,971	\$20,807
Commercial	3,888	3,621	3,373	3,562	3,442	3,408	3,280	3,065	3,209	2,953
Industrial	22,143	20,072	19,006	19,650	18,953	19,224	17,814	16,619	16,626	15,847
Street and outdoor lighting	911	855	852	919	844	832	815	775	734	702
Other revenues	2,448	2,100	2,018	2,023	1,919	1,844	1,807	1,648	1,698	1,429
<b>Total operating revenues</b>	<b>57,758</b>	<b>53,347</b>	<b>49,995</b>	<b>52,031</b>	<b>49,370</b>	<b>48,883</b>	<b>47,124</b>	<b>44,100</b>	<b>46,238</b>	<b>41,738</b>
<b>Power purchased from Tennessee Valley Authority</b>	<b>48,328</b>	<b>44,701</b>	<b>41,631</b>	<b>43,630</b>	<b>41,265</b>	<b>40,913</b>	<b>39,373</b>	<b>36,470</b>	<b>38,613</b>	<b>34,636</b>
<b>Gross profit</b>	<b>9,430</b>	<b>8,646</b>	<b>8,364</b>	<b>8,401</b>	<b>8,105</b>	<b>7,970</b>	<b>7,751</b>	<b>7,630</b>	<b>7,625</b>	<b>7,102</b>
<b>Operating expenses:</b>										
Operation expenses	2,743	2,599	2,412	2,339	2,213	2,128	1,975	1,955	1,917	1,987
Maintenance	2,635	2,533	2,319	2,275	2,212	2,137	2,267	2,060	2,030	1,870
Depreciation	1,898	1,960	1,918	1,863	1,814	1,765	1,655	1,390	1,308	1,188
Tax equivalents	212	206	195	857	868	913	888	858	845	844
Social security taxes	206	213	193	162	158	156	156	161	159	151
Interest on customer deposits	6	6	11	19	19	17	17	17	16	18
<b>Total operating expenses</b>	<b>7,700</b>	<b>7,517</b>	<b>7,048</b>	<b>7,515</b>	<b>7,284</b>	<b>7,116</b>	<b>6,958</b>	<b>6,441</b>	<b>6,275</b>	<b>6,058</b>
<b>Operating income</b>	<b>1,730</b>	<b>1,129</b>	<b>1,316</b>	<b>886</b>	<b>821</b>	<b>854</b>	<b>793</b>	<b>1,189</b>	<b>1,350</b>	<b>1,044</b>
<b>Nonoperating revenue--interest income</b>	<b>628</b>	<b>587</b>	<b>591</b>	<b>1,355</b>	<b>1,071</b>	<b>918</b>	<b>816</b>	<b>875</b>	<b>828</b>	<b>748</b>
<b>Income before transfers</b>	<b>2,358</b>	<b>1,716</b>	<b>1,907</b>	<b>2,241</b>	<b>1,892</b>	<b>1,772</b>	<b>1,609</b>	<b>2,064</b>	<b>2,178</b>	<b>1,792</b>
<b>Transfers out--tax equivalents to the City of Bristol, Tennessee</b>	<b>(700)</b>	<b>(606)</b>	<b>(666)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Change in net assets</b>	<b>\$ 1,658</b>	<b>\$ 1,110</b>	<b>\$ 1,241</b>	<b>\$ 2,241</b>	<b>\$ 1,892</b>	<b>\$ 1,772</b>	<b>\$ 1,609</b>	<b>\$ 2,064</b>	<b>\$ 2,178</b>	<b>\$ 1,792</b>

# Bristol Tennessee Electric System

## Purchased Power, Consumption and Active Service Statistics (Last Ten Years)

Fiscal Years 2004-1995

	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Purchased power from Tennessee Valley Authority (megawatt hours)	1,014,411	997,525	935,485	961,853	918,151	919,696	913,322	882,682	914,989	815,503
Consumption (megawatt hours):										
Residential	468,611	469,302	432,282	456,277	425,639	416,726	419,346	403,494	441,725	381,451
Commercial	53,344	54,335	49,880	52,200	51,351	51,337	50,391	49,241	51,811	47,725
Industrial	437,853	412,832	398,728	396,534	388,268	399,571	393,905	380,019	366,151	337,206
Street and athletic	5,164	5,255	5,209	5,086	4,973	4,936	4,908	4,783	4,506	4,313
Outdoor lighting	4,139	4,211	4,221	4,297	4,359	4,346	4,340	4,311	4,221	4,070
Internal use	-	-	-	-	-	843	901	887	952	848
Total consumption	969,111	945,935	890,320	914,394	874,590	877,759	873,791	842,735	869,366	775,613
Line losses and megawatt hours unaccounted for	45,300	51,590	45,165	47,459	43,561	41,937	39,531	39,947	45,623	39,890
Percentage of line losses and megawatt hours unaccounted for to purchased power	4.47%	5.17%	4.83%	4.93%	4.74%	4.56%	4.33%	4.53%	4.99%	4.89%
Active service (number of customers):										
Residential	27,650	27,458	27,360	27,234	26,951	26,603	26,315	25,978	25,630	25,218
Commercial	3,332	3,291	3,304	3,229	3,241	3,144	3,130	3,095	3,057	3,021
Industrial	614	591	588	584	551	543	536	510	503	490
Street and athletic	41	41	38	38	38	29	28	28	28	28
Outdoor lighting	161	160	158	161	161	155	157	158	154	147
	31,798	31,541	31,448	31,246	30,942	30,474	30,166	29,769	29,372	28,904

Bristol Tennessee Electric System  
Schedule of Property, Casualty and Other Insurance (Unaudited)  
June 30, 2004

Type of Coverage	Limits	Deductible	Period of Coverage	Company
Theft, disappearance and destruction	\$ 240,000	\$ -	12/05/03 to 12/04/04	Cincinnati Ins. Co.
Workers' compensation	500,000	-	12/05/03 to 12/04/04	Cincinnati Ins. Co.
General liability:		0 to 1,000	12/05/03 to 12/04/04	Cincinnati Ins. Co.
Products-completed operations aggregate	2,000,000			
Personal and advertising injury	1,000,000			
Each occurrence	1,000,000			
Fire damage (any one fire)	100,000			
Medical expense (any one person)	5,000			
Employee benefits:				
Each claim	1,000,000			
Aggregate	3,000,000			
Automobile policy:		100 to 1,000	12/05/03 to 12/04/04	Cincinnati Ins. Co.
Liability	1,000,000			
Comprehensive	Actual Cash Value			
Uninsured motorist	1,000,000			
Collision	Actual Cash Value			
Medical payments	5,000 per person			
Commercial umbrella liability	20,000,000	-	12/05/03 to 12/04/04	Cincinnati Ins. Co.
Fire, extended coverage & vandalism and malicious mischief:		10,000	12/05/03 to 12/04/04	Cincinnati Ins. Co.
On premise property	22,050,468			
Off premise property	250,000			
Scheduled property floater:				
Flood	2,000,000	25,000	12/05/03 to 12/04/04	Cincinnati Ins. Co.
Earthquake	10,000,000	500,000		
Directors & officers liability	10,000,000	0 to 10,000	04/28/04 to 04/28/05	Cincinnati Ins. Co.

Bristol Tennessee Electric System

Schedule of Property, Casualty and Other Insurance (Unaudited) (continued)

June 30, 2004

Type of Coverage	Limits	Deductible	Period of Coverage	Company
Boiler & machinery policy	\$ 500,000	\$5,000 to 50,000	12/05/03 to 12/04/04	Cincinnati Ins. Co.
Public employees blanket bond	500,000	1,000	12/05/03 to 12/04/04	Cincinnati Ins. Co.
Electronic data processing equipment and media	630,983	1,000	12/05/03 to 12/04/04	Cincinnati Ins. Co.
Mobile property - machinery	621,126	250	12/05/03 to 12/04/04	Cincinnati Ins. Co.
Employment related practices liability:		2,500	12/05/03 to 12/04/04	Cincinnati Ins. Co.
Each insured event limit	1,000,000			
Total limit	1,000,000			

Bristol Tennessee Electric System  
Schedule of Electric Rates (Unaudited)

June 30, 2004

**Single Family Dwelling Customers**

**Base Charges:**

Customer charge:  
\$6.29 per month

Energy charge:  
First 1,000 kilowatt hours per month at 5.374 cents per kilowatt hour  
Excess over 1,000 kilowatt hours per month at 5.918 per kilowatt hour

**Commercial, Industrial, Governmental and Institutional Customers**

**Base charges:**

1. If (a) the higher of (i) the customer's currently effective contract demand, if any, or (ii) its highest billing demand during the latest 12-month period is not more than 50 kilowatts and (b) customer's monthly energy takings for any month during such period do not exceed 15,000 kilowatt hours:

Customer charge:  
\$14.00 per delivery point per month

Energy charge:  
6.240 cents per kilowatt hour per month

2. If (a) the higher of (i) the customer's currently effective contract demand, if any, or (ii) its highest billing demand during the latest 12-month period is greater than 50 kilowatts but not more than 1,000 kilowatts or (b) the customer's billing demand is less than 50 kilowatts and its energy takings for any month during such period exceed 15,000 kilowatt hours:

Customer charge:  
\$25.00 per delivery point per month

Demand charge:  
First 50 kilowatts of billing demand per month, no charge  
Excess over 50 kilowatts of billing demand per month at \$8.56 per kilowatt, plus an additional \$8.56 per kilowatt per month for each kilowatt by which billing demand exceeds the higher of 50 kilowatts or contract demand

Energy charge:  
First 15,000 kilowatt hours per month at 6.194 cents per kilowatt hour  
Excess over 15,000 kilowatt hours per month at 3.420 cents per kilowatt hour

Bristol Tennessee Electric System  
Schedule of Electric Rates (Unaudited) (continued)

June 30, 2004

3. If (a) the higher of the customer's currently effective contract demand, if any, or (b) its highest billing demand during the latest 12-month period is greater than 1,000 kilowatts, but not more than 5,000 kilowatts:

Customer charge:

\$25.00 per delivery point per month

Demand charge:

First 1,000 kilowatts of billing demand per month at \$8.56 per kilowatt hour

Excess over 1,000 kilowatts of billing demand per month at \$10.06 per kilowatt, plus an additional \$10.06 per kilowatt per month for each kilowatt by which billing demand exceeds the higher of 1,000 kilowatts or its contract demand:

Energy charge:

3.420 cents per kilowatt hour per month

4. If the customer's contract demand is greater than 5,000 kilowatts, but not more than 15,000 kilowatts:

Customer charge:

\$1,500.00 per delivery point per month

Demand charge:

\$10.96 per kilowatt of billing demand per month, plus an additional \$10.96 per kilowatt per month for each kilowatt, if any, of the amount by which the customer's billing demand exceeds its contract demand

Energy charge:

3.035 cents per kilowatt hour for up to 620 hours use of metered demand per month

2.477 cents per kilowatt hour for all additional kilowatt hours per month

5. If the customer's contract demand is greater than 15,000 kilowatts, but not more than 25,000 kilowatts:

Customer charge:

\$1,500.00 per delivery point per month

Demand charge:

\$11.07 per kilowatt of billing demand per month, plus an additional \$11.07 per kilowatt per month for each kilowatt, if any, of the amount by which the customer's billing demand exceeds its contract demand

Energy charge:

3.035 cents per kilowatt hour for up to 620 hours use of metered demand per month

2.477 cents per kilowatt hour for all additional kilowatt hours per month

## STATISTICS - JUNE 2004

### Bristol Tennessee Electric System

2470 Volunteer Parkway, Bristol, TN 37620

P. O. Box 549, Bristol, TN 37621

Telephone: 423-968-1526

FAX Number: 423-793-5545

Power Outage Number: 423-968-BTES (968-2837)

Total Full-Time Employees ..... 60

Part-Time Employees\* (students, etc.) ..... 8

\*Additional students are utilized in the summer and during school breaks.

Miles of Line ..... 1,226

Miles of Fiber Optic Cable ..... 69.8

#### NUMBER OF CUSTOMERS

Large General Power (>50 kW)..... 614

Small General Power (<50 kW)..... 3,332

Residential ..... 27,650

Street and Outdoor Lighting ..... 202

Total ..... 31,798

Employees/1000 Customers ..... 1.9

### LARGEST CUSTOMERS (IN ORDER OF KWH USAGE)

- |                                 |                         |
|---------------------------------|-------------------------|
| 1. Exide Corporation            | 7. Amerace Corporation  |
| 2. City of Bristol, Tennessee   | 8. Bristol Metals, Inc. |
| 3. Modern Forge of Tennessee    | 9. Royal Mouldings      |
| 4. WellmontBRMC                 | 10. Seaman Corporation  |
| 5. GlaxoSmithKline Laboratories | 11. King College        |
| 6. King Pharmaceuticals         | 12. Wal-Mart            |

*Note:* Bristol Motor Speedway has the third largest peak kW demand of any customer during the August race.

**BRISTOL TENNESSEE ELECTRIC SYSTEM  
CLIMATOLOGICAL DATA  
FISCAL YEARS 2004-1995**

<b>Fiscal Year</b>	<b>Heating Degree Days *</b>	<b>Cooling Degree Days *</b>
2004	4141	1027
2003	4064	1132
2002	3921	1189
2001	4539	933
2000	4019	1082
1999	4312	951
1998	4142	904
1997	4446	749
1996	5007	1173
1995	3780	936

SOURCE: U.S. Department of Commerce, National Oceanic and  
Atmospheric Administration

\* Degree Day is a unit of measuring the extent to which the outdoor mean temperature falls below (heating) or rises above (cooling) the base of 65 degrees Fahrenheit. One degree day is counted for each degree of deficiency below (heating) or excess over (cooling) the base, for each calendar day on which such deficiency or excess occurs.



**BRISTOL TENNESSEE ELECTRIC SYSTEM  
DEMOGRAPHIC AND ECONOMIC STATISTICS  
TRI-CITIES, TENNESSEE-VIRGINIA MSA  
CALENDAR YEARS 2003-1994**

<b>Calendar Year</b>	<b>Population</b>	<b>Per Capita Income</b>	<b>Median Age</b>	<b>Unemployment Rate</b>
2003	485,884	\$23,878	39.2	5.9%
2002	485,300	\$22,302	40.2	5.3%
2001	484,900	\$22,302	39.7	5.0%
2000	480,091	\$22,119	39.7	4.5%
1999	465,700	\$21,201	39.4	4.4%
1998	464,900	\$19,896	39.1	4.4%
1997	459,963	\$19,503	37.6	4.1%
1996	458,229	\$18,932	37.8	4.7%
1995	454,056	\$18,582	38.1	5.3%
1994	450,273	\$17,622	37.8	5.3%

Information obtained from First Tennessee Development District.

Information for 2004 is not available.



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*

Power Board  
Bristol Tennessee Electric System

We have audited the financial statements of the Bristol Tennessee Electric System (the "System"), an enterprise fund of the City of Bristol, Tennessee, as of and for the year ended June 30, 2004, and have issued our report thereon dated September 14, 2004. 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 of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

\*\*\*\*\*

This report is intended solely for the information and use of the Power Board, management and the State of Tennessee Comptroller of the Treasury and is not intended to be and should not be used by anyone other than these specified parties.

*Coulter & Justus, P.C.*

September 14, 2004

## **APPENDIX D**

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## THE CITY OF BRISTOL AND SULLIVAN COUNTY GENERAL INFORMATION

The information contained in this section is included only for purposes of supplying general information regarding the City of Bristol (the "City") and Sullivan County, Tennessee (the "County"). The Series 2005 Bonds are payable solely from the sources described in this Official Statement under the heading "SECURITY AND SOURCES OF PAYMENT OF THE SERIES 2005 BONDS." Neither the full faith and credit nor the taxing power of the State of Tennessee nor any political subdivision thereof, including the City, is pledged to the payment of the Series 2005 Bonds. The Series 2005 Bonds are limited obligations and are payable solely from the Net Revenues of the System. The Series 2005 Bonds do not constitute a charge, lien or encumbrance upon any other property of the City.

### General City Information

A twin city to the City of Bristol, Virginia, the City of Bristol, Tennessee can be found at the crossroads of Southwest Virginia and Northeast Tennessee in the foothills of the Appalachian Mountains. With a population of approximately 25,000, Bristol, Tennessee is a part of a larger metropolitan statistical area known as the Tri-Cities encompassing more than 480,000 residents. The City's approximate land area is 29.6 square miles.

Bristol's industrial base includes production of batteries, electronics, pharmaceuticals, mining machinery, aluminum products, compressors, apparel, textiles, copper wire, vacuum cleaner parts and food products.

### City Government

Incorporated in 1856, the governing body for the City of Bristol, Tennessee is independent of the City of Bristol, Virginia. Each has a council-manager form of government. Both cities have planning commissions, zoning ordinances and industrial development authorities.

The City is governed by the City Council. The body consists of five members, with three members elected from districts and two members elected at-large. The boundaries for the three districts are established based on population and may be changed from time to time after first submitting any proposed change to the Planning Commission for recommendation.

### Population

The following table reflects the population of the City, Tri-Cities MSA, and the County for the years listed.

<u>YEAR</u>	<u>CITY</u>	<u>TRI-CITIES MSA</u>	<u>COUNTY</u>
1960	17,582	347,132	95,063
1970	20,064	373,591	127,329
1980	23,986	433,638	143,968
1990	23,421	436,047	143,596
2000	24,821	480,091	153,048
2003 <sup>(1)</sup>	25,021	n/a	153,050

Source: United States Bureau of Census.

<sup>(1)</sup> Estimated figures.

### Largest Employers

Set forth below is a list of the major manufacturing employers in the Bristol area and the approximate number of employees associated with each. There can be no assurance that any employer listed below will continue to be located in the area or will continue employment at the level stated. No independent investigation has been made of, and no representation can be made as to, the stability or financial condition of the companies listed below.

COMPANY	PRODUCT	EMPLOYEES
Exide Corporation	Batteries	665
King Pharmaceuticals, Inc.	Pharmaceuticals	600
Robinette Company	Printed Roll Stock	272
Aeronautical Accessories	Helicopter Components	257
GlaxoSmithKline	Pharmaceuticals	250
Gordon Garment	Women's Swimwear	250
Bristol Metals	Metal Fabricating	250
Modern Forge of Tennessee	Drop Forgings	244
Bristol Products	Athletic Sportswear	150
Seaman Corporation	Vinyl Coated Polyester Fabrics	140
Amerace Microporus Products	Battery Separators	128
Kysor Panel Systems	Walk-In Coolers	113
General Shale	Block	105
L.C. King Manufacturing	Work Clothing	89
Aurora	Wooden Caskets	86
Peerless Woodworking Company	Architectural Cabinets	80
Triad Packaging	Corrugated Packaging	72
Bristol Bag Company	Cloth Money Bags	65
Royal Mouldings	Interior and Exterior Mouldings	60
Polymer Industrial Products	Tire Bladders	57

Source: Tennessee Department of Economic and Community Development

### Unemployment Rates

Set forth below are the average annual unemployment rates for the United States, the State of Tennessee, Sullivan County and the Tri-Cities Metropolitan Statistical Area for the years 2000 through 2004.

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
United States	4.0%	4.7%	5.8%	6.0%	5.0%
Tennessee	3.9%	4.4%	5.1%	5.8%	5.0%
Sullivan County	3.6%	3.9%	4.9%	5.8%	5.0%
Tri-Cities MSA	4.0%	4.6%	5.4%	5.9%	n/a

Source: Tennessee Department of Labor and Workforce Development

### Economic Data

Set forth below are the per capita personal income figures for the State of Tennessee, Sullivan County and the Tri-Cities MSA for the years 1999 through 2003.

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Tennessee	\$24,898	\$26,097	\$26,864	\$27,678	\$28,641
Sullivan County	\$20,876	\$21,480	\$22,714	\$23,670	\$24,245
Tri-Cities MSA	\$20,293	\$21,394	\$22,270	\$22,872	\$23,260

Source: Bureau of Economic Analysis.

Set forth below are a few key social and economic characteristics for the United States, the State of Tennessee and Sullivan County.

	<u>UNITED STATES</u>	<u>TENNESSEE</u>	<u>SULLIVAN COUNTY</u>
Median Value Owner Occupied Housing	\$119,600	\$93,000	\$88,000
% High School Graduates or Higher of Persons 25 and Older	80.4%	75.9%	75.8%
% Families with Income Below Poverty Level	9.2%	10.3%	9.7%
Median Family Income	\$50,890	\$43,517	\$41,025

Source: 2000 Census of Population.

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## THE SYSTEM

The System is operated and maintained by an independent Board of Directors (the "Board") as an enterprise fund of the City of Bristol, Tennessee. The five member Board has general supervision and control of Bristol Tennessee Essential Services ("BTES") with one member serving from the City Council. Each member is appointed by the Mayor and confirmed by the City Council to staggered four-year terms of office. The Board appoints a General Manager, who is chief executive officer of the System. Set forth below are the members of the board, their principal occupations and the expiration of their terms of office.

<u>MEMBER</u>	<u>PRINCIPAL OCCUPATION</u>	<u>EXPIRATION OF TERM</u>
Patrick W. Hickie, Jr., Chairman	Certified Public Accountant	2006
Bryan K. Boyd, Vice-Chairman	Owner of computer software sales and service company	2008
Pereda R. "Pete" Paty	Volunteer/Former Teacher/Formal School Board Chariman	2009
J. Scott MacMorran	Regional Executive / Area President of Bank	2007
David Shumaker	City Council Representative	2009

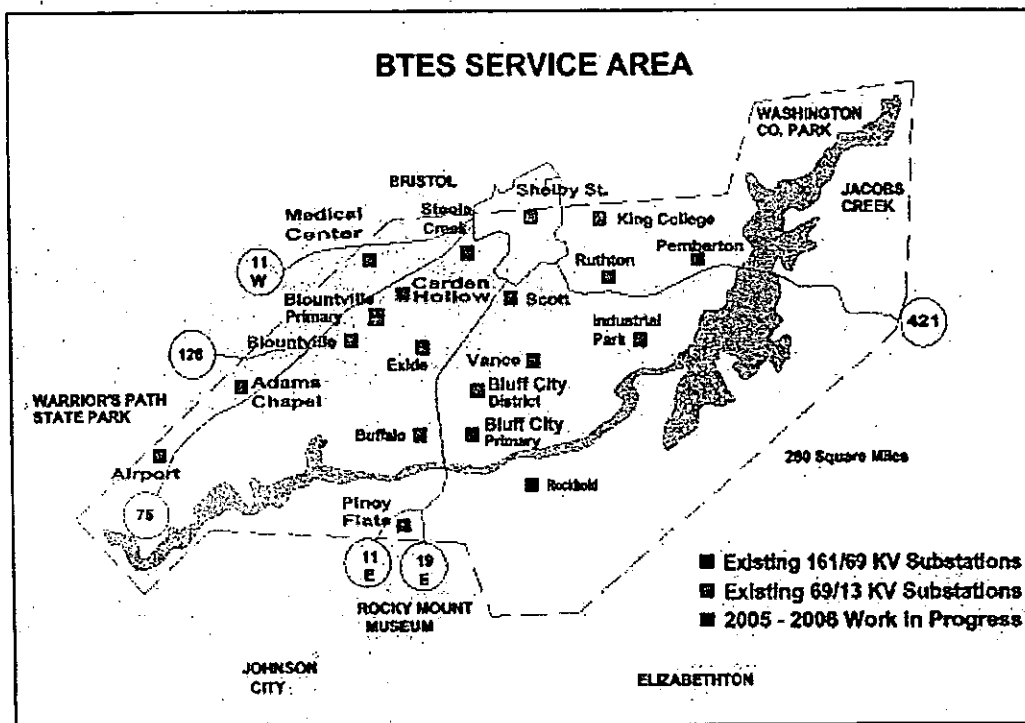
The General Manager of the system is Dr. Michael Browder, Ed.D., P.E. Mike joined BTES as director of engineering and operations in 1972, upon completing five years as superintendent of engineering at Huntsville (Alabama) Utilities. In 1977, he was named General Manager of BTES. He has served on the Tennessee Valley Public Power Association's (TVPPA) Rates & Contracts Committee since 1978. In 1990, he was chosen by his peers as chairman of this committee, a position he continues to hold today. For ten years, Mike was on the Board of Directors for the American Public Power Association (APPA), an association of over 2,000 publicly-owned electric utilities headquartered in Washington, DC. He was Chairman of the Board for APPA during 2001-2002.

### Service Area

The System serves over 32,000 customers in Bristol, Tennessee, Sullivan County and a portion of Washington County, Virginia (approximately 280 square miles of service area). Approximately 53% of the customers are inside the Bristol city limits. The customers in the City account for approximately 54% of the revenues.

Tennessee law (TCA Section 7-34-104) authorizes municipalities to operate electric systems within and outside the municipality's corporate boundaries. Tennessee municipalities may operate electric systems within the corporate boundaries of other municipalities, with those municipalities' consents. If another municipality annexes a previously unincorporated area in which a municipality provides electric service, Tennessee law provides that the annexing municipality has the right to acquire the local assets of the municipal electric provider at fair market value (TCA Section 6-51-111).





### Substations Owned and Operated by BTES

Bluff City Primary	*161/69 KV	200 MVA
Blountville Primary	*161/69 KV	200 MVA
Adams Chapel	69/13 KV	20 MVA
Airport	69/13 KV	20 MVA
Blountville	69/13 KV	25 MVA
Bluff City	69/13 KV	50 MVA
Buffalo	69/13 KV	20 MVA
Carden Hollow	69/13 KV	20 MVA
Exide	69/13 KV	40 MVA
Industrial Park	69/13 KV	20 MVA
King College	69/13 KV	20 MVA
Medical Center	69/13 KV	20 MVA
Pemberton	69/13 KV	20 MVA
Piney Flats	69/13 KV	20 MVA
Scott	69/13 KV	20 MVA
Shelby Street	69/13 KV	80 MVA
Steele Creek	69/13 KV	20 MVA
Ruthton	69/13 KV	10 MVA
Vance	69/13 KV	25 MVA

\*Delivery Point from TVA

#### Substations in the 2005-2006 Work Plan

Rockhold	69/13 KV	20 MVA
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### **Source of Electric Power**

The City does not generate any electric power but purchases its entire supply from the Tennessee Valley Authority ("TVA") pursuant to a power contract dated as of July 1, 1945 (the "Power Contract"). Under the Power Contract, the City agrees to purchase all of its electric power from TVA.

The cost and availability of power to the System may be affected by, among other things, factors relating to TVA's nuclear program, fuel supply, environmental considerations such as future legislation regulating the mining of coal, the construction and financing of future generating and transmission facilities and other factors relating to TVA's ability to supply the power demands of its customers, including the City. The power sold to the City is supplied from the entire TVA system and not one specific generating facility.

The Power Contract provides that TVA shall make every reasonable effort to increase the generating capacity of its system and to provide the transmission facilities required to deliver the output hereof so as to be in a position to supply additional power when and to the extent needed by the City. Neither TVA nor the City is liable for breach of contract if the availability or use of power is interrupted or curtailed or if either party is prevented from performing under the Power Contract by circumstances reasonably beyond its control. The amount of power supplied by TVA and the contractual obligation to supply such power are limited by the capacity of TVA's generating and transmission facilities.

The Power Contract specifies the wholesale purchase rates and monthly resale rates to be adhered to by the City, which may be revised periodically by TVA, through the publication of an Adjustment Addendum, to cover increased costs to TVA. See "Electric Rates."

### **The Tennessee Valley Authority**

TVA was established as a wholly-owned corporate agency and instrumentality of the United States of America by the Tennessee Valley Authority Act of 1933, as amended. The Act's objective is the development of the resources of the Tennessee Valley and adjacent areas in order to strengthen the regional and national economy and the national defense. Its specific purposes include: (1) flood control on the Tennessee River and its tributaries, and assistance to flood control on the lower Ohio and the Mississippi Rivers; (2) a modern navigable channel for the Tennessee River; (3) ample supply of power within an area of 80,000 square miles; (4) development and introduction of more efficient soil fertilizers; and (5) greater agricultural and industrial development and improved forestry in the region. All powers of TVA are vested in its board, which functions on a full-time basis and consists of three directors appointed by the President of the United States and confirmed by the United States Senate for nine-year terms, with one director's term expiring every three years.

### **Electric Rates**

The City obtains power for the System through the Power Contract. Pursuant to the Power Contract, the City has agreed to adhere to the resale rates set forth in certain schedules established by TVA. The schedules include the provision that the customer billings will be adjusted in accordance with the Adjustment Addenda published by TVA. The System is not otherwise subject to rate regulation under existing law, and the City is not aware of any pending legislation to make its electric rates subject to regulation. The Power Contract provides further that if the resale rates set forth therein do not provide sufficient revenues for the operation and maintenance of the system on a self-supporting, financially sound basis, including debt service, the City and TVA shall agree to changes in rates to provide increased revenues. In like manner, if the rates and charges produce excess revenues, the parties shall agree to rate reductions. Since the date of the Power Contract, the wholesale and resale rates have been adjusted from time to time through TVA's publication of Adjustment Addenda.

## Wholesale Rates

The rates and charges for service for wholesale power from TVA, effective October 1, 2003 are the standard rates and charges applicable to municipal and cooperative distributors of TVA power currently being entered into or renewed. Subject to certain adjustments provided for in the Power Contract, the monthly wholesale rates are as follows:

<u>CUSTOMER CLASS</u>	<u>BILLING UNIT DESCRIPTION</u>	<u>TYPE OF CHARGE</u>	<u>WHOLESALE RATE</u>
Single Family	RS (122) All kWh	Customer Energy	\$0.05028
Small Commercial <i>Not to exceed 50 kW or 15,000 kWh</i>	GSA-1 (440)	Energy	\$0.05773
Large Commercial <i>Greater than 50 kW up to 1,000 kW or greater than 15,000 kWh</i>	GSA-2 (550) First 15,000 kWh All Additional kWh 0-50 kW 51-1,000 kW	Energy Energy Demand Demand	\$0.05773 \$0.03299 No Charge \$7.99
Large Commercial <i>Greater than 1,000 kW up to 5,000 kW</i>	GSA-3 (554, 555) All kWh 0-1,000 kW 1,001-5,000 kW	Energy Demand Demand	\$0.03299 \$8.43 \$9.96
<i>Not to exceed 5,000 kW</i>	MSB-1 First 620 kWh All Additional kWh All kWh	Energy Energy Demand	\$0.02509 \$0.02047 \$8.73
<i>Greater than 5,000 kW up to 15,000 kW</i>	MSB-2 First 620 kWh All Additional kWh All kWh	Energy Energy Demand	\$0.02383 \$0.01945 \$8.25
Greater than 15,000 kW up to 25,000 kW	MSC First 620 kWh All Additional kWh All kWh	Energy Energy Demand	\$0.02383 \$0.01945 \$8.25

TVA has adopted a 7.5% wholesale rate increase effective October 2005 which will affect the rates above. BTES plans to pass along this rate increase to its customers.

## Residential and General Power Retail Rates

The following schedule outlines the retail electric rates charged by the City effective October 1, 2003.

<u>CUSTOMER CLASS</u>	<u>BILLING UNIT DESCRIPTION</u>	<u>TYPE OF CHARGE</u>	<u>RATE</u>
Single Family Dwelling		Customer	\$6.29 <sup>(1)</sup>
	First 1,000 kWh	Energy	\$0.05374
	All Additional kWh	Energy	\$0.05918
<b>Commercial, Industrial, Governmental, and Institutional Customers</b>			
<i>Not to exceed 50 kW or 15000 kWh</i>		Customer	\$14.00 <sup>(1)</sup>
		Energy	\$0.06240
<i>Greater than 50 kW up to 1,000 kW or greater than 15,000 kWh</i>	First 15,000 kWh	Customer	\$25.00 <sup>(1)</sup>
	All Additional kWh	Energy	\$0.06194
	0-50 kW	Energy	\$0.03420
	51-1,000 kW	Demand	No Charge
<i>Greater than 1,000 kW up to 5,000 kW</i>		Demand	\$8.56
		Customer	\$25.00 <sup>(1)</sup>
	All kWh	Energy	\$0.03420
	0-1,000 kW	Demand	\$8.56
<i>Greater than 5,000 kW up to 15,000 kW</i>	1,001-5,000 kW	Demand	\$10.06
		Customer	\$1,500.00 <sup>(1)</sup>
	First 620 kWh	Energy	\$0.03500
	All Additional kWh	Energy	\$0.02477
<i>Greater than 15,000 kW up to 25,000 kW</i>	All kWh	Demand	\$10.96
		Customer	\$1,500.00 <sup>(1)</sup>
	First 620 kWh	Energy	\$0.03035
	All Additional kWh	Energy	\$0.02477
	All kWh	Demand	\$11.07

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<sup>(1)</sup> Per delivery point.

Rate options available to the System's retail customers include firm, seasonal and interruptible service rates. The contract between TVA and the System provides for TVA regulation over retail rates to customers. The interruptible rate programs provide large commercial and industrial customers with the potential for reduced rates along with the right for TVA to interrupt service as needed.

There are four customers participating in interruptible rate programs with a combined interruptible load of 31,017 kilowatts or about 10% of the System's 2004 peak load. TVA's last curtailment of interruptible customers occurred in January 2004. Rate surveys show that the System's rates are some of the most competitive in the United States.

### Substation, Transmission and Distribution Systems

The System is connected to the TVA transmission grid at two delivery points with a total infeed capacity of 504 MVA. The historical peak system demand of 245 MVA occurred in February 1996. The System load factor is 63%, and the System losses are 4.47% as of fiscal year 2004. The System has approximately 1,226 miles of line and 69.8 miles of fiber optic cable.

The electricity purchased from TVA is delivered at 161 kV to the two delivery points. It is stepped down to 69 kV for subtransmission to other substations and to 13.2/7.62 kV for distribution to residential, commercial and industrial customers.

### Number of Customers

Set forth below is the number of customers for the last ten years.

FISCAL YEAR	<u>RESIDENTIAL</u>	SMALL GENERAL POWER ( <u>&lt;50 kW</u> )	LARGE GENERAL POWER ( <u>&gt;50 kW</u> )	STREET AND HIGHWAY LIGHTING	<u>TOTAL</u>
1995	25,218	3,021	490	175	28,904
1996	25,830	3,057	503	182	29,372
1997	25,978	3,095	510	186	29,769
1998	26,315	3,130	536	185	30,166
1999	26,603	3,144	543	184	30,474
2000	26,951	3,241	551	199	30,942
2001	27,234	3,229	584	198	31,246
2002	27,360	3,304	588	196	31,448
2003	27,458	3,291	591	201	31,541
2004	27,650	3,332	614	202	31,798

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## Summary of Operations

Set forth below is a summary of operations for the System for the fiscal years ended June 30, 2001 through June 30, 2004. The information has been derived from the audited financial statements of the System prepared by Coulter and Justus, P.C., certified public accountants, Knoxville, Tennessee.

	2001	2002	2003 (Restated)	2004
<b>OPERATING REVENUES</b>				
Residential	\$25,954,352	\$24,746,376	\$26,699,205	\$28,368,050
Commercial	3,513,902	3,373,145	3,620,629	3,887,931
Industrial	19,698,377	19,005,890	20,071,592	22,143,093
Street and outdoor lighting	<u>842,012</u>	<u>852,247</u>	<u>854,866</u>	<u>911,629</u>
	50,008,643	47,977,658	51,246,292	55,310,703
Other Revenues	<u>2,022,872</u>	<u>2,017,777</u>	<u>2,100,325</u>	<u>2,447,651</u>
<b>TOTAL OPERATING REVENUES</b>	52,031,515	49,995,435	53,346,617	57,758,354
<b>POWER PURCHASED FROM TVA</b>	<u>43,629,827</u>	<u>41,631,320</u>	<u>44,700,229</u>	<u>48,328,235</u>
<b>GROSS PROFIT</b>	8,401,688	8,364,115	8,646,388	9,430,119
<b>OPERATING EXPENSES</b>				
Operation expenses	2,339,193	2,412,090	2,599,092	2,742,670
Maintenance	2,274,481	2,319,609	2,532,830	2,634,557
Depreciation	1,863,390	1,917,691	1,960,025	1,897,728
Tax equivalents	857,121	860,898	205,435	212,113
Social security taxes	162,343	192,984	213,225	206,462
Interest expense on customer deposits	<u>19,163</u>	<u>10,962</u>	<u>6,409</u>	<u>6,612</u>
<b>Total Operating Expenses</b>	<u>7,515,691</u>	<u>7,714,234</u>	<u>7,517,016</u>	<u>7,700,142</u>
<b>Operating Income</b>	<u>885,997</u>	<u>649,881</u>	<u>1,129,372</u>	<u>1,729,977</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Interest income	<u>1,355,425</u>	<u>591,180</u>	<u>586,380</u>	<u>628,270</u>
<b>Income before transfers</b>	\$2,241,422	\$1,241,061	\$1,715,752	\$2,358,247
Transfers out--tax equivalents to the City of Bristol, Tennessee	<u>*</u>	<u>*</u>	<u>(605,858)</u>	<u>(700,020)</u>
<b>Net Income</b>	\$2,241,422	\$1,241,061	\$1,109,894	\$1,658,227

\*Indicates difference in accounting method. For years 2001 and 2002, please see Tax Equivalents amounts under OPERATING EXPENSES.

"Unaudited"  
STATEMENT OF INCOME AND EXPENSES

for nine months ended April 30, 2005

OPERATING REVENUE	
Electric Sales	\$46,818,100
Other Electric Revenue	<u>2,096,100</u>
TOTAL OPERATING REVENUE	<u>48,914,200</u>
OPERATING EXPENSE	
Transmission and Distribution	372,900
Customer Accounts Expense	715,200
Customer Service Expense	256,500
Administrative and General	750,800
Maintenance Expense	<u>2,065,400</u>
TOTAL OPERATING AND MAINTENANCE	4,160,800
POWER PURCHASED FROM TVA	40,575,000
OTHER OPERATING EXPENSE	
Prepaid Pension Expense	46,800
Depreciation Expense	1,613,500
Taxes and Tax Equivalents	<u>1,027,200</u>
TOTAL OTHER OPERATING EXPENSE	2,687,500
TOTAL OPERATING EXPENSE	<u>47,423,300</u>
REVERSAL OF TAX ACCRUAL <sup>(1)</sup>	-722,000
TOTAL OPERATING EXPENSE WITH REVERSAL	<u>46,701,300</u>
INCOME	
Operating Income	2,212,900
Other Income	413,900
Interest from DEU	<u>314,400</u>
NET INCOME BEFORE DEBT EXPENSE	<u>2,941,200</u>
DEBT EXPENSE	
Interest on Long-Term Debt (Deposits)	6,200
NET INCOME	<u>\$2,935,000</u>

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(1) Due to reversal of Payment in Lieu of Taxes to the City of Bristol, TN which increases net income by \$722,000. This reversal is a result of the changes in GASB 34.

## Debt Service Coverage

	2001	2002	2003	2004
<b>Operating Revenue:</b>				
Residential	25,954,352	24,746,376	26,699,205	28,368,050
Commercial	3,513,902	3,373,145	3,620,629	3,887,931
Industrial	19,698,377	19,005,890	20,071,592	22,143,093
Street and Outdoor Lighting	842,012	852,247	854,866	911,629
Other Operating Revenues	2,022,872	2,017,777	2,100,325	2,447,651
<b>Total Operating Revenues</b>	<b>\$ 52,031,515</b>	<b>\$ 49,995,435</b>	<b>\$ 53,346,617</b>	<b>\$ 57,758,354</b>
<b>Power Purchased from TVA</b>	<b>\$ 43,629,827</b>	<b>\$ 41,631,320</b>	<b>\$ 44,700,229</b>	<b>\$ 48,328,235</b>
<b>Gross Profit</b>	<b>\$ 8,401,688</b>	<b>\$ 8,364,115</b>	<b>\$ 8,646,388</b>	<b>\$ 9,430,119</b>
<b>Operating Expenses</b>				
Operations Expense	2,339,193	2,412,090	2,599,092	2,742,670
Maintenance	2,274,481	2,319,609	2,532,830	2,634,557
Depreciation	1,863,390	1,917,691	1,960,025	1,897,728
Tax Equivalents	857,121	860,898	205,435	212,113
Social Security Taxes	162,343	192,984	213,225	206,462
Interest Expense on Customer Deposits	19,163	10,962	6,409	6,612
<b>Total Operating Expenses</b>	<b>\$ 7,515,691</b>	<b>\$ 7,714,234</b>	<b>\$ 7,517,016</b>	<b>\$ 7,700,142</b>
<b>Operating Income</b>	<b>\$ 885,997</b>	<b>\$ 649,881</b>	<b>\$ 1,129,372</b>	<b>\$ 1,729,977</b>
Add: Interest Income	1,355,425	591,180	586,380	628,270
Add Back: Depreciation	1,863,390	1,917,691	1,960,025	1,897,728
<b>Net Revenue Available for Debt Service</b>	<b>\$ 4,104,812</b>	<b>\$ 3,158,752</b>	<b>\$ 3,675,777</b>	<b>\$ 4,255,975</b>
<b>Max Annual Debt Service*</b>	<b>\$ 1,474,456</b>	<b>\$ 1,474,456</b>	<b>\$ 1,474,456</b>	<b>\$ 1,474,456</b>
<b>Debt Service Coverage</b>	<b>2.78 X</b>	<b>2.14 X</b>	<b>2.49 X</b>	<b>2.89 X</b>

\*Preliminary, subject to change.

## Ten Largest Electric Customers

<u>NAME</u>	<u>ANNUAL (kWh) USAGE</u>	<u>ANNUAL SALES (Dollars)</u>
Exide Corporation	91,975,125	\$3,717,663
City of Bristol, Tennessee	38,400,346	1,894,211
Modern Forge of Tennessee	24,000,216	1,096,875
WellmontBRMC	23,627,956	1,283,618
GlaxoSmithKline Laboratories	22,992,700	1,010,481
King Pharmaceuticals	17,058,828	808,620
Amerace Corporation	11,713,376	516,679
Bristol Metals, Inc.	9,271,909	513,138
Royal Mouldings	12,654,880	412,493
Seaman Corporation	5,140,128	269,700



## Personnel

Set forth below is the average number of employees working in the System for the last five fiscal years.

<u>YEAR</u>	<u>AVERAGE NUMBER OF EMPLOYEES</u>
2000	60
2001	60
2003	60
2003	60
2004	60

The System employees are provided health, dental, disability and life insurance, of which the employees share in the cost of the premiums. The System also pays a percentage of an employee's health insurance after retirement if certain conditions are met.

The System administers a defined contribution plan in the form of a 401(k) plan available to all employees who have completed six months of employment. Under the plan terms, the System will match participant contributions up to 6% of the participant's salary. Participants are not required but may contribute up to a total of 15% of their pre-tax earnings, subject to IRS limitations.

The employees receive paid vacation and sick leave.

## Electric System Capital Improvements Program

In an effort to maintain the System and to meet System demands and customer requirements, the following capital improvements and additions are planned for the next five fiscal years.

<u>FISCAL YEAR</u>	<u>AMOUNT</u>
2006	\$21,789,100
2007	4,596,000
2008	4,337,100
2009	3,250,300
2010	4,658,400

Major capital additions planned for the next five fiscal years include:

- Expanding fiber optic communications transport system to send automatic signal to dispatch when power is out at customer location. Present system will provide data at substation level. This will expand capability to customer level and increase service reliability.
- Purchase and install meters that can be read remotely over fiber.
- Build new 20 MVA substation, transmission, and distributions lines.
- Building underground electric service in new subdivisions

The capital improvements slated for fiscal years 2006 and 2007 will be financed with proceeds from the Series 2005 Bonds.

### **Loans to Broadband Telecommunications Network**

BTES also anticipates that the Electric System will make approximately \$11,000,000 of loans in the next two to three years to the BTES broadband telecommunications network (the "Broadband Network") for construction and improvements to the Broadband Network. The Broadband Network will provide cable, internet and other telecommunications services. Loans will be made only to the extent Electric System revenues are available after the payment of debt service on the Series 2005 Bonds. (See Appendix A, "Application of Revenues and Creation of Funds.") Tennessee law (TCA Section 7-52-601 et seq.) requires that the loans bear interest at a rate not less than the highest rate the Electric System earns on its investments. Revenues generated from the operation of the Broadband Network will not be available for the payment of debt service on the Series 2005 Bonds.

### **Debt Record**

There is no record of default on principal and interest payments by the City from information available.

### **Billing and Collections**

All customers are billed monthly. The bill is due 15 days after it is billed. A residential customer's service is normally disconnected if that customer is two bills past due. Depending on the residential customer's pay history, service may be discontinued after one month. If a customer is disconnected for nonpayment they must pay a \$25 trip fee plus \$25 (prior to 3pm) or \$50 (after 3 pm) to be reconnected, and possibly a deposit on their account. A commercial and industrial customer's service is disconnected if it is one bill past due. Five percent interest is charged on the amount billed.

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## APPENDIX E

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# Ambac

## Financial Guaranty Insurance Policy

Ambac Assurance Corporation  
One State Street Plaza, 15th Floor  
New York, New York 10004  
Telephone: (212) 668-0340

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

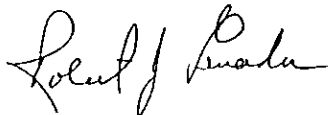
In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

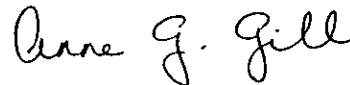
As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.



President



Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Form No.: 2B-0012 (1/01)



Authorized Officer of Insurance Trustee

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## APPENDIX F

(Proposed Form of Bond Counsel Opinion)

(Closing Date)

City Council  
City of Bristol, Tennessee

Wiley Bros.-Aintree Capital, LLC  
Nashville, Tennessee

Re: The City of Bristol, Tennessee Electric System Revenue Bonds, Series 2005

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the City of Bristol, Tennessee (the "Issuer") of \$\_\_\_\_\_ Electric System Revenue Bonds, Series 2005, dated \_\_\_\_\_, 2005 (the "Bonds"). We have examined the law and such certified proceedings and other papers as we deemed necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify such facts by independent investigation.

Based on our examination, we are of the opinion, as of the date hereof, as follows:

1. The Bonds have been duly authorized, executed and issued in accordance with the constitution and laws of the State of Tennessee and constitute valid and binding obligations of the Issuer.
2. The resolution of the City Council of the Issuer authorizing the Bonds has been duly and lawfully adopted, is in full force and effect and is a valid and binding agreement of the Issuer enforceable in accordance with its terms.
3. The principal of, premium, if any, and interest on the Bonds are payable solely from and secured by a pledge of the income and revenues to be derived from the operation of the electric transmission and distribution system of the Issuer (the "System"), subject only to the payment of the reasonable and necessary costs of operating, maintaining, repairing, and insuring the System. We express no opinion as to the sufficiency of any of such revenues for the payment of principal of, premium, if any, or interest on the Bonds.
4. Interest on the Bonds (including any original issue discount properly allocable to an owner thereof) is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, for purposes of computing the alternative minimum tax imposed on certain corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings. The opinion set forth in the preceding sentence is subject to the condition that the Issuer comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. Failure to comply with certain of such requirements could cause interest on the Bonds to be so included in gross income retroactive to the date of issuance of the Bonds. The Issuer has covenanted to comply with all such requirements. Except as set forth in this Paragraph 4, we express no opinion regarding other federal tax consequences arising with respect to the Bonds.
5. Under existing law, the Bonds and the income therefrom are exempt from all present state, county and municipal taxes in Tennessee except (a) inheritance, transfer and estate taxes, (b) Tennessee excise taxes on all

or a portion of the interest on any of the Bonds during the period such Bonds are held or beneficially owned by any organization or entity, other than a sole proprietorship or general partnership, doing business in the State of Tennessee, and (c) Tennessee franchise taxes by reason of the inclusion of the book value of the Bonds in the Tennessee franchise tax base of any organization or entity, other than a sole proprietorship or general partnership doing business in the State of Tennessee.

It is to be understood that the rights of the owners of the Bonds and the enforceability of the Bonds and the resolution authorizing the Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and that their enforcement may be subject to the exercise of judicial discretion in accordance with general principles of equity.

We express no opinion herein as to the accuracy, adequacy or completeness of the Official Statement relating to the Bonds.

This opinion is given as of the date hereof, and we assume no obligation to update or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Yours truly,



## **APPENDIX G**

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## SURETY BOND

Ambac Assurance Corporation

Statutory Office:  
c/o CT Corporation  
44 East Mifflin Street  
Madison, Wisconsin 53703

Administrative Office:  
One State Street Plaza  
New York, New York 10004  
Telephone: (212) 668-0340

Policy No. SB\_\_BE

Ambac Assurance Corporation ("Ambac"), in consideration of the payment of the premium and subject to the terms of this Surety Bond, hereby unconditionally and irrevocably guarantees the full and complete payments which are to be applied to payment of principal of and interest on the Series 2005 Bonds (as hereinafter defined) and which are required to be made by or on behalf of the (the "Obligor") to \_\_\_\_ (the "Paying Agent/Trustee") as such payments are due by the Obligor but shall not be so paid pursuant to a resolution of the City Council of the Obligor authorizing the issuance of \$ \_\_\_\_\_ (the "[Obligations]") of said city and providing the terms and conditions for the issuance of said [Obligations] (the "Resolution/Indenture/Ordinance"); provided that the amount available at any particular time to be paid to the Paying Agent under the terms hereof shall not exceed the Surety Bond Coverage, defined herein as the lesser of \$ \_\_\_\_\_ or the [Debt Service Reserve Fund Requirement for the [Obligations], as that term is defined in the Resolution] (the "Reserve Requirement"). The Surety Bond Coverage shall be reduced and may be reinstated from time to time as set forth herein.

1. As used herein, the term "Owner" shall mean the registered owner of any [Obligation] as indicated in the books maintained by the applicable paying agent, the Obligor or any designee of the Obligor for such purpose. The term "Owner" shall not include the Obligor or any person or entity whose obligation or obligations by agreement constitute the underlying security or source of payment of the [Obligations].
2. Upon the later of: (i) one (1) day after receipt by the General Counsel of Ambac of a demand for payment in the form attached hereto as Attachment 1 (the "Demand for Payment"), duly executed by the Paying Agent certifying that payment due as required by the Resolution has not been made to the Paying Agent; or (ii) the payment date of the [Obligations] as specified in the Demand for Payment presented by the Paying Agent to the General Counsel of Ambac, Ambac will make a deposit of funds in an account with the Paying Agent or its successor, in [City/State] sufficient for the payment to the Paying Agent, of amounts which are then due to the Paying Agent (as specified in the Demand for Payment) up to but not in excess of the Surety Bond Coverage.
3. Demand for Payment hereunder may be made by prepaid telecopy, telex, or telegram of the executed Demand for Payment c/o the General Counsel of Ambac. If a Demand for Payment made hereunder does not, in any instance conform to the terms and conditions of this Surety Bond, Ambac shall give notice to the Paying Agent, as promptly as reasonably practicable that such Demand for Payment was not effected in accordance with the terms and conditions of this Surety Bond and briefly state the reason(s) therefor. Upon being notified that such Demand for Payment was not effected in accordance with this Surety Bond, the Paying Agent may attempt to correct any such nonconforming Demand for Payment if, and to the extent that, the Paying Agent is entitled and able to do so.
4. The amount payable by Ambac under this Surety Bond pursuant to a Demand for Payment shall be limited to the Surety Bond Coverage. The Surety Bond Coverage shall be reduced automatically to the extent of each payment made by Ambac hereunder and will be reinstated to the extent of each reimbursement of Ambac by the Obligor pursuant to Article II of the Guaranty Agreement, dated as of the date of the [Obligations], by and between Ambac and the Obligor (the "Guaranty Agreement"); provided, that in no event shall such reinstatement exceed the Surety Bond Coverage, Ambac will notify the Paying Agent, in writing within five (5) days of such reimbursement, that the Surety Bond Coverage has been reinstated to the extent of such reimbursement pursuant to the Guaranty Agreement and such

reinstatement shall be effective as of the date Ambac gives such notice. The notice to the Paying Agent will be substantially in the form attached hereto as Attachment 2. The Surety Bond Coverage shall be automatically reduced to the extent that the Reserve Requirement for the [Obligations] is lowered or reduced pursuant to the terms of the Resolution.

5. Any service of process on Ambac may be made to Ambac or the office of the General Counsel of Ambac and such service of process shall be valid and binding as to Ambac. During the term of its appointment, General Counsel will act as agent for the acceptance of service of process and its offices are located at One State Street Plaza, New York, New York 10004.

6. This Surety Bond is noncancelable for any reason. The term of this Surety Bond shall expire on the earlier of (i) (the maturity date of the [Obligations]) or (ii) the date on which the Obligor, to the satisfaction of Ambac, has made all payments required to be made on the [Obligations] pursuant to the Resolution. The premium on this Surety Bond is not refundable for any reason, including the payment prior to maturity of the [Obligations].

7. This Surety Bond shall be governed by and interpreted under the laws of the State of Wisconsin **[or Minnesota, Nebraska, North Carolina, South Carolina, Utah, Vermont, Washington or Commonwealth of Pennsylvania, for financings in those states]**, and any suit hereunder **[seeking specific performance (for Florida)]** in connection with any payment may be brought only by the Paying Agent within one year **[two years in Minnesota, three years in Maryland and Utah, five years in Kansas]** after (i) a Demand for Payment, with respect to such payment, is made pursuant to the terms of this Surety Bond and Ambac has failed to make such payment or (ii) payment would otherwise have been due hereunder but for the failure on the part of the Paying Agent to deliver to Ambac a Demand for Payment pursuant to the terms of this Surety Bond, whichever is earlier.

IN WITNESS WHEREOF, Ambac has caused this Surety Bond to be executed and attested on its behalf this day of, 200\_ .

**Ambac Assurance Corporation**

Attest: \_\_\_\_\_  
Assistant Secretary

By: \_\_\_\_\_  
Vice President and Assistant General Counsel

*This Official Statement has been prepared by the City of Bristol, Tennessee and provides information on the Series 2005 Bonds. Some of the information appears on this cover page for ready reference. A prospective investor should read the entire Official Statement to make an informed investment decision.*

**\$23,910,000**  
**CITY OF BRISTOL, TENNESSEE**  
**Electric System Revenue Bonds, Series 2005**

<b>Dated: Date of Delivery</b>	<b>Due: September 1, as shown below</b>
<b>Ratings</b>	"Aaa" Moody's Insured "A2" Moody's Underlying
<b>Tax Exemption</b>	Interest on the Bonds is excluded from gross income, and is not included as an item of tax preference, for federal income tax purposes. Interest on the Bonds is free from Tennessee taxes, with certain exceptions.
<b>Interest Payment Dates</b>	March 1 and September 1, beginning September 1, 2005
<b>Denominations</b>	Multiples of \$5,000
<b>Redemption</b>	Bonds maturing on or after September 1, 2016 are callable at par at any time in any amount on or after September 1, 2015. Bonds maturing on September 1, 2018, 2020, 2022, 2024, 2027, 2029, 2033, and 2035 are subject to mandatory sinking fund redemption at par.
<b>Security</b>	The Bonds are limited obligations of the City of Bristol, Tennessee, payable solely from the Net Revenues (defined herein) of the City's electric system.
<b>Bond Insurance</b>	Payment of principal and interest will be guaranteed by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the Bonds. <b>Ambac</b>
<b>Purpose</b>	Financing improvements to the City's electric system and pre-purchasing electrical power from the Tennessee Valley Authority.
<b>Bond Counsel</b>	Bass, Berry & Sims PLC, Nashville, Tennessee
<b>Registration and Paying Agent</b>	Wachovia Bank, National Association, Nashville, Tennessee
<b>Book-Entry Only Form</b>	The Depository Trust Company
<b>Delivery Date</b>	July 27, 2005

The Bonds were sold at negotiated sale on July 15, 2005. The interest rates payable by the City, which are shown below, resulted from the sale of the Bonds.

<u>YEAR</u> <u>(September 1)</u>	<u>PRINCIPAL</u> <u>AMOUNT</u>	<u>INTEREST</u> <u>RATE</u>	<u>YIELD</u>		<u>YEAR</u> <u>(September 1)</u>	<u>PRINCIPAL</u> <u>AMOUNT</u>	<u>INTEREST</u> <u>RATE</u>	<u>YIELD</u>
2007	\$440,000	3.500%	2.770%		2012	\$520,000	3.250%	3.400%
2008	455,000	3.500	2.900		2013	540,000	3.250	3.500
2009	470,000	3.500	3.020		2014	555,000	3.375	3.590
2010	485,000	3.500	3.160		2015	575,000	3.500	3.680
2011	505,000	3.500	3.280		2016	600,000	3.625	3.780

\$1,280,000 Term Bonds due September 1, 2018\*—Rate 5.000% Yield 4.095%  
\$1,415,000 Term Bonds due September 1, 2020\*—Rate 5.000% Yield 4.255%  
\$1,560,000 Term Bonds due September 1, 2022\*—Rate 4.750% Yield 4.395%  
\$1,715,000 Term Bonds due September 1, 2024\*—Rate 4.750% Yield 4.483%  
\$2,880,000 Term Bonds due September 1, 2027—Rate 4.250% Yield 4.410%  
\$2,150,000 Term Bonds due September 1, 2029\*—Rate 5.000% Yield 4.590%  
\$4,935,000 Term Bonds due September 1, 2033—Rate 4.375% Yield 4.520%  
\$2,830,000 Term Bonds due September 1, 2035\*—Rate 5.000% Yield 4.672%

\*Priced to call date of September 1, 2015.

**WILEY BROS.**  
**AINTREE CAPITAL, LLC**  
INVESTMENTS SINCE 1945

July 15, 2005

**City of Bristol, Tennessee**  
**Electric System Revenue Bonds, Series 2005**  
**Dated: July 27, 2005**

<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP Number</u>
2007	\$440,000	3.500%	2.770%	110223AW4
2008	455,000	3.500	2.900	110223AX2
2009	470,000	3.500	3.020	110223AY0
2010	485,000	3.500	3.160	110223AZ7
2011	505,000	3.500	3.280	110223BA1
2012	520,000	3.250	3.400	110223BB9
2013	540,000	3.250	3.500	110223BC7
2014	555,000	3.375	3.590	110223BD5
2015	575,000	3.500	3.680	110223BE3
2016	600,000	3.625	3.780	110223BF0
2018*	1,280,000	5.000	4.095	110223BG8
2020*	1,415,000	5.000	4.255	110223BH6
2022*	1,560,000	4.750	4.395	110223BJ2
2024*	1,715,000	4.750	4.483	110223BK9
2027	2,880,000	4.250	4.410	110223BL7
2029*	2,150,000	5.000	4.590	110223BM5
2033	4,935,000	4.375	4.520	110223BN3
2035*	2,830,000	5.000	4.672	110223BP8

\*Priced to call date of September 1, 2015.

**THE CITY OF BRISTOL, TENNESSEE**

**MAYOR AND CITY COUNCIL**

*James E. Messimer – Mayor  
David Shumaker – Vice Mayor  
Bill Bingham  
Margaret Feierabend  
Joel Staton*

**BRISTOL TENNESSEE ESSENTIAL SERVICES**

**Board of Directors**

*Pat Hickie, Chairman  
Bryan Boyd, Vice Chairman  
Scott MacMorran  
Pete Paty  
David Shumaker*

**Administration**

*Dr. R. Michael Browder, P.E. – General Manager  
Wendi Davis – Director of Accounting and Finance*

**Legal Counsel**

*Tom Davenport*

**BOND COUNSEL**

*Bass, Berry & Sims PLC  
Nashville, Tennessee*

**UNDERWRITER**

*Wiley Bros. -Aintree Capital, LLC  
Nashville, Tennessee*

**COUNSEL TO THE MUNICIPALITY**

*Jack Hyder  
Bristol, Tennessee*

**ACCOUNTANT**

*Coulter & Justus, P.C.  
Knoxville, Tennessee*

**REGISTRATION AND PAYING AGENT**

*Wachovia Bank, National Association  
Nashville, Tennessee*

No dealer, broker, salesman or other person has been authorized to give any information or to make any representations, other than those contained in this Official Statement in connection with the offering contained herein, and if given or made, such other information or representations must not be relied upon. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2005 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information contained in this Official Statement has been obtained from representatives of the Municipality and the Bond Insurer, public documents, records and other sources considered reliable. The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guaranty the accuracy or completeness of such information.

The delivery of this Official Statement at any time does not imply that any information herein is correct as of any time subsequent to its date. Any statements in this Official Statement involving estimates, assumptions and matters of opinion, whether or not so expressly stated, are intended as such and not representations of fact.

NO REGISTRATION STATEMENT RELATING TO THE SERIES 2005 BONDS HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ("SEC") OR ANY STATE SECURITIES AGENCY. THE SERIES 2005 BONDS HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SEC OR ANY STATE SECURITIES AGENCY, NOR HAS THE SEC OR ANY STATE SECURITIES AGENCY PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

In making an investment decision, investors must rely on their own examination of the Municipality, the System, the Bond Insurer and the terms of the offering, including the merits and risks involved. The Series 2005 Bonds have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this Official Statement. Any representation to the contrary is a criminal offense.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2005 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Other than with respect to information concerning the Bond Insurer contained under the caption "THE BOND INSURER AND THE POLICY" and Appendices E and G, none of the information in this Official Statement has been supplied or verified by the Bond Insurer and the Bond Insurer makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Series 2005 Bonds; or (iii) the tax exempt status of the interest on the Series 2005 Bonds.



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**\$23,910,000**  
**THE CITY OF BRISTOL, TENNESSEE**  
**Electric System Revenue Bonds,**  
**Series 2005**

**INTRODUCTION**

**General**

The purpose of this Official Statement, which includes the cover page and the Appendices hereto, is to furnish certain information in connection with the sale by the City of Bristol, Tennessee (the "Municipality") of \$23,910,000 in aggregate principal amount of its Electric System Revenue Bonds, Series 2005 (the "Series 2005 Bonds"). Capitalized terms used but not defined herein shall have the meanings assigned to them in the Resolution (hereinafter defined). (See Appendix A – Summary of Certain Provisions of the Resolution)

*This introduction is not a summary of this Official Statement and is intended only for quick reference. It is only a brief description of and guide to, and is qualified in its entirety by reference to, more complete and detailed information contained in the entire Official Statement, including the cover page and the Appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement and of the documents summarized or described herein, if necessary. The offering of the Series 2005 Bonds to potential investors is made only by means of the entire Official Statement, including the Appendices hereto. No person is authorized to detach this Introduction from the Official Statement or to otherwise use it without the entire Official Statement, including the Appendices hereto.*

**The Municipality and the System**

The Municipality, the issuer of the Series 2005 Bonds, is a municipal corporation of the State of Tennessee. The Municipality owns and operates an electric transmission and distribution system (the "System") through Bristol Tennessee Essential Services ("BTES"), a board of public utilities and instrumentality of the Municipality established under Tennessee law. BTES is governed by a Board of Directors (the "Board"). See Appendix D.

**Purpose of the Series 2005 Bonds**

The Series 2005 Bonds are being issued by the Municipality to finance the costs of (i) improving and extending the System, (ii) pre-purchasing electrical power from the Tennessee Valley Authority, and (iii) issuing the Series 2005 Bonds, including the premium for an insurance policy (the "Policy") and a surety bond (the "Surety Bond"), both to be issued by Ambac Assurance Corporation (the "Bond Insurer"). See "PLAN OF FINANCING." For a form of the Surety Bond, see Appendix G.

**Security and Sources of Payment for the Series 2005 Bonds**

The Series 2005 Bonds and any parity bonds hereafter issued (the "Parity Bonds") are secured by and are payable from a pledge of and lien on the Net Revenues (as defined in Appendix A hereto) derived from the operation of the System. See "SECURITY AND SOURCES OF PAYMENT OF THE SERIES 2005 BONDS."

The scheduled payment of principal of and interest on the Series 2005 Bonds when due will be guaranteed under an insurance policy (the "Policy") to be issued concurrently with the delivery of the Series 2005 Bonds by the Bond Insurer. See "THE BOND INSURER AND THE POLICY" and Appendix E.

**Description of the Series 2005 Bonds**

*Redemption.* The Series 2005 Bonds may be redeemed prior to their respective maturities at the option of the Municipality, either in whole or in part, at any time not earlier than September 1, 2015, at a redemption price of par plus accrued interest to the redemption date. The Series 2005 Bonds maturing on September 1, 2018; September 1, 2020; September 1, 2022; September 1, 2024; September 1, 2027; September 1, 2029; September 1, 2033; and

September 1, 2035 are subject to mandatory sinking fund redemption. See "DESCRIPTION OF THE SERIES 2005 BONDS - Optional Redemption" and "- Mandatory Sinking Fund Redemption."

*Denominations.* The Series 2005 Bonds are issuable in denominations of \$5,000 or any integral multiple thereof. See "DESCRIPTION OF THE SERIES 2005 BONDS - Denominations, Registration, Transfers and Exchanges."

*Registration, Transfers and Exchanges.* The Series 2005 Bonds will be issued in fully registered form. When in book-entry form, ownership of Series 2005 Bonds held by The Depository Trust Company ("DTC") or its nominee, Cede & Co., on behalf of the beneficial owners thereof (the "Beneficial Owners"), may be transferred upon delivery to DTC (or its nominee, Cede & Co.) of an assignment duly executed by the Beneficial Owner or his duly authorized attorney or legal representative. When not in book-entry form, ownership of Series 2005 Bonds may be transferred upon surrender of such Series 2005 Bond to the Registration Agent, together with an assignment duly executed by the registered owner or his attorney or legal representative. When not in book-entry form, the Series 2005 Bonds are exchangeable for a like aggregate principal amount of Series 2005 Bonds of the same maturity in denominations of \$5,000 or any integral multiple thereof. See "DESCRIPTION OF THE SERIES 2005 BONDS - Denominations, Registration, Transfers and Exchanges" and "- Book-Entry Only Bonds."

*Payments.* The Series 2005 Bonds will be dated the date of their delivery. Interest on the Series 2005 Bonds will be payable on March 1 and September 1 of each year (each such date, an "Interest Payment Date"), commencing September 1, 2005. Payment of the principal of and interest on the Series 2005 Bonds will be made by the Registration Agent directly to Cede & Co., as nominee of DTC, and will subsequently be disbursed to DTC Participants (hereinafter defined) and thereafter to Beneficial Owners of the Series 2005 Bonds. When not in book-entry form, interest on the Series 2005 Bonds is payable by check or draft on the Registration Agent mailed by first class mail on the date due to the registered owners. When not in book-entry form, principal of the Series 2005 Bonds is payable upon surrender thereof at the corporate trust office of the Registration Agent located in Nashville, Tennessee. See "DESCRIPTION OF THE SERIES 2005 BONDS - General" and "- Book-Entry Only Bonds."

*Notices.* Not less than 30 days nor more than 60 days before the date upon which redemption is to be made, a notice of such redemption will be mailed by first class mail, postage prepaid, to all registered owners of Series 2005 Bonds to be redeemed at the addresses which appear upon the bond registration books. See "DESCRIPTION OF THE SERIES 2005 BONDS - Notice of Redemption."

For a more complete description of the Series 2005 Bonds, see "DESCRIPTION OF THE SERIES 2005 BONDS."

#### **Tax Exemption**

In the opinion of Bond Counsel, based on existing law and assuming compliance with certain tax covenants of the Municipality, interest on the Series 2005 Bonds (including any original issue discount allocable to an owner thereof) will be excluded from gross income for Federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account in determining the adjusted current earnings of certain corporations for purposes of the alternative minimum tax on corporations. For an explanation of certain tax consequences under federal law which may result from the ownership of the Series 2005 Bonds, see the discussion under the heading "Legal Matters - Opinion of Bond Counsel" herein. Under existing law, the Series 2005 Bonds and the income therefrom will be exempt from all state, county and municipal taxation in the State of Tennessee, except inheritance, transfer and estate taxes, and Tennessee franchise and excise taxes. See Appendix F for the form of the opinion Bond Counsel proposes to deliver in connection with the issuance of the Series 2005 Bonds. For a more complete discussion of such opinion and certain other tax consequences of owning the Series 2005 Bonds, including certain exceptions to the exclusion of the interest of the Series 2005 Bonds from gross income, see "LEGAL MATTERS - Opinion of Bond Counsel" and "TAX MATTERS."

### **Bond Registrar and Paying Agent**

Wachovia Bank, National Association, Nashville, Tennessee, will act as Registration and Paying Agent for the Series 2005 Bonds.

### **Professionals Involved in the Offering**

Certain legal matters pertaining to the Municipality and its authorization and issuance of the Series 2005 Bonds are subject to the approving opinion of Bass, Berry & Sims PLC, Nashville, Tennessee, Bond Counsel. Copies of Bond Counsel's opinion will be available at the time of delivery of the Series 2005 Bonds, and a copy of the proposed form of such opinion is attached hereto as Appendix F. Certain legal matters will be passed on for the Municipality by its counsel, Jack Hyder, Bristol, Tennessee. The financial statements of the System as of June 30, 2004, and for the year then ended, attached hereto as Appendix C, have been audited by Coulter & Justus, P.C., Knoxville, Tennessee. See "MISCELLANEOUS - Independent Auditors."

### **Authority for Issuance**

The Series 2005 Bonds are being issued in accordance with the Constitution of the State of Tennessee and laws of the State of Tennessee, including Tennessee Code Annotated Sections 7-34-101 et seq., and pursuant to a resolution of the City Council of the Municipality adopted on June 7, 2005 (the "Resolution").

### **Offering and Delivery of the Series 2005 Bonds**

The Series 2005 Bonds are offered when, as, and if issued by the Municipality, subject to prior sale, to the withdrawal or the modification of the offer without notice, and to the approving opinion of Bass, Berry & Sims PLC, Nashville, Tennessee, Bond Counsel. The Series 2005 Bonds are expected to be delivered through The Depository Trust Company in New York, New York, on or about July 27, 2005.

### **Continuing Disclosure**

The Municipality has covenanted for the benefit of the owners of the Series 2005 Bonds in a Disclosure Certificate to cause BTES to provide (i) certain financial information and operating data relating to the System (the "Operating and Financial Data") and (ii) notices of the occurrence of certain events, if deemed by BTES to be material (the "Material Events Notices"), to each nationally recognized municipal securities information repository or the Municipal Securities Rulemaking Board and to the State information depository, if any. The Municipality's undertaking to provide Operating and Financial Data and Material Events Notices pursuant to the Disclosure Certificate is described in the form of the Disclosure Certificate attached hereto as Appendix B. The covenants have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12 (the "Rule").

### **Other Information**

This Official Statement and the Appendices hereto contain brief descriptions of, among other matters, the Municipality, BTES, the Series 2005 Bonds, and the security and sources of payment for the Series 2005 Bonds. Such descriptions and information do not purport to be comprehensive or definitive. The summaries of various constitutional provisions, statutes, the Resolution, and other documents are intended as summaries only and are qualified in their entirety by reference to such documents, and references herein to the Series 2005 Bonds are qualified in their entirety to the form thereof included in the Resolution. Copies of the Resolution and other documents and information are available, upon request and upon payment to BTES of a charge for copying, mailing and handling, from Dr. R. Michael Browder, P.E., General Manager, Bristol Tennessee Essential Services, 2470 Volunteer Parkway, P.O. Box 549, Bristol, Tennessee 37620; telephone (423) 968-1526.

## PLAN OF FINANCING

### Estimated Sources and Uses of Funds

The sources and uses of funds in connection with the issuance of the Series 2005 Bonds are estimated below.

Sources of Funds:	
Par Amount of Series 2005 Bonds	\$23,910,000.00
Plus: Original Issue Premium	<u>451,855.35</u>
Total Sources of Funds	\$24,361,855.35
Uses of Funds:	
Deposit to Construction Fund	\$24,002,767.16
Costs of Issuance <sup>(1)</sup>	<u>359,088.19</u>
Total Uses of Funds	\$24,361,855.35

<sup>(1)</sup> Includes the premiums for the Policy and Surety Bond, legal and accounting fees, Underwriter's fees, rating agency fees, printing and engraving costs, and other costs of issuance.

### The Project

A portion of the proceeds of the Series 2005 Bonds are being issued to improve and extend the System and to pre-purchase electrical power from the Tennessee Valley Authority (the "Project"). Pursuant to the Resolution, the proceeds of the Series 2005 Bonds, excluding amounts to pay costs of issuance and underwriter's discount, will be deposited in a construction fund (the "Construction Fund") to be held and invested by BTES, and used to pay costs of the Project. Monies in the Construction Fund may be invested as permitted by Tennessee law and may not be used for any purpose other than the Project.

## DESCRIPTION OF THE SERIES 2005 BONDS

### General

The Series 2005 Bonds are dated as of the date of their delivery and bear interest from such date at the rates per annum set forth on the cover page of this Official Statement (computed on the basis of a 360-day year of twelve 30-day months). Interest on the Series 2005 Bonds is payable on each Interest Payment Date, commencing September 1, 2005.

Payment of the principal of and interest on the Series 2005 Bonds will be made by the Registration Agent directly to Cede & Co., as nominee of DTC, and will subsequently be disbursed to DTC Participants and thereafter to Beneficial Owners of the Series 2005 Bonds. See "Book-Entry Only Bonds."

When not in book-entry form, interest on the Series 2005 Bonds will be paid by check or draft on the Registration Agent, and will be mailed on the date due by first class mail to the registered owners of record as of the 15th day of the calendar month (the "Regular Record Date") immediately preceding the applicable Interest Payment Date, at the address shown on the registration books of the Municipality maintained by the Registration Agent. When not in book-entry form, the principal of and redemption premium (if any) on the Series 2005 Bonds will be paid upon the presentation and surrender of the Series 2005 Bonds at the principal corporate trust office of the Registration Agent in Nashville, Tennessee.

Any interest on any Series 2005 Bond that is payable but is not punctually paid or duly provided for on an Interest Payment Date (the "Defaulted Interest") will cease to be payable to the registered owner on the relevant Regular Record Date; and, in lieu thereof, such Defaulted Interest will be paid by the Municipality to the persons in whose names the Series 2005 Bonds are registered at the close of business on a date (the "Special Record Date") for the payment of such Defaulted Interest, which date will be fixed in the following manner: the Municipality will

notify the Registration Agent of the amount of Defaulted Interest proposed to be paid on each Series 2005 Bond and the date of the proposed payment. Thereupon, not less than ten days after the receipt by the Registration Agent of the notice of the proposed payment, the Registration Agent will fix a Special Record Date for the payment of such Defaulted Interest, which date will be not more than 15 nor less than 10 days prior to the date of the proposed payment to the registered owners. The Registration Agent will promptly notify the Municipality of such Special Record Date, and in the manner and at the expense of the Municipality, not less than ten days prior to such Special Record Date, will cause notice of the proposed payment of such Defaulted Interest and the Special Record Date to be mailed, first class postage prepaid, to each registered owner at the address thereof as it appears in the registration records maintained by the Registration Agent as to the date of such notice.

#### **Denominations, Registration, Transfers and Exchanges**

The Series 2005 Bonds will be issued in fully registered form in the denomination of \$5,000 each or integral multiples thereof. The Series 2005 Bonds will be registered as to principal and interest on the registration books kept by the Registration Agent. The registered owner thereof shall be treated as the absolute owner thereof for all purposes, including payment, and payment to the registered owner thereof shall satisfy all liability thereon to the extent of sums so paid.

When in book-entry form, Series 2005 Bonds held by DTC or Cede & Co., as its nominee, on behalf of the Beneficial Owners thereof, are transferable upon delivery to DTC or Cede & Co., as its nominee, of an assignment executed by the Beneficial Owner or the Beneficial Owner's duly authorized attorney. See "Book-Entry Only Bonds."

When not in book-entry form, ownership of any Series 2005 Bond will be transferable upon surrender thereof to the Registration Agent, together with an assignment duly executed by the registered owner or his attorney, in such form as shall be satisfactory to the Registration Agent. Upon any such transfer of ownership, the Registration Agent, will cause to be authenticated and delivered a new Series 2005 Bond or Series 2005 Bonds registered in the name of the transferee in the authorized denomination in the same aggregate principal amount and interest rate as the Series 2005 Bonds surrendered for such transfer. When not in book-entry form, the Series 2005 Bonds may be exchanged for a like principal amount of Series 2005 Bonds of the same interest rate of other authorized denominations. For every exchange or registration of transfer, the Registration Agent, may charge an amount sufficient to reimburse it for any tax or other governmental charge required to be paid with respect to such exchange or registration or transfer, but no other charge may be made to the owner for any exchange or registration of transfer of the Series 2005 Bonds.

#### **Optional Redemption**

The Series 2005 Bonds are subject to redemption prior to maturity at the option of the Municipality on or after September 1, 2015, in whole or in part (with less than all such Series 2005 Bonds of a single maturity to be selected by lot within a maturity in such manner as may be designated by the Registration Agent) at any time, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the redemption date.

### **Mandatory Sinking Fund Redemption**

The Series 2005 Bonds maturing on September 1, 2018; September 1, 2020; September 1, 2022; September 1, 2024; September 1, 2027; September 1, 2029; September 1, 2033; and September 1, 2035 are subject to scheduled mandatory redemption prior to maturity in part (by lot in such manner as may be designated by the Paying Agent) at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the redemption date, in the following principal amounts and on the dates set forth below (the September 1, 2018; September 1, 2020; September 1, 2022; September 1, 2024; September 1, 2027; September 1, 2029; September 1, 2033; and September 1, 2035 amounts to be paid rather than redeemed):

Date (September 1)	Principal Amount
2017	\$625,000
2018	655,000

Date (September 1)	Principal Amount
2019	\$690,000
2020	725,000

Date (September 1)	Principal Amount
2021	\$760,000
2022	800,000

Date (September 1)	Principal Amount
2023	\$835,000
2024	880,000

Date (September 1)	Principal Amount
2025	\$920,000
2026	960,000
2027	1,000,000

Date (September 1)	Principal Amount
2028	\$1,050,000
2029	1,100,000

Date (September 1)	Principal Amount
2030	\$1,155,000
2031	1,205,000
2032	1,260,000
2033	1,315,000

Date (September 1)	Principal Amount
2034	\$1,380,000
2035	1,450,000

At its option, to be exercised on or before the 45th day next preceding such scheduled mandatory redemption date, the Municipality, may (a) receive a credit with respect to its scheduled mandatory redemption



obligation for any Series 2005 Bonds of the same maturity subject to scheduled mandatory redemption which are delivered to the Paying Agent for cancellation and not theretofore applied as a credit against a scheduled mandatory redemption obligation or (b) receive a credit with respect to its scheduled mandatory redemption obligation for any Series 2005 Bonds of the same maturity which prior to said date have been redeemed (otherwise than through scheduled mandatory redemption) and canceled by the Paying Agent and not theretofore applied as a credit against said scheduled mandatory redemption obligation. Each Series 2005 Bond so delivered or previously redeemed shall be credited by the Paying Agent, at the principal amount thereof to the obligation of the Municipality on such scheduled mandatory redemption date and the principal amount of the Series 2005 Bonds to be redeemed by operation of such scheduled mandatory redemption on such date shall be accordingly reduced.

#### **Notice of Redemption**

Notice of redemption, whether optional or mandatory, will be given by first class mail at least thirty days and not more than sixty days prior to the redemption date, to all registered owners of Series 2005 Bonds to be redeemed at their addresses of record as they appear on the books of the Registration Agent. Failure to mail any such notice, or any defect therein, will not affect the validity of the proceedings for the redemption of any other Series 2005 Bond. Failure of any bondholder to receive such notice if mailed as aforesaid will not affect the validity of the proceedings for the redemption of such Series 2005 Bond. Interest shall cease to accrue on any Series 2005 Bonds duly called for redemption on the redemption date if payment thereof has been duly provided for.

#### **Book-Entry Only Bonds**

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Series 2005 Bonds. The Series 2005 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Series 2005 Bond certificate will be issued for each maturity of the Series 2005 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with or on behalf of DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of Series 2005 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2005 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2005 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2005 Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2005 Bonds, except in the event that use of the book-entry system for the Series 2005 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2005 Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Series 2005 Bonds with DTC and their

registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2005 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2005 Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory, or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. if less than all of the Series 2005 Bonds within a maturity are being redeemed. DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to Series 2005 Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Municipality as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2005 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2005 Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Registration Agent, or the Municipality, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Municipality or the Registration Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2005 Bonds at any time by giving reasonable notice to the Municipality or the Registration Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2005 Bonds certificates are required to be printed and delivered.

The Municipality may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Series 2005 Bonds certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Municipality believes to be reliable, but the Municipality takes no responsibility for the accuracy thereof.

NEITHER THE MUNICIPALITY NOR THE REGISTRATION AGENT HAS ANY RESPONSIBILITY OR OBLIGATION TO THE DTC PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO (A) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT; (B) THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OF AND INTEREST ON THE SERIES 2005 BONDS; (C) THE DELIVERY OR TIMELINESS OF DELIVERY BY DTC OR ANY DTC PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE RESOLUTIONS TO BE GIVEN TO BONDHOLDERS; (D) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENTS IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE SERIES 2005 BONDS; OR (E) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC, OR ITS NOMINEE, CEDE & CO., AS REGISTERED BONDHOLDER.

## **SECURITY AND SOURCES OF PAYMENT OF THE SERIES 2005 BONDS**

### **General**

Neither the full faith and credit nor the taxing power of the Municipality is pledged to the payment of the Series 2005 Bonds. The Series 2005 Bonds are limited obligations of the Municipality, payable solely from the Net Revenues of the System. The Series 2005 Bonds do not constitute a charge, lien or encumbrance upon any other property of the Municipality.

### **Pledge of Net Revenues**

Under the terms of the Resolution, the Series 2005 Bonds and any Parity Bonds are secured by a pledge of and lien on the Net Revenues (as defined in Appendix A hereto).

### **Flow of Funds**

Pursuant to the Resolution, BTES has agreed to deposit all revenues derived from the operation of the System into the Revenue Fund and to apply such moneys in accordance with the Resolution. See Appendix A for a description of the flow of funds.

### **Rate Covenant**

Prior to the commencement of each Fiscal Year, the Board will cause to be made an estimate of the revenues and expenditures for the upcoming Fiscal Year, based on rates then in effect, and, based on such estimate, the Board will adjust rates to the extent necessary to produce Net Revenues for the upcoming Fiscal Year (i) equal to not less than 1.20 times the amount of principal and interest payable during the upcoming Fiscal Year on the outstanding Series 2005 Bonds and Parity Bonds, whether by maturity or mandatory redemption, (ii) sufficient, in addition, to pay any principal and interest payable on subordinate lien bonds and to provide for any required deposits during the upcoming Fiscal Year to the Reserve Fund and any other funds established by BTES pursuant to the Resolution and any resolutions authorizing subordinate lien bonds or pursuant to sound and prudent operating practices as determined by the Board, and (iii) sufficient to pay any amounts payable during such Fiscal Year under any Financial Guaranty Agreement, with respect to any Reserve Fund Credit Facility, under any financial guaranty agreement entered into pursuant to the resolutions authorizing any subordinate lien bonds or any reserve fund credit facility provided pursuant to the resolutions authorizing any subordinate lien bonds.

### **Bond Fund and Debt Service Reserve Fund**

BTES has established a Bond Fund and the Debt Service Reserve Fund. The money on deposit in the Bond Fund will be used to pay the principal of and interest on the Series 2005 Bonds and any Parity Bonds as the same become due. The money on deposit in the Debt Service Reserve Fund will be used to pay the principal of and interest on the Series 2005 Bonds and any Parity Bonds in the event that amounts on deposit in the Bond Fund are insufficient. The Debt Service Reserve Fund is required to be funded with cash or a Reserve Fund Credit Facility in an amount equal to the Reserve Fund Requirement. The Reserve Fund Requirement for the Series 2005 Bonds will be funded with the Surety Bond. See "THE BOND INSURER AND THE POLICY" and Appendix G.

### **Parity Bonds**

The Municipality may, from time to time, issue Parity Bonds under the terms of the Resolution. Such Parity Bonds will have a lien on the Net Revenues of the System on a parity with the lien on the Net Revenues of the System securing the Series 2005 Bonds. See Appendix A for the conditions under which such Parity Bonds may be issued.

## **Bond Insurance**

The scheduled payment of principal of and interest on the Series 2005 Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Series 2005 Bonds by the Bond Insurer. Payment under the Policy is subject to certain conditions described under "THE BOND INSURER AND THE POLICY" herein. The Policy will extend for a term of the Series 2005 Bonds and cannot be canceled. For a description of the Bond Insurer and the terms and conditions of the Financial Guaranty Insurance Policy, see "THE BOND INSURER AND THE POLICY" and Appendix E.

### **THE BOND INSURER AND THE POLICY**

#### **Payment Pursuant to Financial Guaranty Insurance Policy**

Ambac Assurance has made a commitment to issue a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") relating to the Series 2005 Bonds effective as of the date of issuance of the Series 2005 Bonds. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the Series 2005 Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Trustee/Paying Agent/Bond Registrar. The insurance will extend for the term of the Series 2005 Bonds and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Series 2005 Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Series 2005 Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding Series 2005 Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Series 2005 Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Registration and Paying Agent has notice that any payment of principal of or interest on a Series 2005 Bond which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does **not** insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Financial Guaranty Insurance Policy does **not** cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.
2. payment of any redemption, prepayment or acceleration premium.
3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee, Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of Series 2005 Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Series 2005 Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of Holder entitlement to interest payments and an appropriate assignment of the Holder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Series 2005 Bond, appurtenant coupon, if any, or right to payment of principal or interest on such Series 2005 Bond and will be fully subrogated to the surrendering Holder's rights to payment.

#### **Ambac Assurance Corporation**

Ambac Assurance Corporation ("Ambac Assurance") is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately **\$8,585,000,000** (unaudited) and statutory capital of approximately **\$5,251,000,000** (unaudited) as of **March 31, 2005**. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch Ratings have each assigned a triple -A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of a Series 2005 Bond by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such Series 2005 Bond and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its financial guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor of the Series 2005 Bonds.

Ambac Assurance makes no representation regarding the [Obligations] or the advisability of investing in the Series 2005 Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading "The Bond Insurer and the Policy".

#### **Available Information**

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 19<sup>th</sup> Floor, New York, New York 10004 and (212) 668-0340.

#### **Incorporation of Certain Documents by Reference**

The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004 and filed on March 15, 2005;
2. The Company's Current Report on Form 8-K dated April 5, 2005 and filed on April 11, 2005;
3. The Company's Current Report on Form 8-K dated and filed on April 20, 2005;
4. The Company's Current Report on Form 8-K dated May 3, 2005 and filed on May 5, 2005; and

5. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2005 and filed on May 10, 2005.
6. The Company's Current Report on Form 8-K dated and filed on July 20, 2005.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information".

**Debt Service Reserve Fund; Ambac Assurance Surety Bond**

The Resolution requires the establishment of a Debt Service Reserve Fund in an amount equal to the Reserve Fund Requirement. The Resolution authorizes the Obligor to obtain a Surety Bond in place of fully funding the Debt Service Reserve Fund. Accordingly, application has been made to Ambac Assurance Corporation ("Ambac Assurance") for the issuance of a Surety Bond for the purpose of funding the Debt Service Reserve Fund (see Appendix A). The Series 2005 Bonds will only be delivered upon the issuance of such Surety Bond. The premium on the Surety Bond is to be fully paid at or prior to the issuance and delivery of the Series 2005 Bonds. The Surety Bond provides that upon the later of (i) one (1) day after receipt by Ambac Assurance of a demand for payment executed by the Registration and Paying Agent certifying that provision for the payment of principal of or interest on the Series 2005 Bonds when due has not been made or (ii) the interest payment date specified in the Demand for Payment submitted to Ambac Assurance, Ambac Assurance will promptly deposit funds with the Paying Agent sufficient to enable the Paying Agent to make such payments due on the Series 2005 Bonds, but in no event exceeding the Surety Bond Coverage, as defined in the Surety Bond.

Pursuant to the terms of the Surety Bond, the Surety Bond Coverage is automatically reduced to the extent of each payment made by Ambac Assurance under the terms of the Surety Bond and the Obligor is required to reimburse Ambac Assurance for any draws under the Surety Bond with interest at a market rate. Upon such reimbursement, the Surety Bond is reinstated to the extent of each principal reimbursement up to but not exceeding the Surety Bond Coverage. The reimbursement obligation of the Obligor is subordinate to the Obligor's obligations with respect to the Series 2005 Bonds.

In the event the amount on deposit, or credited to the Debt Service Reserve Fund, exceeds the amount of the Surety Bond, any draw on the Surety Bond shall be made only after all the funds in the Debt Service Reserve Fund have been expended. In the event that the amount on deposit in, or credited to, the Debt Service Reserve Fund, in addition to the amount available under the Surety Bond, includes amounts available under a letter of credit, insurance policy, Surety Bond or other such funding instrument (the "Additional Funding Instrument"), draws on the Surety Bond and the Additional Funding Instrument shall be made on a pro rata basis to fund the insufficiency. The Resolution provides that the Debt Service Reserve Fund shall be replenished in the following priority: (i) principal and interest on the Surety Bond and on any additional Funding Instrument shall be paid from first available revenues on a pro rata basis; (ii) after all such amounts are paid in full, amounts necessary to fund the Debt Service Reserve Fund to the required level, after taking into account the amounts available under the Surety Bond, shall be deposited from next available revenues.

The Surety Bond does not insure against nonpayment caused by the insolvency or negligence of the Paying Agent.

## DEBT SERVICE SCHEDULE

The following table sets forth the System's debt service requirements during each fiscal year, assuming the issuance of the Series 2005 Bonds. There is no other debt secured by a lien on the Net Revenues of the System.

FISCAL YEAR	SERIES 2005 BONDS		TOTAL
	PRINCIPAL	INTEREST	
2006	\$0	\$627,198	\$627,198
2007	0	1,055,100	1,055,100
2008	440,000	1,047,400	1,487,400
2009	455,000	1,031,738	1,486,738
2010	470,000	1,015,550	1,485,550
2011	485,000	998,838	1,483,838
2012	505,000	981,513	1,486,513
2013	520,000	964,225	1,484,225
2014	540,000	947,000	1,487,000
2015	555,000	928,859	1,483,859
2016	575,000	909,431	1,484,431
2017	600,000	888,494	1,488,494
2018	625,000	861,994	1,486,994
2019	655,000	829,994	1,484,994
2020	690,000	796,369	1,486,369
2021	725,000	760,994	1,485,994
2022	760,000	724,819	1,484,819
2023	800,000	687,769	1,487,769
2024	835,000	648,938	1,483,938
2025	880,000	608,206	1,488,206
2026	920,000	567,756	1,487,756
2027	960,000	527,806	1,487,806
2028	1,000,000	486,156	1,486,156
2029	1,050,000	438,656	1,488,656
2030	1,100,000	384,906	1,484,906
2031	1,155,000	332,141	1,487,141
2032	1,205,000	280,516	1,485,516
2033	1,260,000	226,594	1,486,594
2034	1,315,000	170,266	1,485,266
2035	1,380,000	107,000	1,487,000
2036	1,450,000	36,250	1,486,250
TOTAL	\$23,910,000	\$20,872,473	\$44,782,473

## LEGAL MATTERS

### Pending Litigation

Each of the Municipality and BTES, like other similar bodies, is subject to a variety of suits and proceedings arising in the ordinary conduct of its affairs. Each of the Municipality and BTES, after reviewing the current status of all pending and threatened litigation with its counsel believes that, while the outcome of litigation cannot be predicted, the final settlement of all lawsuits which have been filed and of any actions or claims pending or threatened against it or its officials in such capacity are adequately covered by insurance or sovereign immunity or will not have a material adverse effect upon the financial position or results of operations of the System.

There is no litigation now pending or, to the knowledge of the Municipality or BTES, threatened which restrains or enjoins the issuance or delivery of the Series 2005 Bonds, the use of Net Revenues for the payment of the Series 2005 Bonds, or the use of the proceeds of the Series 2005 Bonds or which questions or contests the validity of the Series 2005 Bonds or the proceedings and authority under which they are to be issued. Neither the creation, organization, or existence of the Municipality or BTES, nor the title of the present members or other officials of the Municipality or BTES to their respective offices, is being contested or questioned.

### Opinion of Bond Counsel

Legal matters incident to the authorization, validity, and issuance of the Series 2005 Bonds are subject to the approving opinion of Bass, Berry & Sims PLC, Nashville, Tennessee, Bond Counsel. The form of opinion of Bond Counsel is attached to this Official Statement as Appendix F. Copies of the opinion will be available at the time of the initial delivery of the Series 2005 Bonds.

## TAX MATTERS

### Federal Taxes

In the opinion of Bass, Berry & Sims PLC, Bond Counsel, interest on the Series 2005 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, for purposes of computing the alternative minimum tax imposed on certain corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings. Bond Counsel's opinion is subject to the condition that the Municipality comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Series 2005 Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Municipality has covenanted to comply with all such requirements. Failure to comply with certain of such requirements could cause interest on the Series 2005 Bonds to be so included in gross income retroactive to the date of issuance of the Series 2005 Bonds.

Prospective purchasers of the Series 2005 Bonds should be aware that ownership of the Series 2005 Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with "excess net passive income," foreign corporations subject to the branch profits tax and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry the Series 2005 Bonds. Bond Counsel will not express any opinion as to such collateral tax consequences. Prospective purchasers of the Series 2005 Bonds should consult their tax advisors as to collateral federal income tax consequences.

The initial public offering prices of the Series 2005 Bonds maturing September 1, 2012 through September 1, 2016, September 1, 2027, and September 1, 2033 (the "Discount Bonds") are less than the amounts payable at maturity. An amount not less than the difference between the initial public offering price of the Discount Bonds and the amount payable at maturity constitutes "original issue discount," which will be excludable from gross income for federal income tax purposes. A portion of the original issue discount that accrues in each year to an owner of a Discount Bond which is a corporation will be included in the calculation of the corporation's alternative minimum



tax liability. Consequently, corporate owners of the Discount Bonds should be aware that the accrual of original issue discount in each year may result in an alternative minimum tax liability although the owners of such Discount Bonds have not received cash attributable to such original issue discount in such year.

The initial public offering prices of the Series 2005 Bonds maturing September 1, 2007 through September 1, 2011, September 1, 2018, September 1, 2020, September 1, 2022, September 1, 2024, September 1, 2029, and September 1, 2035 (the "Premium Bonds") are greater than the amounts payable at maturity with respect to such Series 2005 Bonds. The difference between (a) the amount payable at maturity of the Premium Bonds and (b) the initial offering price to the public (excluding bond houses and brokers) at which a substantial amount of the Premium Bonds of such maturities are sold, will constitute the "original issue premium." Under certain circumstances, as a result of the tax cost reduction requirements of the Code relating to the amortization of bond premium, the owner of a Premium Bond may realize a taxable gain upon its disposition even though the Premium Bond is sold or redeemed for an amount not greater than the owner's original acquisition cost.

Owners of Discount Bonds and Premium Bonds should consult their personal tax advisors with respect to the determination for federal income tax purposes of the amount of original issue discount or interest properly accruable with respect to such Discount Bonds or Premium Bonds, other tax consequences of owning Discount Bonds and Premium Bonds, and with respect to the State of Tennessee and local tax consequences of holding such Discount Bonds and Premium Bonds.

#### **State Taxes**

Under existing law, the Series 2005 Bonds and the income therefrom are exempt from all present state, county and municipal taxes in Tennessee except (a) inheritance, transfer and estate taxes, (b) Tennessee excise taxes on interest on the Series 2005 Bonds during the period the Series 2005 Bonds are held or beneficially owned by any organization or entity, other than a sole proprietorship or general partnership doing business in the State of Tennessee, and (c) Tennessee franchise taxes by reason of the inclusion of the book value of the Series 2005 Bonds in the Tennessee franchise tax base of any organization or entity, other than a sole proprietorship or general partnership, doing business in the State of Tennessee.

### **MISCELLANEOUS**

#### **Ratings**

Moody's Investors Service, Inc. ("Moody's") has assigned the Series 2005 Bonds a rating of "Aaa" based upon the issuance of the Policy by the Bond Insurer. Moody's has assigned the Series 2005 Bonds an underlying rating of "A2." An explanation of the significance of such ratings may be obtained from the entity furnishing the same.

The above-described ratings are not a recommendation to buy, sell or hold the Series 2005 Bonds. Generally, rating agencies base their ratings on information and materials furnished to the agencies and on investigations, studies and assumptions by the agencies. There is no assurance that the ratings will be maintained for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agency furnishing the same if, in such agency's judgment, circumstances so warrant. Any such downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Series 2005 Bonds. Neither the Municipality nor the Underwriter has undertaken any responsibility to oppose any revision or withdrawal of the ratings.

#### **Closing Certificates**

The Municipality and BTES will deliver to the Underwriter certificates that no litigation is pending or threatened against them which would have a material effect on the issuance or validity of the Series 2005 Bonds or the use of the Net Revenues to pay the Series 2005 Bonds or on the financial condition of the System. In addition, the Municipality and BTES will represent to the Underwriter in the Bond Purchase Agreement that the information contained in this Official Statement does not contain any misrepresentation of a material fact and does not omit or

state any material fact necessary to make the statements herein contained, in light of the circumstances under which they were made, not misleading.

#### **Underwriting**

Wiley Bros.-Aintree Capital LLC (the "Underwriter"), has agreed to purchase the Series 2005 Bonds pursuant to a Bond Purchase Agreement entered into between the Municipality and the Underwriter. The Underwriter has agreed to purchase the Series 2005 Bonds at a purchase price of \$24,244,696.35, representing the face amount of the Series 2005 Bonds, plus net original issue premium of \$451,855.35, less Underwriter's discount of \$117,159.00. The Bond Purchase Agreement provides that the Underwriter will purchase all of the Series 2005 Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Bond Purchase Agreement. The Underwriter intends to offer the Series 2005 Bonds to the public initially at the offering prices shown on the cover page hereof, which prices may subsequently change without any requirement of prior notice. The Underwriter reserves the right to join with other dealers and underwriters in offering the Series 2005 Bonds to the public. The Underwriter may offer and sell the Series 2005 Bonds to certain dealers at prices lower than the public offering.

#### **Independent Auditors**

The financial statements of the System as of June 30, 2004 and for the year then ended, attached hereto as Appendix C, have been audited by Coulter & Justus, P.C., Knoxville, Tennessee, independent auditors, as stated in their report thereon and are included in reliance upon the authority of such firm as independent auditors.

#### **Additional Information**

Use of the words "shall" or "will" in this Official Statement in summaries of documents to describe future events or continuing obligations is not intended as a representation that such event or obligation will occur but only that the document contemplates or requires such event to occur or obligation to be fulfilled.

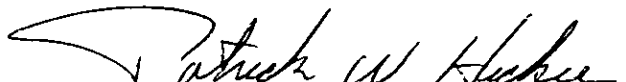
Any statements made in this Official Statement involving estimates or matters of opinion, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates or matters of opinion will be realized. Neither this Official Statement nor any statement which may have been made orally or in writing is to be construed as a contract with the owners of the Series 2005 Bonds.

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#### AUTHORIZATION OF AND CERTIFICATION CONCERNING OFFICIAL STATEMENT

The Official Statement has been authorized by the City Council of the Municipality and the Board of BTES. Concurrently with the delivery of the Series 2005 Bonds, the undersigned will furnish their certificates to the effect that nothing has come to their attention which would lead them to believe that this Official Statement contained, as of the date of delivery of the Series 2005 Bonds, any untrue statement of a material fact or omitted to state a material fact which should be included herein for the purposes for which this Official Statement is intended to be used or which is necessary to make the statements contained herein, in light of the circumstances under which they were made, not misleading.

James E. Messimer  
City of Bristol, Tennessee  
Mayor

  
Patrick W. Hickey  
Bristol Tennessee Essential Services  
Chairman of the Board of Directors

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## APPENDIX A

### SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

The following briefly summarizes certain terms and provisions of the resolution adopted by the City Council of the Municipality on June 7, 2005, which authorized the issuance and sale of the Series 2005 Bonds (the "Resolution"). This summary is not a complete explanation of the terms and conditions of the Resolution. Reference is made to the Resolution for a complete statement of the terms, provisions and conditions thereof.

#### Definitions of Certain Terms

"Acquired System" means any electrical power generation, transmission and/or distribution system acquired by the Municipality or BTES and/or any such facilities hereafter constructed, or otherwise established by the Municipality or BTES pursuant to the Act.

"Act" means Sections 7-34-101 *et. seq.*, Tennessee Code Annotated.

"Balloon Indebtedness" means any bonds, notes or other indebtedness, other than Short-Term Indebtedness, twenty-five percent or more of the initial principal amount of which matures (or must be redeemed at the option of the holder) during any twelve month period, if such twenty-five percent or more is not to be amortized to below twenty-five percent by mandatory redemption prior to the beginning of such twelve month period.

"Board" means the Board of Directors of BTES.

"Bonds" means the Series 2005 Bonds and any Parity Bonds.

"BTES" means Bristol Tennessee Essential Services.

"Capital Appreciation Bonds" means bonds which bear interest at a stated interest rate of 0.0% per annum, have a value on any applicable date equal to the Compound Accreted Value thereof on that date, and are payable only at maturity or earlier redemption.

"Code" means the Internal Revenue Code of 1986, as amended, and any lawful regulations promulgated or proposed thereunder.

"Compound Accreted Value" means the value at any applicable date of any Capital Appreciation Bonds computed as the original principal amount thereof for each maturity date plus an amount equal to interest on said principal amount (computed on the basis of a 360-day year of twelve 30-day months) compounded semiannually on such dates as shall be established by the resolution authorizing Capital Appreciation Bonds, from the dated date to said applicable date at an interest rate which will produce at maturity the Maturity Amount for such maturity date.

"Consulting Engineer" means (i) an engineering firm or individual engineer employed by BTES with substantial experience in advising municipal electric power systems as to the construction and maintenance of such systems and in the projection of costs of expansion of such systems, or (ii) an engineer or engineers who are employees of BTES whose reports or projections are certified by a Financial Advisor.

"Credit Facility" means any Financial Guaranty Insurance policy, letter of credit, surety bond, line of credit, guarantee, or other agreement under which any person other than the Municipality or BTES provides additional security for any Bonds and guarantees timely payment of or purchase price equal to the principal of and interest on all or a portion of any Bond and shall include any Reserve Fund Credit Facility.

"Debt Service Requirement" means the total principal, Maturity Amounts and interest coming due, whether at maturity or upon mandatory redemption (less any amount of interest that is capitalized and payable with the proceeds of debt on deposit with the Municipality or BTES or any paying agent for the Bonds or other obligations of

the Municipality or BTES payable from all or some portion of Gross Earnings), for any period of 12 consecutive calendar months for which such a determination is made, provided:

(a) The Debt Service Requirement with respect to Variable Rate Indebtedness shall be determined as if the variable rate in effect at all times during future periods equaled, at the option of BTES, either (1) the average of the actual variable rate which was in effect (weighted according to the length of the period during which each such variable rate was in effect) for the most recent 12-month period immediately preceding the date of calculation for which such information is available (or shorter period if such information is not available for a 12-month period), or (2) the current average annual fixed rate of interest on securities of similar quality having a similar maturity date, as certified by a Financial Adviser.

(b) The Debt Service Requirement with respect to any Hedged Obligations, for so long as the provider of the related Hedge Agreement has not defaulted on its payment obligations thereunder, shall be calculated by adding (x) the amount of interest payable by the Municipality or BTES on such Hedged Obligations pursuant to their terms and (y) the amount of Hedge Payments payable by the Municipality or BTES under the related Hedge Agreement and subtracting (z) the amount of Hedge Receipts payable by the provider of the related Hedge Agreement at the rate specified in the related Hedge Agreement; provided, however, that to the extent that the provider of any Hedge Agreement is in default thereunder, the amount of interest payable by the Municipality or BTES on the related Hedged Obligations shall be the interest calculated as if such Hedge Agreement had not been executed. In determining the amount of Hedge Payments or Hedge Receipts that are not fixed throughout the Hedge Period (i.e., which are variable), payable or receivable for any future period, such Hedge Payments or Hedge Receipts for any period of calculation (the "Determination Period") shall be computed (i) by assuming that the variables comprising the calculation (e.g., indices) applicable to the Determination Period are equal to the average of the actual variables which were in effect (weighted according to the length of the period during which each such variable was in effect) for the most recent 12-month period immediately preceding the date of calculation for which such information is available (or shorter period if such information is not available for a 12-month period) or (ii) by using the same assumptions with respect to the Hedged Obligations as may be used for determining the assumed interest rate for Variable Rate Indebtedness.

(c) For the purpose of calculating the Debt Service Requirement on Balloon Indebtedness and Short-Term Indebtedness, at the option of BTES, (i) the actual principal and interest on such Balloon Indebtedness and Short Term Indebtedness shall be included in the Debt Service Requirement, subject to the other assumptions contained in the Resolution, or (ii) such Balloon Indebtedness and Short Term Indebtedness shall be assumed to be amortized in substantially equal annual amounts to be paid for principal and interest over an assumed amortization period of 20 years at an assumed interest rate (which shall be the interest rate certified by a Financial Adviser to be the interest rate at which the Municipality could reasonably expect to borrow the same amount by issuing bonds with the same priority of lien as such Balloon Indebtedness and Short Term Indebtedness and with a 20-year term); provided, however, that if the maturity of such Balloon Indebtedness is in excess of 20 years from the date of issuance, then such Balloon Indebtedness shall be assumed to be amortized in substantially equal annual amounts to be paid for principal and interest over an assumed amortization period of years equal to the number of years from the date of issuance of such Balloon Indebtedness to maturity and at the interest rate applicable to such Balloon Indebtedness; provided further that this paragraph shall not be applicable for purposes of determining the Municipality's Debt Service Requirement for purposes of the Resolution regarding the setting of electric rates, unless the Municipality or BTES has a written commitment from a bank, underwriting firm or other financial institution with a Rating in one of two highest categories of at least one Rating Agency (ignoring any gradations within a Rating Category) to refinance at least 90% of the principal amount of such Balloon Indebtedness or Short-Term Indebtedness coming due in the relevant Fiscal Year.

"Defeasance Obligations" means direct obligations of, or obligations, the principal of and interest on which are guaranteed by, the United States of America, or any agency thereof, obligations of any agency or instrumentality of the United States or any other obligations which at the time of the purchase thereof are permitted investments under Tennessee law for the purposes described in the section of the Resolution regarding Defeasance of Bonds, which bonds or other obligations shall not be subject to redemption prior to their maturity other than at the option of the registered owner thereof.

"Financial Adviser" means an investment banking or financial advisory firm, commercial bank, or any other person who or which is retained by the Municipality or BTES for the purpose of passing on questions relating to the availability and terms of specified types of debt obligations or the financial condition or operation of the System and is actively engaged in and, in the good faith opinion of BTES, has a favorable reputation for skill and experience in providing financial advisory services of the type with respect to which the Financial Adviser has been retained.

"Financial Guaranty Agreement" means any financial guaranty agreement or reimbursement agreement authorized to be executed in connection with a Reserve Fund Credit Facility.

"Fiscal Year" means the twelve-month period commencing July 1 of each year and ending June 30 of the following year.

"Governing Body" means the City Council of the Municipality.

"Gross Earnings" means all revenues, rentals, earnings and income of the System from whatever source, determined in accordance with generally accepted accounting principles; proceeds from the sale of System property; proceeds of System-related insurance and condemnation awards and compensation for damages, to the extent not applied to the payment of the cost of repairs, replacements and improvements; and all amounts realized from the investment of funds of the System, including money in any accounts and funds created by the Resolution and resolutions authorizing any Parity Bonds or subordinate lien bonds (excluding any investment earnings from construction or improvement funds created for the deposit of bond proceeds pending use, to the extent such income is applied to the purposes for which the bonds were issued, and funds created to defease any outstanding obligations of the System); provided, however, at the election of the Board, the term "Gross Earnings" as used in the Resolution shall not include any revenues, rentals, earnings or other income received from the operation of an Acquired System, and any bonds or other obligations issued in connection with such Acquired System shall not be payable from or secured by Net Revenues or be deemed to be Parity Bonds.

"Hedge Agreement" means, without limitation, (i) any contract known as or referred to or which performs the function of an interest rate swap agreement, currency swap agreement, forward payment conversion agreement, or futures contract; (ii) any contract providing for payments based on levels of, or changes or differences in, interest rates, currency exchange rates, or stock or other indices; (iii) any contract to exchange cash flows or payments or series of payments; (iv) any type of contract called, or designed to perform the function of, interest rate floors, collars, or caps, options, puts, or calls, to hedge or minimize any type of financial risk, including, without limitation, payment, currency, rate, or other financial risk; and (v) any other type of contract or arrangement that the Municipality or BTES determines is to be used, or is intended to be used, to manage or reduce the cost of any Bonds, to convert any element of any Bonds from one form to another, to maximize or increase investment return, to minimize investment return risk, or to protect against any type of financial risk or uncertainty.

"Hedged Obligations" means any Bonds for which the Municipality or BTES shall have entered into a Hedge Agreement.

"Hedge Payments" means amounts payable by the Municipality or BTES pursuant to any Hedge Agreement, other than Termination Payments, fees, expenses, and indemnity payments.

"Hedge Period" means the period during which a Hedge Agreement is in effect.

"Hedge Receipts" means amounts payable by any provider of a Hedge Agreement pursuant to such Hedge Agreement, other than Termination Payments, fees, expenses, and indemnity payments.

"Loan Agreement" means any agreement or contract entered into by the Municipality or BTES whereby a third party agrees to advance funds to the Municipality or BTES and the Municipality or BTES agrees to repay those funds with interest.

"Maturity Amount" means the Compound Accreted Value on the stated maturity date of a Capital Appreciation Bond.

"Maximum Annual Debt Service Requirement" means the maximum annual Debt Service Requirement for any Fiscal Year.

"Municipality" means the City of Bristol, Tennessee.

"Net Revenues" means (1) Gross Earnings, excluding any profits or losses on the sale or other disposition, not in the ordinary course of business, of investments or fixed or capital assets and further excluding non-cash or non-recurring items, including but not limited to contributions in aid of construction, less (2) Operating Expenses.

"Operating Expenses" means and shall include but not be limited to, expenses for ordinary repairs, removals and replacements of the System, salaries and wages, employees' health, hospitalization, pension and retirement expenses, fees for services, materials and supplies, rents, administrative and general expenses (including legal, engineering, accounting and financial advisory fees and expenses and costs of other consulting or technical services not funded with proceeds of bonds, notes or other debt obligations), insurance expenses, taxes and other governmental charges, the imposition or amount of which is not subject to control of the Board, any payments made by BTES during any Fiscal Year to purchase electrical power for distribution and sale during or after the end of that Fiscal Year, and other payments made under any electrical power supply contract or commodity swap or other hedging mechanism, and any principal or interest payments made by BTES during any Fiscal Year on bonds, notes or other obligations, including loan agreements, issued or entered into for the purpose of financing the purchase of electrical power, and to the extent so provided by the resolution authorizing such bonds, notes or obligations and to the extent not inconsistent with generally accepted accounting principles. Operating Expenses do not include depreciation or obsolescence charges or reserves therefore, amortization of intangibles or other bookkeeping entries of a similar nature, on bonds, notes or other debt obligations of the System payable from Net Revenues of the System, costs or charges made therefor, capital additions, replacements, betterments, extensions or improvements to or retirement from the System which under generally accepted accounting principles are properly chargeable to the capital account or the reserve for depreciation, and do not include losses from the sale, abandonment, reclassification, revaluation or other disposition of any properties of the System, nor such property items, including taxes and fuels, which are capitalized pursuant to the then existing accounting practices of BTES or expenses of an Acquired System if revenues of the Acquired System are not included in Gross Earnings at the election of the Board.

"Parity Bonds" means bonds, notes, loan agreements, and other debt obligations, including Balloon Indebtedness, Short-Term Indebtedness and Variable Rate Indebtedness, issued or entered into by the Municipality or BTES on a parity with the Series 2005 Bonds in accordance with the restrictive provisions of the Resolution, including any bonds or other obligations secured by a pledge of and/or lien on an Acquired System and the revenues derived from the operation of such Acquired System (provided such pledge and lien are subject only to normal and customary expenses of operating, maintaining, repairing and insuring any such System), so long as the Acquired System is not being operated separately from the System as is permitted in the Resolution or the revenues from such Acquired System are not excluded from Gross Earnings.

"Rating" means a rating in one of the categories by a Rating Agency, disregarding pluses, minuses, and numerical gradations.

"Rating Agencies" or "Rating Agency" means Fitch IBCA, Inc., Moody's Investors Service, Inc. and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., or any successors thereto and any other nationally recognized credit rating agency.

"Reserve Fund Credit Facility" means a financial guaranty insurance policy, surety bond, letter of credit, line of credit, guarantee or other agreement provided by a Reserve Fund Credit Facility Issuer which provides for payment of amounts equal to all or any portion of the Reserve Fund Requirement in the event of an insufficiency of moneys in the Bond Fund to pay when due principal of and interest on all or a portion of the Bonds.



"Reserve Fund Credit Facility Issuer" means the issuer of a Reserve Fund Credit Facility rated in the highest rating category by Standard & Poor's Rating Group, if rated by Standard & Poor's, and Moody's Investors Service, Inc., if rated by Moody's and, A.M. Best & Company, if rated by A.M. Best & Company.

"Reserve Fund Requirement" means the least of (a) 10% of the stated principal amount of the Bonds; (b) the Maximum Annual Debt Service Requirement on the Bonds during the term of the Bonds; or (c) 125% of the average annual principal and interest requirement, when due, on a Fiscal Year basis, including principal payable by reason of the mandatory redemption provisions of any Bonds, on the Bonds during the term thereof; provided, however, with respect to Variable Rate Indebtedness, it shall be assumed that such Variable Rate Indebtedness bears interest through maturity at that rate which the original purchaser of such Variable Rate Indebtedness certifies as of the date of issuance thereof would have borne had such Variable Rate Indebtedness borne a fixed, constant rate of interest.

"Series 2005 Bonds" means the Municipality's Electric System Revenue Bonds, Series 2005, dated the date of their delivery.

"Short-Term Indebtedness" means bonds, notes, loan agreements or other debt obligations, including Variable Rate Indebtedness, maturing five years or less from their date of issuance, issued by the Municipality or BTES as Parity Bonds in accordance with the restrictive provisions of the Resolution.

"System" means the electrical power distribution system operated by BTES and any electrical power distribution and/or transmission system hereafter acquired, constructed or otherwise established, including all improvements and extensions made by BTES while the Bonds remain outstanding, and including all real and personal property of every nature comprising part of or used or useful in connection with the foregoing, and including all appurtenances, contracts, leases, franchises, and other intangibles; provided, however, at the election of the Board, an Acquired System may be included within the System and become a part thereof or, at the election of the Board, not become a part of the System but be operated as a separate and independent system by the Board with the continuing right, upon the election of the Board, to incorporate such separately Acquired System within the System.

"Termination Payments" means an amount payable by or to the Municipality or BTES upon termination of a Hedge Agreement.

"Variable Rate Indebtedness" means any Parity Bonds, the interest rate on which is subject to periodic adjustment, at intervals, at such times and in such manner as shall be determined by the resolution authorizing such Parity Bonds; provided that if the interest rate shall have been fixed for the remainder of the term thereof, it shall no longer be Variable Rate Indebtedness.

#### **Source and Security of Payment**

The Bonds shall be payable solely from and secured by a pledge of the Net Revenues of the System. No owner or holder of any of the Bonds shall have recourse to the taxing power of the City of Bristol, Tennessee.

The punctual payment of principal of, premium, if any, and interest on the Bonds shall be secured equally and ratably by the Net Revenues without priority by reason of number or time of sale or execution or delivery, and the Net Revenues are irrevocably pledged to the punctual payment of such principal, premium, if any, and interest as the same become due.

#### **Application of Revenues and Creation of Funds**

From and after the delivery of any of the Bonds, and as long as any of the Bonds shall be outstanding and unpaid either as to principal or as to interest, or until the discharge and satisfaction of all the Bonds, the Gross Earnings of the System shall be deposited as collected by BTES in the Revenue Fund established by the Resolution (the "Revenue Fund"), administered and controlled by the Board. The funds so deposited shall be used only as follows:

(a) The money in the Revenue Fund shall be used first from month to month for the payment of Operating Expenses.

(b) The money thereafter remaining in the Revenue Fund shall next be used to make deposits into a separate and special fund, to be known as the "Series 2005 Principal and Interest Sinking Fund" (the "Bond Fund") to be kept separate and apart from all other funds of BTES and used to pay principal of and interest on the Bonds as the same become due, either by maturity or mandatory redemption. Such deposits shall be made monthly until the Bonds are paid in full or discharged and satisfied pursuant to the provisions of the Resolution, beginning in the month next following delivery of the Series 2005 Bonds. For the period commencing with the month next following the delivery of any Bonds, to and including the month of the next interest payment date for such Bonds, each monthly deposit as to interest shall be an amount that, together with all other monthly deposits of approximately equal amounts during such period and amounts otherwise in said Fund, will be equal to interest due on such Bonds on the next interest payment date, and for each six month period thereafter, each monthly deposit as to interest for such Bonds shall be equal to not less than one-sixth (1/6th) of the interest coming due on such Bonds on the next interest payment date net of any interest earnings on such amounts. For the period commencing with the month next following the delivery of any Bonds to and including the month of the next principal payment for such Bonds, each monthly deposit as to principal shall be an amount that, together with all other monthly deposits during such period and amounts otherwise in said Fund, will be equal to the principal due on such Bonds on the next principal payment date (provided that, in the event that the next principal payment date is more than 12 months following the month next following delivery of such Bonds, monthly deposits to the Bond Fund in respect of principal shall begin in the month which is 12 months prior to the month of the next principal payment date), and for each twelve-month period thereafter, each monthly deposit as to principal for such Bonds shall be an amount equal to not less than one-twelfth (1/12th) of the principal amount or Maturity Amount, as the case may be, coming due on such Bonds, whether by maturity or mandatory redemption, on the next principal payment date net of any interest earnings on such amounts. Each deposit as to interest may take into account expected Hedge Payments related to such interest payments. No further deposit shall be required as to any Bonds when the Bond Fund balance is equal to or greater than the amount needed to pay interest on the next interest payment date, the total of the principal amounts payable, either by maturity or mandatory redemption, during the applicable twelve-month period, and any related Hedge Payments. Notwithstanding the foregoing, deposits for payment of interest and principal on Variable Rate Indebtedness shall be made as set forth in the resolution authorizing such Variable Rate Indebtedness, and if interest is not paid semi-annually and/or principal is not paid annually with respect to any Bonds, the deposits may be adjusted by the Municipality or BTES as provided in the resolution authorizing the issuance of such Bonds. Money in the Bond Fund shall be used and is hereby expressly pledged for the purpose of paying principal of and interest on the Bonds and making any Hedge Payments.

(c) The next available money in the Revenue Fund shall be paid to any Reserve Fund Credit Facility Issuer or Issuers (pro rata, if more than one) to the extent needed to reimburse the Reserve Fund Credit Facility Issuer for amounts advanced by the Reserve Fund Credit Facility Issuer or Issuers under the Reserve Fund Credit Facility, including any amounts payable under any Financial Guaranty Agreement, together with reasonable related expenses incurred by the Reserve Fund Credit Facility Issuer and interest as provided in the Financial Guaranty Agreement.

(d) To the extent the Reserve Fund Requirement for the Bonds is not fully satisfied by a Reserve Fund Credit Facility or Facilities or funds of BTES, or a combination thereof, the next available money in the Revenue Fund shall be used to make deposits into a separate and special fund, to be known and designated as the "Series 2005 Debt Service Reserve Fund" (the "Reserve Fund") to be kept separate and apart from all other funds of BTES. No deposit shall be required to be made to the Reserve Fund unless the amount in the Reserve Fund, together with the Reserve Fund Credit Facility or Facilities, if any, becomes less than the Reserve Fund Requirement. In the event deposits to the Reserve Fund shall be required pursuant to the preceding sentence, said deposits shall be payable monthly as hereafter provided and each deposit shall be in a minimum amount equal to 1/24th of the difference between the Reserve Fund Requirement and the amount in said Fund, together with the Reserve Fund Credit Facility or Facilities, if any, immediately following the occurrence of such deficiency, so that any deficiency in said Fund shall be replenished over a period of not greater than twenty-four (24) consecutive months; provided, any monthly payments in excess of said minimum payments shall be a credit against the next ensuing payment or payments. Any deposits required to be made shall be made monthly at the same time as deposits are made to the Bond Fund, commencing the first month in which the amount in the Fund, together with the Reserve Fund Credit Facility or

Facilities, if any, is less than the Reserve Fund Requirement. All deposits to the Reserve Fund shall be made from the first money in the Revenue Fund thereafter received which shall not then be required to pay Operating Expenses, to be transferred into the Bond Fund, or to be paid to the Reserve Fund Credit Facility Issuer or Issuers as above provided. Money in the Reserve Fund shall be used solely for the purpose of paying principal of or interest on the Bonds for the payment of which funds are not available in the Bond Fund. Funds in excess of the Reserve Fund Requirement may be released to be used by the Municipality for legally permissible purposes.

At the option of BTES, it may satisfy the Reserve Fund Requirement, or a portion thereof, by providing for the benefit of owners of the Bonds a Reserve Fund Credit Facility or Facilities, at any time, in an amount not greater than the Reserve Fund Requirement applicable to the Bonds and release an equal amount of funds on deposit in the Reserve Fund to be used by BTES for legally permissible purposes. In the event any Reserve Fund Credit Facility Issuer, or any successor thereto, shall cease to have a rating required for a Reserve Fund Credit Facility Issuer or any Reserve Fund Credit Facility becomes unenforceable for any reason, within 90 days from the date BTES receives notice of either of said events, BTES shall either substitute a new Reserve Fund Credit Facility or Facilities or commence funding the Reserve Fund from Net Revenues as required by the preceding paragraph hereof, or a combination thereof. At any time during the term of the Resolution, the Municipality or BTES shall have the right and option to substitute a new Reserve Fund Credit Facility or Facilities for any Reserve Fund Credit Facility or Facilities previously delivered, upon notice to the Registration Agent and the Reserve Fund Credit Facility Issuer or Issuers and delivery of a Reserve Fund Credit Facility or Facilities in substitution therefor. In the event of the issuance of Parity Bonds pursuant to the restrictive provisions of the Resolution or the substitution of a Reserve Fund Credit Facility or Facilities for less than the full amount of the Reserve Fund Requirement, BTES shall satisfy the Reserve Fund Requirement by depositing funds to the Reserve Fund or obtaining a Reserve Fund Credit Facility or Facilities, or any combination thereof, in an aggregate amount equal to the Reserve Fund Requirement for the Bonds taking into account any funds then held therein or the amount of any Reserve Fund Credit Facility or Facilities then in effect.

In the event of the necessity of a withdrawal of funds from the Reserve Fund during a time when the Reserve Fund Requirement is being satisfied by a Reserve Fund Credit Facility or Facilities and funds of BTES, the funds shall be disbursed completely before any demand is made on the Reserve Fund Credit Facility. In the event all or a portion of the Reserve Fund Requirement is satisfied by more than one Reserve Fund Credit Facility, any demand for payment shall be pro rata between or among the Reserve Fund Credit Facilities. If a disbursement is made by demand on a Reserve Fund Credit Facility, BTES, from Revenues after payment of Operating Expenses and satisfaction of the required deposits to the Bond Fund, shall reimburse the Reserve Fund Credit Facility Issuer for all amounts advanced under the Reserve Fund Credit Facility (pro rata, if more than one Reserve Fund Credit Facility), including all amounts payable under any Financial Guaranty Agreement or Agreements, and then replenish the Reserve Fund as provided in the Resolution.

In the event the Reserve Fund Requirement, or any part thereof, shall be satisfied with a Reserve Fund Credit Facility or Facilities, notwithstanding the terms of the Resolution regarding discharge and satisfaction, the terms, covenants, liability and liens provided or created in the Resolution or in any resolution supplemental thereto shall remain in full force and effect and said terms, covenants, liability and liens shall not terminate until all amounts payable under any Financial Guaranty Agreement have been paid in full and all obligations thereunder performed in full. If the Municipality or BTES (as applicable) shall fail to pay when due all amounts payable under any Financial Guaranty Agreement, the Reserve Fund Credit Facility Issuer shall be entitled to exercise any and all remedies available at law or under the Resolution other than remedies that would adversely affect owners of the Bonds.

It shall be the responsibility of the Registration Agent to maintain adequate records, verified with the Reserve Fund Credit Facility Issuer or Issuers, as to the amount available to be drawn at any given time under the Reserve Fund Credit Facility or Facilities and as to the amounts paid and owing to the Reserve Fund Credit Facility Issuer or Issuers under the terms of any Financial Guaranty Agreement and to provide notice to the Reserve Fund Credit Facility Issuer at least two days before any payment is due. The Reserve Fund Credit Facility Issuer shall receive notice of the resignation or removal of the Registration Agent and the appointment of a successor thereto.

(c) Termination Payments received in connection with a Hedge Agreement shall be deposited to the Revenue Fund, and Termination Payments required of the Municipality in connection with a Hedge Agreement shall be paid as a subordinate lien obligation pursuant to subsection (f) below.

(f) The next available money in the Revenue Fund shall be used for the purpose of the payment of principal of and interest on (including reasonable reserves therefor) any bonds or other obligations payable from revenues of the System, but junior and subordinate to the Bonds, and may thereafter be used by BTES for any legally permissible purpose, as the Board shall determine.

(g) Money on deposit in the Funds described above may be invested by BTES in such investments as shall be permitted by applicable law, as determined by an authorized representative of BTES, all such investments to mature not later than the date on which the money so invested shall be required for the purpose for which the respective Fund was created. All income derived from such investments shall be regarded as revenues of the System and shall be deposited in the Revenue Fund. Such investments shall at any time necessary be liquidated and the proceeds thereof applied to the purpose for which the respective Fund was created; provided, however, that in no event shall moneys in the Reserve Fund be invested in instruments that mature or are subject to repurchase more than two years from the date the money is so invested. BTES is authorized to enter into contracts with third parties for the investment of funds in any of the Funds described above.

(h) The Revenue Fund, the Bond Fund, and the Reserve Fund (except to the extent funded with a Reserve Fund Credit Facility or Facilities) shall be held and maintained by BTES and, when not invested, kept on deposit with a bank or financial institution regulated by and the deposits of which are insured by the Federal Deposit Insurance Corporation or similar federal agency. All moneys in such Funds so deposited shall at all times be secured to the extent and in the manner required by applicable State law.

#### **Covenants Regarding the Operation of the System**

In the Resolution, BTES covenants and agrees with the owners of the Bonds, so long as any of the Bonds shall remain outstanding, as follows:

*Operation of the System.* BTES shall maintain the System in good condition and operate the System in an efficient manner and at reasonable cost and conduct all activities associated therewith or incident thereto. BTES will permit no free service to be furnished to any consumer or user whatsoever; that the charges for all services supplied through the medium of the System to all consumers and users shall be reasonable and just, taking into account and consideration the cost and value of the System and the cost of maintaining, operating, repairing and insuring the System, a proper and necessary allowance for the depreciation thereof, and the amounts necessary for the payment of principal of and interest on all obligations payable from revenues of the System; and that there shall be charged against all users of the services of the System such rates and amounts as shall be fully adequate to comply with the covenants of the Resolution.

The System will be operated on a fully metered basis and BTES will bill customers of the System on a monthly basis and will establish and maintain policies and procedures for discontinuing service to customers with delinquent bills.

*Insurance.* The Municipality or BTES (as applicable) shall maintain insurance on the properties of the System of a kind and in an amount which would normally be carried by private companies engaged in a similartype and size of business, provided, the Municipality and BTES shall not be required to insure beyond the limits of immunity provided by Sections 29-20-101 et seq., Tennessee Code Annotated, or other applicable law. The proceeds of any such insurance, except public liability insurance, shall be used to replace the part or parts of the System damaged or destroyed, or, if not so used, shall be placed in the Revenue Fund.

*Records and Accounts.* BTES will cause to be kept proper books and accounts adapted to the System, will cause the books and accounts to be audited at the end of each Fiscal Year by a recognized independent certified public accountant or a firm of such accountant or accountants and, upon written request, will make available to any registered owner of the Bonds the balance sheet and the profit and loss statement of BTES as certified by such

accountant or accountants. Each such audit, in addition to whatever matters may be thought proper by the accountant or accountants to be included therein, shall include the following:

- (a) A statement in detail of the revenues and expenditures of the System and the excess of revenues over expenditures for the Fiscal Year;
- (b) A statement showing beginning and ending balances of each Fund described in the Resolution;
- (c) A balance sheet as of the end of the Fiscal Year;
- (d) The accountant's comments regarding the manner in which BTES has carried out the requirements of the Resolution and the accountant's recommendations with respect to any change or improvement in the operation of the System;
- (e) A list of insurance policies in force at the end of the Fiscal Year, setting out as to each policy the amount of the policy, the risks covered, the name of the insurer and the expiration date of the policy;
- (f) The number and classifications of customer service connections to the System as of the end of the Fiscal Year;
- (g) The disposition of any Bond proceeds during the Fiscal Year; and
- (h) A statement as to all breaches or defaults hereunder by BTES of which the accountant or accountants have knowledge or, in the alternative, a statement that they have no knowledge of any such breach or default.

All expenses incurred in the making of the audits shall be regarded and paid as Operating Expenses. BTES further agrees to cause copies of such audits to be furnished to the registered owner of any of the Bonds, at the written request thereof, within 180 days after the close of each Fiscal Year. The registered owner of any of the Bonds shall have at all reasonable times the right to inspect the System and the records, accounts and data of BTES relating thereto. If BTES fails to provide the audits and reports required by this subsection, the registered owner or owners of 25% in principal amount of the Bonds may cause such audits and reports to be prepared at the expense of BTES.

*Rate Covenant.* BTES shall, through the Board, continuously own, control, operate, and maintain the System in an efficient and economical manner and on a revenue producing basis and shall at all times prescribe, fix, maintain, and collect rates, fees, and other charges for the services and facilities furnished by the System fully sufficient at all times:

- (a) for 100% of the Operating Expenses and for the accumulation in the Revenue Fund of a reasonable reserve therefor, in an amount, if any, as shall be determined from time to time by BTES; and
- (b) such that Net Revenues in each Fiscal Year:
  - (i) will equal at least 120% of the Debt Service Requirement on all Bonds, and 100% of the Debt Service Requirement on all other obligations then outstanding for such Fiscal Year;
  - (ii) will enable BTES to make all required payments, if any, into the Reserve Fund and on any Credit Facility or Hedge Agreement;
  - (iii) will enable BTES to accumulate an amount, which, in the judgment of the Board, is adequate to meet the costs of major renewals, replacements, repairs, additions, betterments, and improvements to the System, necessary to keep the same in good operating condition or as is required by any governmental agency having jurisdiction over the System; and

(iv) will remedy all deficiencies in required payments into any of the funds and accounts mentioned in the Resolution from prior Fiscal Years.

If BTES fails to prescribe, fix, maintain, and collect rates, fees, and other charges, or to revise such rates, fees, and other charges, in accordance with the provisions of this section in any Fiscal Year, but BTES in the next Fiscal Year has promptly taken all available measures to revise such rates, fees and other charges as advised by a Consulting Engineer or Financial Adviser retained by BTES to review the operations of the System, there shall be no breach by BTES of its obligations under the Resolution until at least the end of such next Fiscal Year and only then if Net Revenues are less than the amount required by this section.

Disposal of System. The Municipality and BTES will not sell, lease, mortgage, or in any manner dispose of the System, or any part thereof, including any and all extensions and additions that may be made thereto, or any facility necessary for the operation thereof; provided, however, the use of any of the System facilities may at any time be permanently abandoned or otherwise disposed of or any of the System facilities sold at fair market value, provided that:

(a) The Municipality and BTES are in full compliance with all covenants and undertakings in connection with all bonds, notes and other obligations then outstanding and payable from the revenues of the System and any required reserve funds for such bonds, notes and other obligations have been fully established and contributions thereto are current;

(b) Any sale proceeds will be applied either (i) to redemption of Bonds in accordance with the provisions governing repayment of Bonds in advance of maturity, or (ii) to the purchase of Bonds at the market price thereof so long as such price does not exceed the amount at which the Bonds could be redeemed on such date or the next optional redemption date as set forth in the Resolution or in any resolution authorizing Parity Bonds, or (iii) to the construction or acquisition of facilities in replacement of the facilities so disposed of or other facilities constituting capital improvements to the System, or (iv) the deposit to a replacement fund to be used to make capital improvements to the System;

(c) (i) The abandonment, sale or disposition is for the purpose of disposing of facilities which are no longer necessary or no longer useful to the operation of the System, or (ii) the operation of the System or revenue producing capacity of the System is not materially impaired by such abandonment, sale or disposition or any facilities acquired in replacement thereof are of equivalent or greater value; and

(d) if the facilities are being sold or disposed to an entity that is not a state or local government and the facilities were financed with the proceeds of Bonds the interest on which is excludable from gross income for federal income tax purposes, the Municipality or BTES shall have received an opinion of nationally recognized bond counsel to the effect that such sale, lease, mortgage or other disposition will not jeopardize the exclusion from federal income taxation of interest on any Bonds then outstanding intended to be excludable from gross income for federal income tax purposes.

Nothing in the Resolution is intended to prohibit the lease purchase of equipment or facilities of the System hereafter to be put in service or to prohibit the transfer or exchange of service areas to provide for more efficient operation of the System so long as BTES is in full compliance with the covenants set forth in the Resolution immediately following such transfer or exchange.

Budget. Prior to the beginning of each Fiscal Year, the Board shall prepare, or cause to be prepared, and adopted an annual budget of estimated revenues, Operating Expenses, and capital expenditures for the System for the ensuing Fiscal Year in compliance with the Rate Covenant section set forth above, and will undertake to operate the System within such budget to the best of its ability. Copies of such budgets and amendments thereto will be made available to any registered owner of a Bond upon written request. BTES covenants that Operating Expenses and capital expenditures incurred in any Fiscal Year will not exceed the reasonable and necessary amounts therefor and that BTES will not expend any amounts or incur any obligations therefor in excess of the amounts provided for Operating Expenses and capital expenditures in the budget except upon resolution of the Board.

*Franchise.* Neither BTES nor the Municipality will construct, finance or grant a franchise for the development or operation of facilities that compete for service with the services to be provided by the System or consent to the provision of any such services in the area currently or hereafter served by the Municipality or BTES by any other public or private entity and will take all steps necessary and proper, including appropriate legal action to prevent any such entity from providing such service; provided, nothing contained in the Resolution shall prohibit the transfer or exchange of service areas to provide for more efficient operation of the System so long as BTES is in full compliance with the covenants set forth in the Resolution immediately following such transfer or exchange.

*Control of System.* The complete and independent control and operation of the System shall be vested in the Board, subject, however, to the obligation and duty on the part of the Board to carry out and perform faithfully all of the covenants and agreements contained in this resolution, as hereafter supplemented or amended. It is agreed with the owners from time to time of the Bonds and made a part of the contract rights which will vest in such owners at the time of delivery of the Series 2005 Bonds that the System shall be continuously operated by the Board, which shall be responsible for the payment of all expenses on a timely manner and collection of all revenues of the System and such revenues shall be used and applied by the Board only for the purposes and at the times and the manner herein specified.

#### **Remedies of Bond Owners**

Any registered owner of any of the Bonds may either at law or in equity, by suit, action, mandamus or other proceedings, in any court of competent jurisdiction enforce and compel performance of all duties imposed upon the Municipality or BTES by the provisions of the Resolution, including the making and collecting of sufficient rates, the proper application of and accounting for revenues of the System, and the performance of all duties imposed by the terms of the Resolution.

If any default be made in the payment of principal of, premium, if any, or interest on the Bonds, then upon the filing of suit by any registered owner of said obligations, any court having jurisdiction of the action may appoint a receiver to administer the System in behalf of the Municipality or BTES with power to charge and collect rates sufficient to provide for the payment of all bonds and obligations outstanding against the System and for the payment of Operating Expenses, and to apply the income and revenues thereof in conformity with the provisions of the Resolution.

#### **Prohibition of Prior Lien; Parity Bonds**

Neither the Municipality nor BTES will issue other bonds or obligations of any kind or nature payable from or enjoying a lien on the revenues of the System having priority over the Bonds. Additional bonds, notes, Loan Agreements or obligations may hereafter be issued on a parity with the Series 2005 Bonds under the following conditions but not otherwise:

(a) Any portion (including any maturities or portions thereof whether or not in chronological order and any amounts subject to mandatory redemption) or all of a series of the Bonds may be refunded at maturity, upon redemption in accordance with their terms, or upon payment, prepayment or redemption with the consent of the owners of such bonds, and the refunding bonds so issued shall constitute Parity Bonds secured on a parity with the Bonds thereafter outstanding, if all of the following conditions are satisfied:

(i) BTES shall have obtained a report from a Financial Adviser demonstrating that the refunding is expected to reduce the total debt service payments on the Bonds, including payments on related Credit Facilities and Hedge Agreements; and

(ii) the requirements of subsections (b)(ii) and (iv) below are met with respect to such refunding.

(b) Parity Bonds (including refunding Parity Bonds which do not meet the requirements of (a)) may also be issued on a parity with outstanding Bonds, and the Parity Bonds so issued shall be secured on a parity with such outstanding Bonds, if all of the following conditions are satisfied:

(i) There shall have been procured and filed with BTES a report by a Financial Adviser or a certificate by the Chairman of the Board, or his designee, to the effect that the historical Net Revenues for either (A) a period of 12 consecutive months of the most recent 18 consecutive months prior to the issuance of the proposed Parity Bonds or (B) the most recent audited Fiscal Year, were equal to at least 120% of the Maximum Annual Debt Service Requirement on all Bonds which will be outstanding immediately after the issuance of the proposed Parity Bonds, in the then current and each succeeding Fiscal Year, provided, however, (w) the report or certificate may contain pro forma adjustments to historical related Net Revenues equal to the increased annual amount of Net Revenues attributable to improvements to the System that had been placed in service prior to the delivery of the proposed Parity Bonds and that are not fully reflected in the historical related Net revenues actually received during such historical period used, (x) the report or certificate may contain pro forma adjustments to historical related Net Revenues equal to 100% of the increased annual amount attributable to any revision in the schedule of rates, fees, and charges for the services and facilities furnished by the System, imposed prior to the date of delivery of the proposed Parity Bonds and not fully reflected in the historical related Net Revenues actually received during such historical period used; (y) if the Municipality or BTES has a contract to purchase or otherwise acquire an Acquired System that will become part of the System, the historical Net Revenues may be adjusted to include the anticipated Net Revenues from the Acquired System; and (z) if the Municipality or BTES has entered into a contract to furnish services of the System that is not fully reflected in the historical Net Revenues of the System, such historical Net Revenues may be adjusted to include the anticipated Net Revenues from such contract; or

(ii) BTES shall have received, at or before issuance of the Parity Bonds, a report from a Financial Adviser or a certificate of the Chairman of the Board, or his designee, to the effect that (x) the payments required to be made into the Bond Fund have been made and the balance in the Bond Fund is not less than the balance required hereby as of the date of issuance of the proposed Parity Bonds; and (y) the Reserve Fund is funded to the Reserve Fund Requirement and will be funded to the Reserve Fund Requirement immediately following the issuance of the proposed Parity Bonds.

(iii) The resolution authorizing the proposed Parity Bonds must require the proceeds of such proposed Parity Bonds to be used to make capital improvements to or capital acquisitions for the System, to pre-pay for supplies of electrical power, to fund interest on the proposed Parity Bonds, to refund other obligations issued for such purposes (whether or not such refunding Parity Bonds satisfy the requirements of (a)), for any other legal purpose under applicable law as evidenced by an opinion of Bond Counsel, and/or to pay expenses incidental thereto and to the issuance of the proposed Parity Bonds.

(iv) The Chairman of the Board shall have certified, by written certificate dated as of the date of issuance of the Parity Bonds, that BTES is in compliance with all requirements of the Resolution.

#### **Modification of Resolution**

The Resolution may be amended without the consent of or notice to the registered owners of the Bonds or Parity Bonds for the purpose of curing any ambiguity or formal defect or omission in the Resolution.

In addition to the amendments to the Resolution without the consent of registered owners as referred to above, the registered owners of a majority in aggregate principal amount of the Bonds at any time outstanding (not including in any case any Bonds which may then be held or owned by or for the account of the Municipality but including such refunding bonds as may have been issued for the purpose of refunding any of such Bonds if such refunding bonds shall not then be owned by the Municipality) shall have the right from time to time to consent to and approve the adoption by the Governing Body of a resolution or resolutions modifying any of the terms or provisions contained in the Resolution; provided, however, that the Resolution may not be so modified or amended in such manner, without the consent of 100% of the Bonds, as to:

1. Make any change in the maturities or redemption dates of the Bonds;
2. Make any change in the rates of interest borne by the Bonds;



3. Reduce the amount of the principal payments or redemption premiums payable on the Bonds;
4. Modify the terms of payment of principal of or interest on the Bonds or impose any conditions with respect to such payments;
5. Affect the rights of the registered owners of less than all of the Bonds then outstanding; or
6. Reduce the percentage of the principal amount of the Bonds the consent of the registered owners of which is required to effect a further modification.

Whenever the Municipality shall propose to amend or modify the Resolution under the provisions of this Section, it shall cause notice of the proposed amendment to be mailed by first-class mail, postage prepaid, to the owner of each Bond then outstanding. Such notice shall briefly set forth the nature of the proposed amendment and shall state that a copy of the proposed amendatory resolution is on file in the office of the Municipality for public inspection.

Whenever at any time within one (1) year from the date of mailing of said notice there shall be filed with the Secretary of the Governing Body an instrument or instruments executed by the registered owners of at least a majority in aggregate principal amount of the Bonds then outstanding, which instrument or instruments shall refer to the proposed amendatory resolution described in said notice and shall specifically consent to and approve the adoption thereof, thereupon, but not otherwise, the Municipality may adopt such amendatory resolution and such resolution shall become effective and binding upon the owners of all Bonds.

If the registered owners of at least a majority in aggregate principal amount of the Bonds outstanding, at the time of the adoption of such amendatory resolution, or the predecessors in title of such owners, shall have consented to and approved the adoption thereof as in the Resolution provided, no registered owner of any Bonds, whether or not such owner shall have consented to or shall have revoked any consent, shall have any right or interest to object to the adoption of such amendatory resolution or to object to any of the terms or provisions therein contained or to the operation thereof or to enjoin or restrain the Municipality from taking any action pursuant to the provisions thereof.

Any consent given by the registered owner of a Bond shall be irrevocable for a period of six months from the date of the publication of the notice above provided for and shall be conclusive and binding upon all future registered owners of the same Bond or Parity Bond during such period. Such consent may be revoked at any time after six months from the date of publication of such notice by the registered owner who gave such consent or by a successor in title by filing notice of such revocation at the Municipality office, but such revocation shall not be effective if the registered owners of a majority in aggregate principal amount of the Bonds outstanding shall have, prior to the attempted revocation, consented to and approved the amendatory resolution referred to in such revocation.

Notwithstanding the foregoing, if any Bonds are insured by a bond insurance policy, the bond insurer issuing such bond insurance policy shall be entitled to consent to any modifications to the Resolution on behalf of the owners of the Bonds insured by such bond insurer, provided that no bond insurer shall be entitled to consent to any modifications to this Resolution that require the unanimous consent of the owners of the Bonds as described above.

#### **Discharge and Satisfaction of Bonds**

If the Municipality or BTES shall pay and discharge the indebtedness evidenced by any of the Bonds in any one or more of the following ways:

- (a) By paying or causing to be paid, by deposit of sufficient funds as and when required with the Registration Agent, the principal of and interest on such Bonds as and when the same become due and payable;

(b) By depositing or causing to be deposited with any trust company or financial institution whose deposits are insured by the Federal Deposit Insurance Corporation or similar federal agency and which has trust powers ("an Agent"; which Agent may be the Registration Agent) in trust or escrow, on or before the date of maturity or redemption, sufficient money or Defeasance Obligations, the principal of and interest on which, when due and payable, will provide sufficient moneys to pay or redeem such Bonds and to pay premium, if any, and interest thereon when due until the maturity or redemption date (provided, if such Bonds are to be redeemed prior to maturity thereof, proper notice of such redemption shall have been given or adequate provision shall have been made for the giving of such notice);

(c) By delivering such Bonds to the Registration Agent, for cancellation by it;

and if the Municipality or BTES shall also pay or cause to be paid all other sums payable hereunder by the Municipality or BTES with respect to such Bonds, or make adequate provision therefor, and by resolution of the Governing Body instruct any such Escrow Agent to pay amounts when and as required to the Registration Agent for the payment of principal of and interest and redemption premiums, if any, on such Bonds when due, then and in that case the indebtedness evidenced by such Bonds shall be discharged and satisfied and all covenants, agreements and obligations of the Municipality and BTES to the holders of such Bonds shall be fully discharged and satisfied and shall thereupon cease, terminate and become void.

If the Municipality or BTES shall pay and discharge the indebtedness evidenced by any of the Bonds in the manner provided in either clause (a) or clause (b) above, then the registered owners thereof shall thereafter be entitled only to payment out of the money or Defeasance Obligations deposited as aforesaid.

Except as otherwise provided in the Resolution, neither Defeasance Obligations nor moneys deposited with the Registration Agent pursuant to the Resolution nor principal or interest payments on any such Defeasance Obligations shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal and premium, if any, and interest on said Bonds; provided that any cash received from such principal or interest payments on such Defeasance Obligations deposited with the Registration Agent, (A) to the extent such cash will not be required at any time for such purpose, shall be paid over to BTES as received by the Registration Agent and (B) to the extent such cash will be required for such purpose at a later date, shall, to the extent practicable, be reinvested in Defeasance Obligations maturing at times and in amounts sufficient to pay when due the principal and premium, if any, and interest to become due on said Bonds on or prior to such redemption date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall be paid over to the Municipality, as received by the Registration Agent.

## APPENDIX B

### DISCLOSURE CERTIFICATE

This Disclosure Certificate (this "Disclosure Certificate") is executed and delivered this 27th day of July, 2005 by the City of Bristol, Tennessee (the "Issuer") in connection with the issuance of \$23,910,000 in aggregate principal amount of its Electric System Revenue Bonds, Series 2005 (the "Series 2005 Bonds"). The Issuer hereby covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Issuer for the benefit of the Beneficial Owners (as herein defined) of the Series 2005 Bonds and in order to assist the Participating Underwriter (as herein defined) in complying with the Rule (as herein defined). The obligations of the Issuer hereunder shall be assumed and exercised by Bristol Tennessee Essential Services ("BTES") and BTES has evidenced its assumption of such obligations by executing this certificate.

SECTION 2. Definitions. In addition to the definitions set forth in the Resolution (as herein defined), which apply to any capitalized terms used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Issuer pursuant to the Rule and this Disclosure Certificate.

"Beneficial Owner" shall mean any person who (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Series 2005 Bonds (including persons holding Series 2005 Bonds through nominees, depositories or other intermediaries) or (b) is treated as the owner of any Series 2005 Bonds for federal income tax purposes.

"Fiscal Year" shall mean any period of twelve consecutive months adopted by BTES as the fiscal year for its electric system (the "System") for financial reporting purposes, and shall initially mean the period beginning on July 1 of each calendar year and ending June 30 of the following calendar year.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"MSRB" shall mean the Municipal Securities Rulemaking Board, or any successor thereto. Currently, the MSRB's address is:

MSRB  
1150 18th Street, N.W.  
Suite 400  
Washington, DC 20036  
Attn: Disclosure

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. Currently, the following are National Repositories:

Interactive Data  
Attention: Repository  
100 Williams Street  
New York, New York 10038  
Telephone: (212) 771-6899  
Facsimile: (212) 771-7390  
Internet: NRMSIR@interactivedata.com

Bloomberg Municipal Repositories  
Post Office Box 840  
Princeton, New Jersey 08542-0840  
Telephone: (609) 279-3200  
Facsimile: (609) 279-5962  
Internet: MUNIS@bloomberg.com

Standard & Poor's J.J. Kenny Repository  
55 Water Street  
45th Floor  
New York, New York 10041  
Attention: Kenny Repository Service  
Telephone: (212) 438-4595  
Facsimile: (212) 438-3975

DPC Data, Inc.  
One Executive Drive  
Fort Lee, New Jersey 07024  
Telephone: (201) 346-0701  
Facsimile: (201) 947-0107  
Internet: nrmsir@dpcdata.com

"Official Statement" shall mean the Official Statement of the Issuer relating to the Series 2005 Bonds.

"Participating Underwriter" shall mean Wiley Bros.-Aintree Capital, LLC, Nashville, Tennessee.

"Repository" shall mean each National Repository and each State Repository.

"Resolution" shall mean the Resolution of the Issuer pursuant to which the Series 2005 Bonds were issued, adopted June 7, 2005.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State" shall mean the State of Tennessee.

"State Repository" shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule. As of the date of this Disclosure Certificate, there is no State Repository.

### SECTION 3. Provision of Annual Reports.

(a) Not later than ten (10) months after the end of the Fiscal Year, commencing with Fiscal Year ending June 30, 2005, the Issuer shall provide an Annual Report to each Repository. In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate. Notwithstanding the foregoing, the audited financial statements of the Issuer may be submitted separately from the balance of the Annual Report when such audited financial statements are available. In the event that the audited financial statements are not included with the Annual Report and will be submitted at a later date, the Issuer shall include unaudited financial statements of the Issuer in the Annual Report and shall indicate in the Annual Report the date on which the audited financial statements of the Issuer will be submitted. The audited financial statements of the System, when available, will be provided to each Repository.

(b) The Issuer shall also:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and each State Repository, if any and the MSRB; and

(ii) if the Annual Report (or audited financial statements which were to be separately submitted) is not filed in accordance with subsection (a), send a notice to each National Repository or the MSRB and each State Repository in substantially the form attached as Exhibit A.

SECTION 4. Content of Annual Reports. The System's Annual Report shall contain or incorporate by reference the following:

(a) If audited financial statements for the System are not yet available, the unaudited financial statements for the System, and when audited financial statements are available, the audited financial statements for the System, both such types of financial statements to be prepared in conformity with generally accepted accounting principles, as in effect from time to time. Such financial statements shall be accompanied by an audit report resulting from an audit conducted by an independent certified public accountant or firm of independent certified public accountants in conformity with generally accepted auditing standards.

(b) If the accounting principles changed from the previous Fiscal Year, a description of the impact of the change as required by Section 8 of this Disclosure Certificate.

(c) A statement indicating that the Fiscal Year has not changed, or, if the Fiscal Year has changed, a statement indicating the new Fiscal Year.

(d) An update of the information in Appendix D of the Official Statement under the following headings: Electric Rates; Number of Customers; Summary of Operations; Debt Service Coverage; and Ten Largest Electric Customers.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues with respect to which the Issuer is an "obligated person" (as defined by the Rule), which have been filed in accordance with the Rule and the other rules of the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The Issuer shall clearly identify each such other document so incorporated by reference.

SECTION 5. Reporting of Significant Events.

(a) This Section 5 shall govern the giving of notices of the occurrence of any of the following events:

- (i) Principal and interest payment delinquencies.
- (ii) Non-payment related defaults.
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (v) Substitution of credit or liquidity providers, or their failure to perform.
- (vi) Adverse tax opinions or events affecting the tax-exempt status of the Series 2005 Bonds.
- (vii) Modifications to rights of the security holders.
- (viii) Bond calls.
- (ix) Defeasances.

- (x) Release, substitution or sale of property securing repayment of the security.
- (xi) Rating changes.

(b) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event, the Issuer shall, within five business days, determine if such event would constitute material information for Beneficial Owners of the Series 2005 Bonds.

(c) If the Issuer determines that knowledge of the occurrence of a Listed Event would be material, the Issuer shall file a notice of such occurrence with each National Repository or the MSRB and each State Repository. Notice of Listed Events described in subsections (a)(viii) and (ix) shall be disseminated automatically, and need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to the Beneficial Owners of affected Series 2005 Bonds pursuant to the Resolution.

The content of any notice of the occurrence of a Listed Event shall be determined by the Issuer and shall be in substantially the form attached as Exhibit B.

SECTION 6. Termination of Reporting Obligation. The Issuer's obligations under this Disclosure Certificate shall terminate upon the defeasance (within the meaning of the Rule), prior redemption or payment in full of all of the Series 2005 Bonds. The Issuer shall notify each Repository that the Issuer's obligations under this Disclosure Certificate have terminated. If the Issuer's obligations are assumed in full by some other entity, such person shall be responsible for compliance with this Disclosure Certificate in the same manner as if it were the Issuer, and the original Issuer shall have no further responsibility hereunder.

SECTION 7. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. Any filing under this Disclosure Certificate may be made solely by transmitting such filing to the Texas Municipal Advisory Board (the "MAC") as provided at <http://www.disclosureusa.org> unless the United States Securities and Exchange Commission has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004.

SECTION 8. Amendment. This Disclosure Certificate may not be amended unless independent counsel experienced in securities law matters has rendered an opinion to the Issuer to the effect that the amendment does not violate the provisions of the Rule.

In the event that this Disclosure Certificate is amended or any provision of the Disclosure Certificate is waived, the notice of a Listed Event pursuant to Section 5(a)(vii) hereof shall explain, in narrative form, the reasons for the amendment or waiver and the impact of the change in the type of operating data or financial information being provided in the Annual Report. If an amendment or waiver is made in this Disclosure Certificate which allows for a change in the accounting principles to be used in preparing financial statements, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and impact of the change in the accounting principles on the presentation of the financial information. A notice of the change in the accounting principles shall be deemed to be material and shall be sent to each National Repository or the MSRB and each State Repository.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Certificate, the Issuer shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the Issuer to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any Beneficial Owner may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Issuer to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of any party to comply with this Disclosure Certificate shall be an action to compel performance. The cost to the Issuer of performing its obligations under the provisions of this Disclosure Certificate shall be paid solely from funds lawfully available for such purpose.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Issuer agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of their powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's gross negligence or willful misconduct. The Dissemination Agent may consult with counsel (who may, but need not, be counsel for any party hereto or the Issuer), and the opinion of such Counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance with the opinion of such Counsel. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Series 2005 Bonds.

SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Issuer, the Participating Underwriter, and Beneficial Owners from time to time of the Series 2005 Bonds, and shall create no rights in any other person or entity.

SECTION 13. Intermediaries; Expenses. The Dissemination Agent is hereby authorized to employ intermediaries to carry out its obligations hereunder. The Dissemination Agent shall be reimbursed immediately for all such expenses and any other reasonable expense incurred hereunder (including, but not limited to, attorney's fees).

SECTION 14. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SECTION 15. Governing Law. This Disclosure Certificate shall be governed by and construed in accordance with the laws of the State.

SECTION 16. Severability. In case any one or more of the provisions of this Disclosure Certificate shall for any reason be held to be illegal or invalid, such illegality or invalidity shall not affect any other provision of this Disclosure Certificate, but this Disclosure Certificate shall be construed and enforced as if such illegal or invalid provision had not been contained herein.

CITY OF BRISTOL, TENNESSEE

By: \_\_\_\_\_  
Mayor

BRISTOL TENNESSEE ESSENTIAL SERVICES

By: \_\_\_\_\_  
Chairman of the Board of Directors

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: City of Bristol, Tennessee

Name of Bond Issue: Electric System Revenue Bonds, Series 2005

CUSIP Number<sup>1</sup>: \_\_\_\_\_

Date of Issuance: \_\_\_\_\_, 2005

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report due with respect to the above-named Series 2005 Bonds as required by its Disclosure Certificate, dated \_\_\_\_\_, 2005. The Issuer anticipates that the Annual Report will be filed by \_\_\_\_\_.

This notice is based on the best information available at the time of dissemination. Any questions regarding this notice should be directed to \_\_\_\_\_.

Dated: \_\_\_\_\_

CITY OF BRISTOL, TENNESSEE

By: \_\_\_\_\_  
Chairman of the Board of Directors  
of Bristol Tennessee Essential Services

<sup>1</sup> No representation is made as to the correctness of the CUSIP number either as printed on the bonds or as contained herein, and reliance may only be placed on other bond identification contained herein.



EXHIBIT B  
NOTICE TO REPOSITORIES  
OF THE OCCURRENCE OF [INSERT THE LISTED EVENT]

Relating to

CITY OF BRISTOL, TENNESSEE  
ELECTRIC SYSTEM REVENUE BONDS,  
SERIES 2005  
CUSIP NUMBERS<sup>1</sup>:

Notice is hereby given that [insert the Listed Event] has occurred. [Describe circumstances leading up to the event, action being taken and anticipated impact.]

This notice is based on the best information available at the time of dissemination and is not guaranteed as to accuracy or completeness. Any questions regarding this notice should be directed to [insert instructions for presenting securities, if applicable].

[Notice of the Listed Events described in Section 5(a)(ix) shall include the following:

The Issuer hereby expressly reserves the right to redeem such refunded or defeased bonds prior to their stated maturity date in accordance with the optional/extraordinary redemption provisions of said defeased bonds.

OR

The Issuer hereby covenants not to exercise any optional or extraordinary redemption provisions under the Resolution; however, the sinking fund provision will survive the defeasance.

AND

The Series 2005 Bonds have been defeased to [maturity/the first call date, which is \_\_\_\_\_]. This notice does not constitute a notice of redemption and no bonds should be delivered to the Issuer or the Paying Agent as a result of this mailing. A Notice of Redemption instructing you where to submit your bonds for payment will be mailed \_\_\_\_\_ to \_\_\_\_\_ days prior to the redemption date.]

Dated: \_\_\_\_\_

CITY OF BRISTOL, TENNESSEE

By: \_\_\_\_\_  
Mayor

<sup>1</sup>No representation is made as to the correctness of the CUSIP number either as printed on the bonds or as contained herein, and reliance may only be placed on other bond identification contained herein.

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## APPENDIX C

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**Comprehensive Annual  
Financial Report**

**Bristol Tennessee Electric System**

A Municipal Electric Utility  
of the City of Bristol, Tennessee

Year ended June 30, 2004

Prepared by:

Accounting and Finance Department and General Manager

*Wendi Davis*

Wendi Davis  
Director of Accounting and Finance

*R. Michael Browder*

R. Michael Browder  
General Manager

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Bristol Tennessee Electric System  
Comprehensive Annual Financial Report

Year ended June 30, 2004

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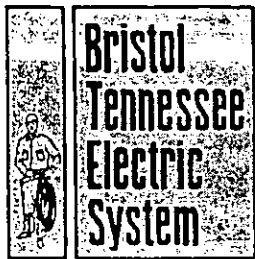
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December 2, 2004

To the Chairman and Members of  
the Power Board of Bristol Tennessee  
Electric System

### Letter of Transmittal

The Comprehensive Annual Financial Report ("CAFR") of Bristol Tennessee Electric System (the "System" or "BTES"), a self-supporting governmental enterprise fund of the City of Bristol, Tennessee operated under the general supervision and control of a five-member Power Board as per Chapter 32 Public Acts of Tennessee 1935, for the fiscal year ended June 30, 2004, is submitted herewith.

The CAFR was compiled by the staff of the Accounting and Finance Department with the close cooperation of our independent auditor. It represents the official report of the System's financial operations and conditions to the citizens, the Board, System management, rating agencies and other interested parties.

Responsibility for the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the System. We believe the data, as presented, are accurate in all material respects and are presented in a manner designed to fairly set forth the financial position and results of operations and cash flows of the System.

All disclosures necessary for the reader to gain a thorough understanding of the System's financial condition have been included.

In order to meet the needs of a broad spectrum of financial statement readers, the CAFR is presented in four sections:

- Introductory Section
- Financial Section
- Statistical Section
- Internal Control and Compliance Section

The **Introductory Section** includes the table of contents, this transmittal letter, an organizational chart of the System, the System's general philosophy, background of the System and a brief recap of fiscal year 2004.

The **Financial Section** is composed of the report of independent auditors; Management Discussion and Analysis, including a narrative introduction, financial overview and financial analysis; and the financial statements. The notes to the financial statements are considered an integral and essential part of adequate disclosure and fair presentation of the financial statements.

## Letter of Transmittal (continued)

The **Statistical Section** includes selected financial and demographic trend information. The tables within this section differ from certain information in the financial section in that they represent some non-accounting data covering ten fiscal years. These data were accumulated through System statistical collection.

The **Internal Control and Compliance Section** includes the independent auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.

The accompanying financial statements present the financial position, results of operations and cash flows of the System, in accordance with the requirements of the Governmental Accounting Standards Board ("GASB").

This report does not include the financial activities of the City of Bristol, Tennessee. Financial reports are available directly from the City of Bristol, Tennessee.

Bristol, Tennessee is located in the northeastern portion of the state. It is one of three cities in Sullivan County, with the other two being Kingsport and Bluff City. The population of Sullivan County is 153,050. Its industrial base is primarily manufacturing, followed by the service sector and agriculture.

Because of its central location in the eastern United States, Bristol is within 600 miles of approximately 53% of the population of the United States. Interstate 81 passes through the city. Bristol is part of the metropolitan statistical area ("MSA") of Bristol, Johnson City and Kingsport, commonly called the Tri-Cities MSA. With a population of over 485,884 people, the Tri-Cities MSA is 111th largest in the United States.

Bristol benefits from the state's high ranking in Alexander Grant and Company's GENERAL MANUFACTURING CLIMATES, which ranks Tennessee near the top in the nation as a place for manufacturing.

Bristol is a good place to work and live, with the following amenities:

- Excellent health care facilities
- Seven Tennessee Valley Authority lakes with 2,200 miles of shoreline
- Five national parks
- Bristol Motor Speedway (Two NASCAR dates per year with over 160,000 seats)
- Low crime rate
- Four distinct seasons
- Excellent schools
- Nine colleges and universities (Degrees ranging from Art to Medicine)
- Seven beautiful golf courses

Bristol and the surrounding areas continue to grow and prosper. Eastman Chemical Company is headquartered in Sullivan County. Exide's Super Battery Plant is in Bristol where they build and charge over 30,000 batteries per day. Several smaller facilities, such as The Robinette Company and Image 1 Wireless, have expanded or are planning an expansion. Royal Mouldings, located in the Bristol Industrial Park, is the largest marketer and manufacturer of decorative polymer moldings in the United States. They currently employ 75 people at their 150,000 square foot facility on 28 acres in the Bristol Industrial Park. They expect to expand their current location to 450,000 square feet in the near future and add additional employees.

## Letter of Transmittal (continued)

### FINANCIAL INFORMATION

#### *THE SYSTEM AS AN ENTERPRISE FUND*

The System operates under an independent Power Board as an enterprise fund of the City of Bristol, Tennessee. This being the case, the System funds its expenditures through its rates and charges and receives no income from City taxes. The System establishes rates annually to provide for anticipated cash outlays for operating expenses and capital improvement requirements.

#### *ACCOUNTING SYSTEM AND BUDGETARY CONTROL*

The System's financial accounting system is based on accounting principles generally accepted in the United States of America. Internal accounting controls are an integral part of the System's accounting process and are designed to provide reasonable, but not absolute, assurance that assets are safeguarded from unauthorized use or disposition and that records used for preparing financial statements and maintaining asset accountability are reliable.

The System applies Financial Accounting Standards Board ("FASB") pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. Consistent with other public utility enterprise funds, the System has elected not to adopt the FASB Statements and Interpretations issued after November 30, 1989, in accordance with GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting."

The System's Power Board approves the System's annual budget for its recommended rate, expenses and capital outlays. An analysis of revenue and operating expenses for the year ended June 30, 2004, is provided in the Financial Section of this report.

#### *ELECTRIC PLANT*

Electric plant is stated at cost, which includes cost of contract work, labor, materials and allocated indirect charges. Major renewals and betterments are capitalized, while minor replacements and repairs are expensed as incurred. Property, plant and equipment is depreciated using the straight-line method at rates which will amortize costs over the estimated useful lives of the assets. The provision for depreciation does not include depreciation on transportation equipment per Federal Energy Regulatory Commission Guidelines. Those amounts are reported as operation expenses in the Statements of Revenues, Expenses and Changes in Net Assets. The cost of electric plant retired, together with removal costs less salvage, is charged to accumulated depreciation when property is removed from service.

#### *CASH MANAGEMENT*

The System's moneys are deposited in banks insured by the FDIC. Investments permitted include obligations of the U.S. Treasury and U.S. agencies and certificates of deposit. Temporary investments, consisting entirely of certificates of deposit, are stated at cost which approximates fair value. The cash management performance for the year ended June 30, 2004, produced interest earnings of \$220,066.

## Letter of Transmittal (continued)

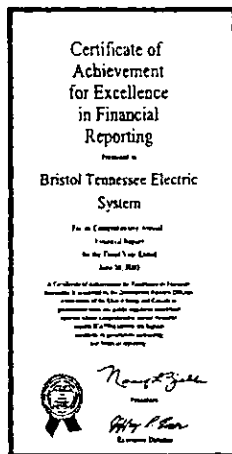
### RISK MANAGEMENT

The System's assets are protected through a third party insurance provider. Through this provider, coverage is provided for workers' compensation, comprehensive, general and automobile liability, auto physical damage, crime and fiduciary, errors and omissions, property, boiler and machinery and pollution. The System has not experienced a loss in excess of insurance coverage in any of the past three fiscal years.

### INDEPENDENT AUDIT

The System has an annual audit performed by independent certified public accountants. The firm of Coulter & Justus, P. C., was selected by the Board. The auditor's report on the financial statements is included in the Financial Section of this report.

### AWARDS



For the first time, the Government Finance Officers Association ("GFOA") awarded a Certificate of Achievement for Excellence in Financial Reporting to the System for its CAFR for the fiscal year ended June 30, 1997. The System was also awarded the certificate for its CAFR for the fiscal years ended June 30, 1998, 1999, 2000, 2001, 2002 and 2003. To qualify for this prestigious award, the System issued an easily readable and efficiently organized CAFR. In addition, this report satisfied both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our present report continues to meet the program's requirements, and we are submitting it to the GFOA to determine eligibility for another certificate.

### ACKNOWLEDGMENTS

The preparation of this report could not have been accomplished without the staff of the Accounting and Finance Department. We express our sincere appreciation to those who assisted and contributed to its preparation.

Sincere appreciation is also expressed to Sam Coulter, CPA, Don Talbott, CPA, and Ricky Jackson, CPA, and the staff at Coulter & Justus, P.C., for assistance throughout the year pertaining to various financial matters and for their assistance in the preparation of this report.

In closing, we would like to thank the members of the Power Board of Bristol Tennessee Electric System for their interest and support in planning and conducting the operations of the System in a responsible and progressive manner.

Respectfully submitted,

*Wendi Davis*

Wendi Davis  
Director of Accounting and Finance

*R. Michael Browder*

R. Michael Browder  
General Manager

## BACKGROUND INFORMATION

On June 30, 1945, the Tennessee Valley Authority (TVA) purchased the properties of East Tennessee Light and Power Company. Bristol Tennessee Electric System (BTES) was started July 1, 1945 as a result of a referendum in which the citizens of Bristol, Tennessee voted to purchase from TVA a portion of these properties. A \$1.3 million issue of Electric Light and Power bonds was required to finance the transaction. BTES immediately agreed to terms of a 20-year power contract for TVA to supply power which BTES distributed to the public at substantially lower rates.

As per Chapter 32 Public Acts of Tennessee 1935 and the contract with TVA, a five-member Power Board was established by the City to have general supervision and control of the municipally-owned electric system with one member serving from City Council. Current board members include Pereda R. "Pete" Paty, Patrick W. Hickie, Jr., Bryan K. Boyd, J. Scott MacMorran and City Council representative John S. Gaines.

The International Brotherhood of Electrical Workers (IBEW) has represented the trades and crafts employees since prior to TVA purchasing the system from East Tennessee Light and Power.

Sixty BTES employees serve over 31,000 customers in Bristol, Tennessee, Sullivan County and a portion of Washington County, Virginia (approximately 280 square miles of service area).

BTES purchases electric power from the Tennessee Valley Authority (TVA), the nation's largest public power generator of electricity. Our customers pay approximately 5.6 cents per kilowatt hour while the national average is 8.5 cents per kilowatt hour. BTES has had seven rate reductions since June 1982 with the most recent in October 1997. This does not include changes in wholesale power costs from TVA. In October 2003, TVA added an environmental charge to their rate to cover the cost of certain air pollution equipment. This effectively raised the rates on residential customers by 6% and small general power customers by 7%.

The electricity we purchase from TVA is delivered at 161,000 volts to our two delivery points, Bluff City Primary and Blountville Primary Substations. We step it down to 69,000 volts for subtransmission to other substations and to 13,200/7620 volts for distribution. In some cases, small distribution substations provide additional voltage reduction to large general power loads. The voltage entering a customer's home is 120/240 volts which is utilized for lighting, heating and operating household appliances. Businesses and industries may be served at 208/120, 480/277, 4160/2400 volts or other standard voltages.

In 1994, BTES received the American Public Power Association's prestigious E. F. Scattergood System Achievement Award for outstanding achievement by a utility.

## **BACKGROUND INFORMATION (continued)**

Also in 1994, BTES was one of three organizations to receive the Tennessee Quality Excellence Award presented to us by Governor Ned McWherter. The other two recipients were Nissan and FedEx. Other organizations that have received this prestigious award include: Eastman Chemical Company, Philips Consumer Electronics Company, Bridgestone/Firestone Company, Eaton Corporation, Methodist Medical Center of Oak Ridge, Baptist Health Systems of Knoxville, Fleetguard Incorporated, Caterpillar Financial Services, Memphis Light, Gas and Water and Pal's Sudden Service.

In June 1996, BTES received the American Public Power Association's Golden Tree Award in recognition of BTES planting over one tree per customer.

In June 1997, BTES received the American Public Power Association's Community Service Award for outstanding civic and community involvement by our employees.

In October 1997, General Manager R. Michael Browder received the 1997 Jim Spradley Award for individual accomplishments in the field of industrial and economic development in Tennessee that go above and beyond the requirements of the vocation for which they are compensated. The award was presented by Governor Don Sundquist at the Governor's Economic Summit in Nashville.

In May 2000, General Manager R. Michael Browder received the Tennessee Valley Public Power Association's Distinguished Service Award for his exceptional performance and contributions toward the accomplishment of the organization's goals.

In June 2002, General Manager R. Michael Browder completed his year as Chairman of the Board of the American Public Power Association.

For fiscal year 2003, we received the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting for the sixth year in a row.

In February 2004, BTES received the National Arbor Day Foundation Tree Line USA Award for the fifth year in a row in recognition of quality tree care, annual worker training, tree planting and public education.

## **RECAP OF FISCAL YEAR 2004**

During the past year, major engineering and construction projects included extending construction of the transmission distribution underbuild and lighting circuit along ½ mile of Highway 394 to Sportsway Drive. The transmission with distribution underbuild along Beaver Creek Road to Buffalo Substation was completed.

At Exide Substation, we added a second 12/16/20 mVA power transformer and three associated 13.2 kV circuits to serve the load at Exide Plant. Buffalo Substation was completed.

## RECAP OF FISCAL YEAR 2004 (continued)

We built 15 spans of three-phase distribution line to serve the Super Wal-Mart and added over 15,000 kVA of three-phase transformers to serve Exide Plant, Bristol Motor Speedway, Bristol Wastewater Treatment Plant, King Pharmaceuticals, Polymer Industrial Products and other smaller industrial loads. The traffic lights were installed at the intersection of Volunteer Parkway and Century Boulevard and street lights were added along a section of Highway 126 in Bristol and Highway 390 in Bluff City.

We installed over 13,000 feet of underground primary conductors to service new customers including 27 lots in Deer Field at Fairfield Subdivision and 65 condominiums in Rolling Brook Subdivision.

Nine reels of fiber optic cable were installed along 27 miles of existing distribution pole lines to interconnect existing substations to the Power Service Center.

A power transformer at Vance Substation failed this year and was replaced with a new 12/16/20 mVA power transformer.

In October 2003, TVA added an environmental charge to their rate to cover the cost of certain air pollution equipment. This effectively raised the rates on residential customers by 6% and small general power customers by 7%.

Forty-one BTES employees participated in an Organizational Behavior course at BTES in 2004. Every Thursday night for twelve weeks participants spent two hours in the evening learning more about themselves and teamwork. The concepts were immediately put into practice. Participants were divided into seven teams that worked on real BTES projects. In the last two sessions, they gave reports on their projects.

Our outage time per customer was 94 minutes for calendar year 2003.

During the last five years, we have been able to maintain our goal of a five-year tree clearance cycle. We continue to monitor frequency of tree-caused outages by areas and make more frequent visits to these areas. In 2003-2004, we cleared trees along feeder lines at King College Substation circuits 214 and 224; Industrial Substation circuits 254, 214 and 224; Ruthon Substation circuits 234, 274 and 254; Airport Substation circuits 224, 214 and 234; Adam's Chapel Substation circuits 214, 224 and 254 and Pemberton Substation circuits 214 and 224.

Our goal is to maintain the distribution transformer capacity ratio to 200 percent of peak demand or less. We continue to work to improve this number. We will reinstitute our transformer loading program to help us predict new customer demand needs. The transformer loading program will assist us in identifying transformers that we will investigate for being heavily loaded and change if necessary.

## **RECAP OF FISCAL YEAR 2004 (continued)**

During our routine substation preventative maintenance program, we discovered potential problems and made repairs to: station batteries and battery chargers at Medical Center, Steele Creek and Blountville Primary Substations; malfunctioning regulators at Bluff City District, Adams Chapel, Pemberton, Piney and Vance Substations. We repaired SCADA controls at Vance and Airport Substations and repaired a leaking pressure regulator on a power transformer at Shelby Street Substation.

Fifty-four problems ranging from minor to critical were discovered and repaired during our annual infrared inspections.

We checked 57 new three-phase meter installations and found no problems.

For the first ten months of fiscal year 2004, the average value of stores inventory was \$554,271. Stores personnel continue to monitor inventory levels and look for ways to reduce the cost of inventory. They work closely with engineering and construction personnel to have material for major jobs on hand just in time for the start of construction.

As the city's largest taxpayer, we paid the maximum in-lieu-of-tax payments as provided by Tennessee State Law and the TVA Contract to the City of Bristol in the amount of \$700,020 for fiscal year 2004. Combined with taxes paid to Sullivan County, Bluff City and Washington County, Virginia, a grand total of \$905,455 was paid by BTES.

We planted 51 dogwoods during the first 10 months of fiscal year 2004 through our Trade-A-Tree program.

Installation of an electronic mapping system is currently in progress. We are using a Trimble Global Positioning System (GPS) to enter the geographic location of all power system features such as poles, transformers, meters and lines into the BTES mapping system. The mapping platform will operate as a Geographical Information System (GIS) that will link BTES customer and facility data to the geographical symbols on the maps. A base map consisting of roads and property parcels is being used along with aerial photographs of the BTES service area. After the field data has been collected on all of the power system facilities, the new electronic maps will replace the existing paper mapping system.



## RECAP OF FISCAL YEAR 2004 (continued)

Our bad debts, as a percentage of retail revenue, averaged 0.175 percent for the first ten months of fiscal year 2004, which is well below our stated goal of 0.25 percent. The industry target is 0.4 percent. This has been accomplished in a variety of ways: We diligently work to prevent customers from falling too far behind in paying their electric bill. We thoroughly screen new applications to determine inclination to pay. In an effort to help those in need find necessary funding, we work with area churches, the Salvation Army, United Way, the Upper East Tennessee Human Development Authority and other customers via our "Help Your Neighbor" program. Our deposit procedure seems to be working well. Residential customers who demonstrate a history of paying their bills in a timely manner may have their deposit waived. A general power customer with a calculated standard deposit of \$10,000 or less which has a principal owner who has lived on our system five or more years with good pay and credit history and is willing to guarantee the account, may have the deposit reduced or waived. To date, no adverse effects have been detected.

We have been prepaying our power bill. Under this arrangement, we use an automated clearing house to send our money to TVA before actual payment is due. In return, we receive "interest" payments from TVA for the amount of their cost of short-term borrowing. This is used when TVA's rate is higher than we are able to receive through other investment vehicles.

In December 2002, we purchased \$8 million of Discounted Energy Units from TVA. Our participation in the program will assure a long-term supply of power at a low price and increase our return on investments. Over a ten year period, our power bill will be discounted by the principle and interest earned.

Efforts to increase sales of electricity continued. Efforts are ongoing to increase the use of heat pumps and electric water heaters, especially water heaters that can be switched off during peak-demand periods. During calendar year 2003, we inspected 186 heat pump installations and installed 775 water heaters. BTES has over 11,770 load-managed water heaters. During calendar year 2003, TVA paid us \$640,578 for the ability to cycle these water heaters off during peak times. More than 40 loans were made through the Energy Savings Loan Program at a total of \$187,962. Advertising, direct involvement with customers through our Homebuilders Association Spring Home Show, health fair booths, other events and communicating through our customer newsletter and electric bill messages continues to help add growth in these areas.

We continue to make subdivision development agreements available to developers. Instead of initially collecting the total cost for electric facilities installed to serve subdivisions, we offer to waive all or part of these costs for developers who agree to have all-electric homes with inspected heat pumps and load-managed water heaters built in their developments. Total costs are charged for any lots on which homes are built that are not all-electric. We presently have 447 lots in 21 subdivisions covered under this type agreement.

## RECAP OF FISCAL YEAR 2004 (continued)

Each customer who purchases a BTES water heater or who has an inspected heat pump installed is surveyed by mail. The surveys are used to monitor quality and customer satisfaction of the program and satisfaction with BTES employees and Quality Contractor Network employees.

For the 13th consecutive year, in cooperation with the Bristol Chamber of Commerce, the City of Bristol, Tennessee and the State of Tennessee, we maintained the Governor's Three-Star Community Economic Preparedness Program Award which signifies that Bristol has the organization, attitude, facilities and skills to attract and retain industry. A major component of this certification is having available property for industrial development. The Bristol Industrial Park purchased by BTES provides this component.

In calendar year 2003, BTES personnel visited 78 existing industries to discuss electrical needs, expansion possibilities and their satisfaction with the service they are receiving. BTES worked with the City of Bristol, State of Tennessee, TVA and Sullivan County to identify and assist 23 businesses with expansions or relocations to the Bristol area.

Our "Help Your Neighbor" program was conducted successfully for the 13th year to assist residential electric customers in paying their winter electric bills during difficult times. This year \$11,091 was contributed by customers and BTES' match. As in the past, the need of the customer is identified by the Salvation Army and funds are administered by the United Way. In fiscal year 2004, assistance was provided for over 100 families.

Eighty-two percent of our employees had perfect attendance for calendar year 2003.

For the 21st consecutive year, we had no lost-time accidents with a total of over 2.8 million man-hours since the last lost-time accident in 1982. There were no known high voltage personal injuries involving BTES facilities.

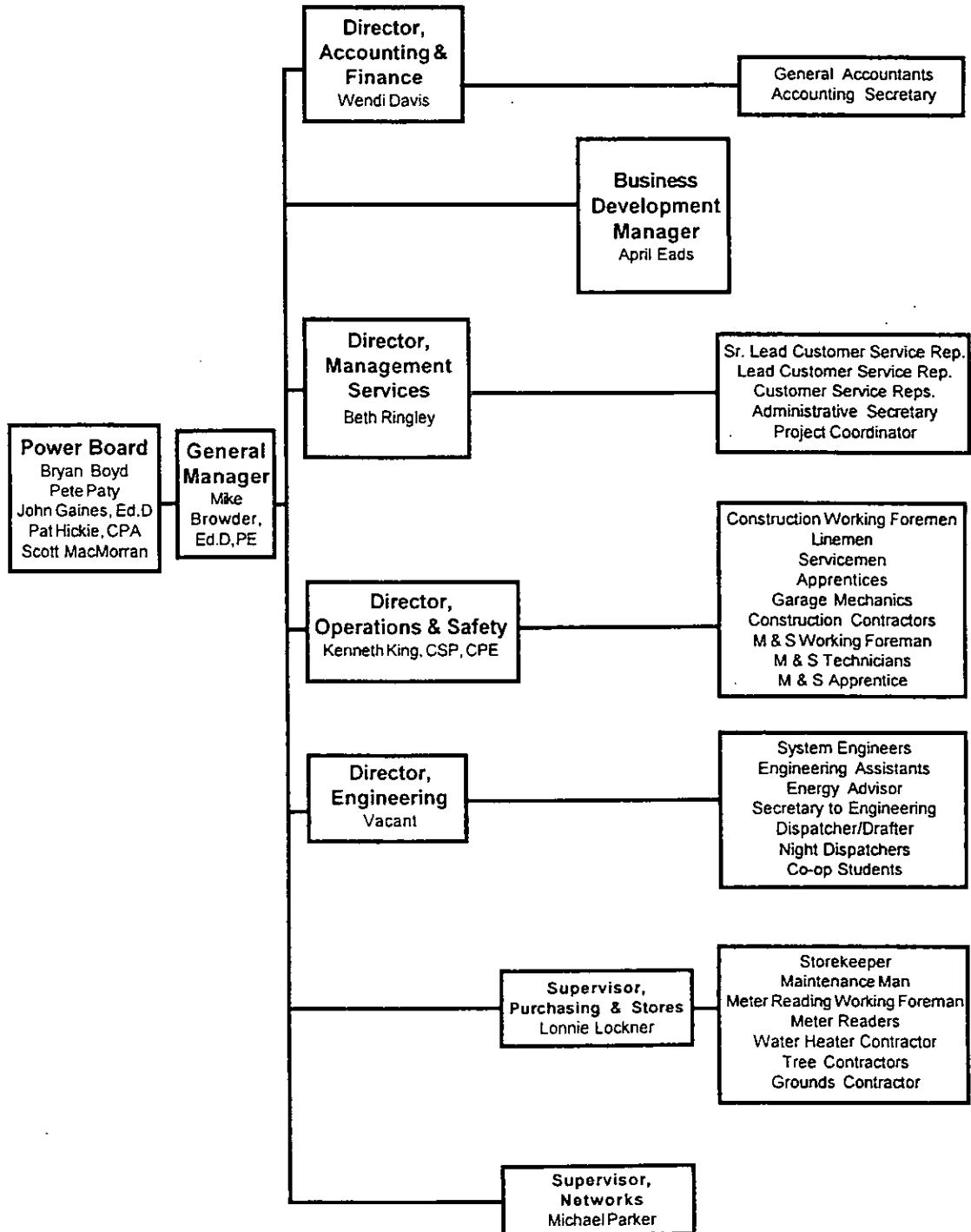
During calendar year 2003, nine full-time employees left BTES. This prompted organizational changes and the hiring of five new full-time employees and three part-time employees. We continued a co-op program for electrical engineering students.

We presented 37 awards at our heat pump dinner for Quality Contractor Network members.

At the annual Service Awards Banquet, we presented awards representing 175 years of service to one employee for 30 years of service, three employees for 25 years of service, two employees for 15 years of service, two employees for 10 years of service and three employees for five years of service to BTES and five recognition awards for new employees.

# Organization Chart

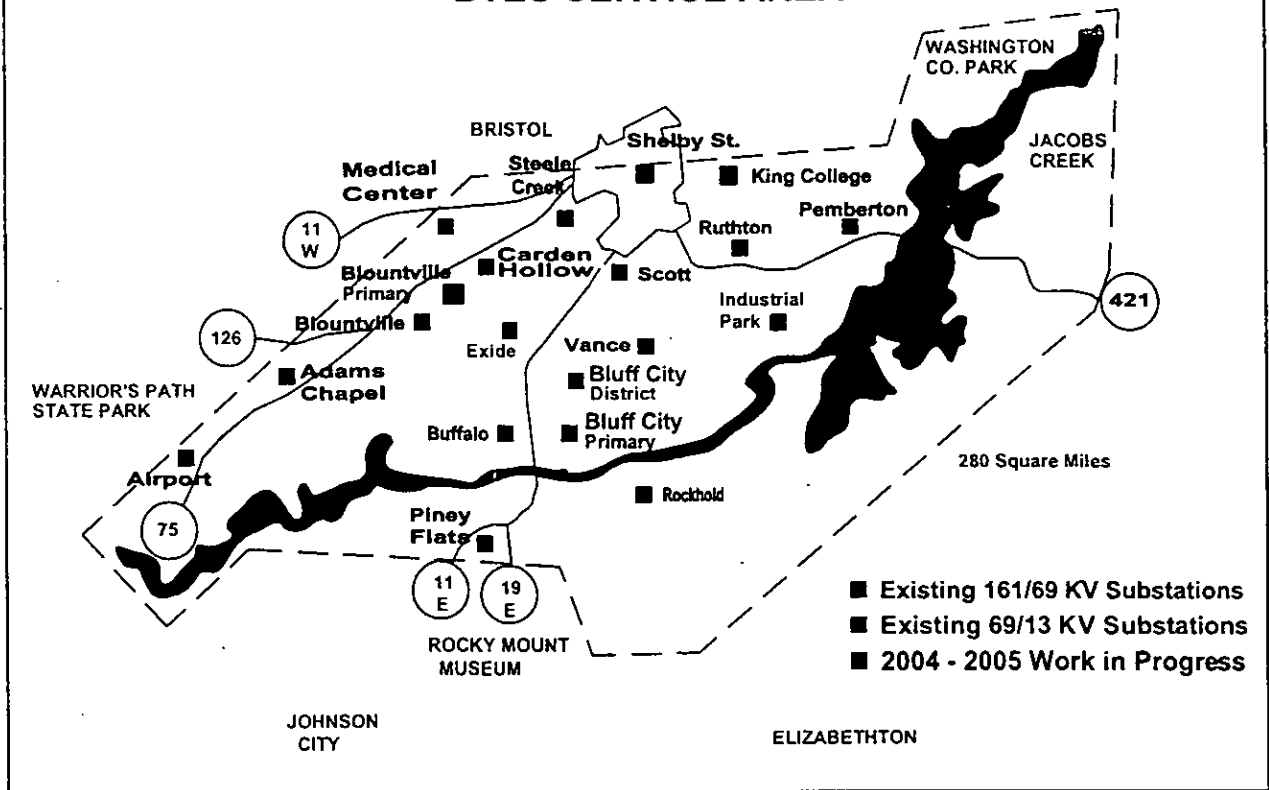
## June 2004



## General Philosophy

- ***Reliable Electric Service For Our Customers Is Essential***  
The customer is our reason for being and ultimately judges the quality of our service. We must provide safe, reliable, cost-effective service and properly allocate costs for BTES to survive, grow and meet the needs of our present and future customers.
- ***BTES Employees Are Our Most Important Asset***  
They provide the intelligence and determine the reputation of our organization. They are respected as valuable teamworkers striving to meet our goals of quality service. We are committed to providing a safe and healthy workplace for all BTES employees who are the driving force behind all we do.
- ***Resources Must Be Wisely Allocated And Used***  
Our resources (time, money, facilities and equipment) must be wisely allocated, utilized and invested to enable us to provide quality service at reasonable long-term rates.
- ***Our Vendors And Suppliers Are Our Partners***  
They provide goods and services that enable us to meet the needs of our customers. We will treat our vendors and suppliers with respect and create an environment which will ensure mutual success.
- ***Increasing Sales Helps Keep Rates Down***  
We are committed to increasing sales by developing additional load such as residential heat pumps, water heaters and industrial and commercial loads. This will help provide us a broader base to divide expenses which helps keep rates down.
- ***Safety, Conservation And Efficient Use Of Electricity Are Essential***  
We must provide a customer communication program through all area news media, school and civic programs, direct mail, in-house seminars, trade shows, etc., in order to educate and assist customers in the safety, conservation and efficient use of electricity.
- ***Planning Is Vital To Achievement***  
To achieve our objectives at BTES, it is necessary that we clearly understand our plans, objectives and strategies as we strive to maintain our excellence in service.
- ***Continuous Improvement Is The Key To Long-Term Success***  
We must continually strive for excellence and quality in everything we do - in our workmanship and services, the appearance and safety of our workplace, human relations and our commitment to our community and ourselves.
- ***We Want To Earn And Deserve The Trust And Respect Of Our Customers***  
The customer entrusts his family's welfare to us to provide his electrical power needs. He must have complete confidence in the quality service we provide and the people who work for us.
- ***A Positive Image Is A Valuable Asset***  
We strongly believe in a professional image and we will strive to maintain such an image in the eyes of our customers, vendors and business associates to improve the quality of life in our community.

## BTES SERVICE AREA



### Substations Owned and Operated by BTES

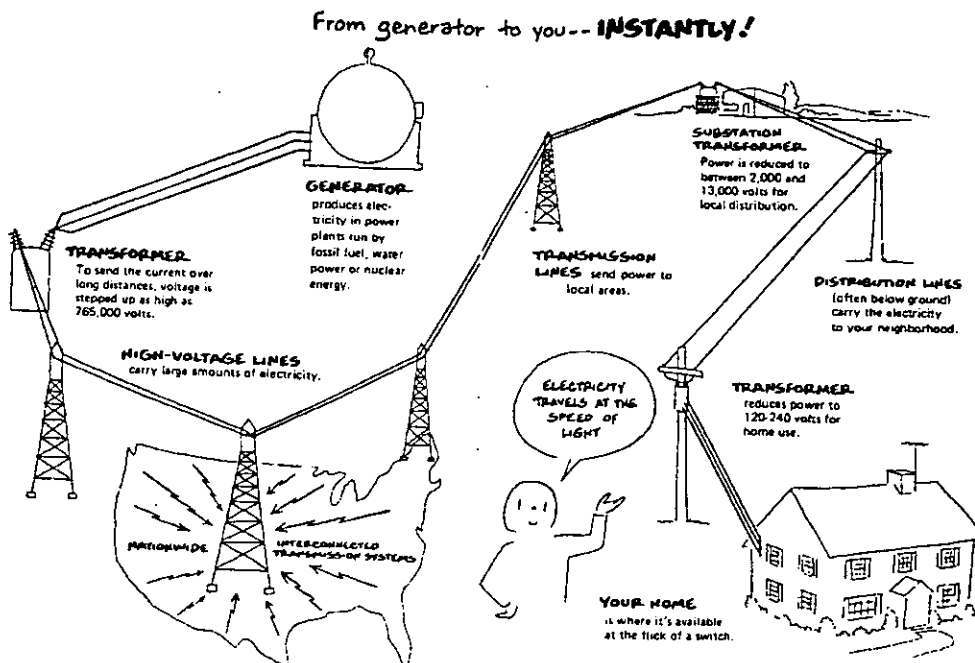
Bluff City Primary	*161/69 KV	200 MVA
Blountville Primary	*161/69 KV	200 MVA
Adams Chapel	69/13 KV	20 MVA
Airport	69/13 KV	20 MVA
Blountville	69/13 KV	25 MVA
Bluff City	69/13 KV	50 MVA
Buffalo	69/13 KV	20 MVA
Carden Hollow	69/13 KV	20 MVA
Exide	69/13 KV	40 MVA
Industrial Park	69/13 KV	20 MVA
King College	69/13 KV	20 MVA
Medical Center	69/13 KV	20 MVA
Pemberton	69/13 KV	20 MVA
Piney Flats	69/13 KV	20 MVA
Scott	69/13 KV	20 MVA
Shelby Street	69/13 KV	80 MVA
Steele Creek	69/13 KV	20 MVA
Ruthton	69/13 KV	10 MVA
Vance	69/13 KV	25 MVA

\*Delivery Point from TVA

#### Substations in the 2004-2005 Work Plan

Rockhold	69/13 KV	20 MVA
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## Electric Utility Terms



**Air-Source Heat Pump** - A system that can supply both space heating and cooling. In the heating cycle, the heat pump removes heat from the outside air and pumps it indoors. When cooling, the heat pump absorbs heat from the indoors and rejects it to the outside.

**Ampere** - Unit of measurement of electric current. It's proportional to the quantity of electrons flowing through a conductor past a given point in one second.

**Base Load** - The minimum load over a given period of time.

**Blackout** - A temporary loss of electricity in an area because of failure of generation or transmission equipment.

**Brownout** - A voltage reduction during an electrical shortage that causes conditions such as dim lights.

**Bus** - An electrical conductor which serves as a common connection for two or more electrical circuits.

**Capacity** - The load for which a generating unit, generating station or other electrical apparatus is rated by the user or the manufacturer.

**Circuit Breaker** - A switch that opens an electric circuit when a short occurs.

**Conductor** - Any substance, usually metallic, that will carry electricity.

**Degree Day** - A unit measuring the extent to which the average daily temperature varies from a standard reference temperature. Based on a reference temperature of 65 degrees Fahrenheit, if the average temperature (high plus low divided by 2) for a day is 70, then there are five cooling degree days for that day. Likewise, if the average temperature was 60, then there were five heating degree days. This historical information can be used for forecasting system load and planning unit maintenance outages, to name a few.

## Electric Utility Terms (continued)

**Delivery Point** - The point, usually a substation, to which electricity is transmitted from its generating sources.

**Demand** - The rate at which electric energy is delivered to a system. The primary source of demand is the power consuming equipment of the customers.

**Depreciation** - Charges made against income to equitably distribute the cost of the decrease in plant value during the period when services are obtained from use of the facilities. The decrease in plant value is caused by wear, deterioration or obsolescence.

**Deregulation** - Movement of an industry from one of monopolistic entities or environments to one free market enterprise; in the electric industry this involves elimination of service area and rate restrictions and obligation to serve; results in distributor choice of supplier and eventually customer choice of supplier.

**Dispatching** - The control of an electric system involving switching substations, transmission/distribution lines and other equipment. Monitoring and operating the SCADA system. Dispatching crews for emergencies and maintaining a log of work locations and purpose for outside crews.

**Distribution System** - A system that enables delivering electric energy at 2.4 kV to 25 kV from convenient points (substations) on the transmission system to the customers.

**Earth Coupled Heat Pump** - An efficient electrical device that heats or cools by moving heat into or out of a building. It uses an antifreeze solution or refrigerant in a pipe buried in the ground to collect or disperse heat. Also called geothermal system, ground source heat pump or water source heat pump.

**Easement** - A right obtained from property owners that allows utility companies to construct, operate, maintain, and control facilities such as transmission lines on the property.

**Eminent Domain** - The right of government to take, or to authorize the taking of, private property for public use, just compensation usually being given to the owner.

**Electric Current** - The flow of electric charge in a conductor between two points having a difference in potential, generally expressed in amperes.

**Electric and Magnetic Fields (EMF)** - Radiation surrounding conductors that carry electricity - present wherever electric power is being used.

**Fault** - A point of defect in an electric circuit that prevents the current from following the intended course.

**Fiber Optic Cable** - Cable capable of conducting modulated light transmission over a glass strand.

**Fiber Optic System** - A system which includes fiber optic cable plant, along with the necessary electronics, amplifiers, splitters, splice points and termination points to provide end-to-end communications and are capable of transporting voice, video and data over long distances.

**Insulator** - A non conductor, usually of glass or porcelain, for insulating and supporting electric wires.

**Kilowatt** - The basic unit of electric demand, equal to 1,000 watts - average household demand is 10 to 20 kilowatts.

### **Electric Utility Terms (continued)**

**Kilowatt Hour** - A unit of energy or work equal to 1,000 watt-hours. The basic measure of electric energy generation or use. A 100-watt light bulb burning for 10 hours uses one kilowatt hour.



## Deregulation Dictionary

The following are terms that you may encounter when reading about upcoming deregulation in the electric utilities industry.

**Access Charge** - a charge levied on a power supplier, or its customer, for access to a utility's transmission or distribution system. It is a charge for the right to send electricity over another's wires.

**Aggregator** - an entity that combines the needs of several smaller customers into a larger block of power in order to get a better price.

**Capacity** - the amount of electricity for which a generating plant or transmission system is rated.

**Commercial Customer** - non-manufacturing business customer.

**Customer Choice** - allows retail customers to select the power supplier or generator they buy electricity from.

**Demand** - the amount of power a customer takes at a given moment.

**Direct Access** - the ability of an electric end-user to connect directly with a power supplier, thus bypassing its local utility.

**Distribution System** - local delivery system of electricity to the retail customer's home or business through distribution lines. BTES is a distribution system.

**Electric Cooperative** - a member-owned electric utility company that distributes electricity on a nonprofit basis. Example: Mountain Electric Cooperative.

**Federal Energy Regulatory Commission (FERC)** - the agency that has jurisdiction over natural gas pricing, hydroelectric licensing, oil pipeline rates and gas pipeline certification.

**Generation Company (genco)** - an entity that operates electricity-generating plants. The genco may own the generation plants or interact with short-term marketers on behalf of plant owners.

**Independent Power Producer (IPP)** - a private entity that generates electricity and sells it to other businesses, including utilities.

**Independent System Operator (ISO)** - the independent operator of a transmission system, responsible for guaranteeing open access, scheduling, system reliability and accounting.

**Industrial Customer** - business customer engaged in manufacturing.

**Investor-owned Utility (IOU)** - a stockholder-owned power company that generates and distributes electric energy for profit. Example: American Electric Power.

**Municipal** - electric distribution system owned by a city to provide service for its residents. Example: BTES.

**Non-power Services** - includes such services as gas, home security and telecommunications.

**Power Marketer** - an entity that provides bulk wholesale power for use at a specific place and time. The marketer may or may not generate the power. Example: Cinergy.

**Regional Transmission Organization (RTO)** - FERC Order 2000 requires all investor-owned utilities to consider joining a RTO.

**Retail Wheeling** - a system in which individual retail electric customers are allowed to choose their electric supplier. Also known as retail competition.

## **Deregulation Dictionary (continued)**

**Service Area** - the geographic region that a utility is required to serve, or has the exclusive right to serve, in supplying electricity to the ultimate consumer.

**Stranded Costs** - costs of a utility that have already been legitimately and prudently incurred that are not economically viable in a competitive market.

**Tennessee Valley Authority** - generation and transmission company supplying power to 158 electric utilities in a seven-state region including Tennessee.

**Transmission System** - all the lines, poles and other equipment used to move bulk electricity from a generating plant to a distribution system.

**Unbundling** - separating the costs of operations of generation, transmission and distribution of electricity. An unbundled electric bill would list all costs associated with providing electricity to the consumer.

**Wheeling** - transmitting bulk electricity from a generating plant to a distribution system across a third system's lines.

**Wheeling Charge** - an amount charged to an electric system by another for the transmission of energy to and from another system.

**Wholesale Customer** - a power purchaser that buys for resale to retail customers. Example: BTES.

*Source: Tennessee Magazine*



## Report of Independent Auditors

Power Board  
Bristol Tennessee Electric System

We have audited the accompanying balance sheets of Bristol Tennessee Electric System (the "System"), an enterprise fund of the City of Bristol, Tennessee, as of June 30, 2004 and 2003, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the System and are not intended to present fairly the financial position and results of operations of the City of Bristol, Tennessee, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bristol Tennessee Electric System at June 30, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the System determined that Governmental Accounting Standards Board Statement No. 34 requires internal tax equivalent payments to the City of Bristol, Tennessee be reported as transfers. The amounts have previously been reported as an expense of the System. Accordingly, the 2003 financial statements have been restated to reflect this change.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2004, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Power Board  
Bristol Tennessee Electric System

The Management's Discussion and Analysis on pages 3 through 9 is not a required part of the financial statements but is supplementary information required by generally accepted accounting principles in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The other supplementary information listed in the introductory and statistical sections of the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the System. Such information has not been subjected to the auditing procedures applied in our audit of the financial statements and, accordingly, we express no opinion on it.

*Coulter & Justus, P.C.*

September 14, 2004

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# Bristol Tennessee Electric System

## Management's Discussion and Analysis

June 30, 2004

This discussion and analysis is intended to be an introduction to the financial statements and notes that follow this section and should be read in conjunction with them. Bristol Tennessee Electric System (the "System") implemented the Governmental Accounting Standards Board's ("GASB") Statement No. 34 ("Statement 34"), Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, for the comprehensive annual financial report for the year ended June 30, 2002. This section will provide narrative discussion and analysis of the financial activities of the System. The financial performance of the System is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section. The Introductory Section covers management's letter of transmittal and other System information.

### Financial Statement Overview

The financial statements herein are comprised of the Balance Sheets, the Statements of Revenues, Expenses and Changes in Net Assets, the Statements of Cash Flows and the accompanying Notes to Financial Statements.

The System is a self-supporting enterprise of the City of Bristol, Tennessee operated under the general supervision and control of a five-member Power Board as per Chapter 32 Public Acts of Tennessee 1935. The System issues a comprehensive annual financial report which is incorporated in the City's comprehensive annual financial report.

### Operating Highlights

#### Net Assets and Capital Assets

As indicated in Table 1, net assets were \$58,411,545 in 2004, compared to \$56,753,318 in 2003, and \$55,643,424 in 2002. Approximately 55% of the 2004 net assets are invested in capital assets. All remaining net assets are unrestricted and can be used for on-going operations of the System, although the Power Board has established a renewal and replacement fund totaling \$8,000,000 for future construction, improvements and extensions of the System.

**Table 1**

Bristol Tennessee Electric System Condensed Balance Sheets			
June 30,			
	2004	2003	2002
Current and other assets	\$ 33,241,589	\$ 31,790,663	\$ 31,296,910
Capital assets	31,895,221	31,567,958	29,297,114
Total assets	65,136,810	63,358,621	60,594,024
Current liabilities	6,725,265	6,605,303	4,950,600
Total liabilities	6,725,265	6,605,303	4,950,600
Net assets:			
Invested in capital assets	31,895,221	31,567,958	29,297,114
Unrestricted	26,516,324	25,185,360	26,346,310
Total net assets	\$ 58,411,545	\$ 56,753,318	\$ 55,643,424

## Management's Discussion and Analysis (continued)

As indicated in Table 2, during the year gross capital assets increased by \$2,238,660 or 3.3%. The System continues the installation of the fiber optic cable system in order to establish a communication link with all substations. Note in Table 3 that the increase in utility plant in 2004 was 3.1% as compared to 4.5% in 2003. Refer to the notes of the audited financial statements for more information regarding capital assets.

**Table 2**

Bristol Tennessee Electric System – Capital Assets				
	June 30 2004	Net of Accumulated Depreciation	June 30 2003	Net of Accumulated Depreciation
<b>Transmission Plant</b>				
Land and land rights	\$ 94,696	\$ 94,696	\$ 89,610	\$ 89,610
Station equipment	2,823,269	1,674,028	2,254,000	1,217,577
<b>Total Transmission Plant</b>	2,917,965	1,768,724	2,343,610	1,307,187
<b>Distribution Plant</b>				
Land & land rights	855,111	855,111	860,197	860,197
Structures & improvements	857,291	244,142	857,089	271,813
Station equipment	11,235,683	3,347,045	10,548,887	2,848,094
Poles, towers, and fixtures	11,904,362	4,672,130	11,768,809	4,956,417
Overhead conductors and devices	6,730,393	3,641,857	6,783,334	3,888,288
Underground conduit	1,072,978	376,256	1,075,579	398,938
Underground conductors and devices	3,293,308	861,978	3,257,785	956,651
Line transformers	10,926,265	5,707,588	10,807,297	5,858,463
Services	2,835,857	1,044,636	2,763,294	1,065,491
Meters	2,611,145	1,289,187	2,505,427	1,259,192
Installation on customers' premises	949,629	45,575	938,984	103,291
Street lighting and signal systems	2,876,321	691,620	2,752,832	736,954
<b>Total Distribution Plant</b>	56,148,343	22,777,125	54,919,514	23,203,789
<b>General Plant</b>				
Land and land rights	101,831	101,831	101,831	101,831
Structures and Improvements	1,158,943	609,780	1,158,943	623,484
Office Furniture and Equipment	387,411	161,580	350,663	131,028
Transportation Equipment	1,722,700	355,240	1,772,701	444,836
Stores Equipment	24,143	8,000	24,143	9,236
Tools, shop, and garage equipments	131,389	10,133	131,389	10,133
Laboratory equipment	104,035	5,965	104,035	6,302
Power operated equipment	104,946	11,435	104,946	17,859
Communication equipment	461,658	295,024	374,980	233,803
Miscellaneous equipment	43,408	3,652	43,408	3,787
<b>Total General Plant</b>	4,240,464	1,562,640	4,117,039	1,582,301
<b>Total Utility Plant in Service</b>	63,306,772	26,108,489	61,380,163	26,093,277
Construction work in progress	4,710,427	4,710,427	4,406,671	4,406,671
Non-utility property	1,076,305	1,076,305	1,068,010	1,068,010
<b>Total Capital Assets All Sources</b>	<b>\$69,093,504</b>	<b>\$ 31,895,221</b>	<b>\$ 66,854,844</b>	<b>\$ 31,567,958</b>



## Management's Discussion and Analysis (continued)

**Table 3**

Bristol Tennessee Electric System Changes to Utility Plant in Service Years ended June 30,		
	2004	2003
Utility plant in service beginning	\$ 61,380,163	\$ 58,712,902
Increases	2,998,387	3,193,162
Decreases	1,071,778	525,901
Utility plant in service ending	\$ 63,306,772	\$ 61,380,163

Note: Utility plant in service does not include non-utility property or construction work in progress.

### Results of Operations

As indicated in Table 4, net assets of the System increased by \$1,658,227 from fiscal year 2003 to 2004 and increased by \$1,109,894 from fiscal year 2002 to 2003. Operating revenues were principally derived from retail sales of electricity. Operating revenues were \$57,758,354 in 2004 as compared to \$53,346,617 in 2003, and \$49,995,435 in 2002; resulting in an 8.3% increase from 2003 to 2004 and a 6.7% increase from 2002 to 2003. Temperature throughout the year has historically been a main driver of electric sales. However, in October 2003 a rate increase of approximately 6% for residential customers and 7% for small general power took effect. Operating revenues are characterized in four major customer class types: residential, commercial, industrial and street and outdoor lighting, plus other revenue. The percentage of total operating revenue by category has stayed consistent from 2002 to 2004. See Figures 1, 2 and 3. As shown in Table 4, the internal tax equivalent payments made to the City of Bristol, Tennessee are reported as transfers. These amounts were previously reported as an expense. These changes were due to requirements of Statement 34. Fiscal year 2003 has been restated to reflect the change. The effective on net assets in fiscal year 2002 was not significant.

**Table 4**

Bristol Tennessee Electric System Condensed Statement of Revenues, Expenses and Changes in Net Assets Years ended June 30,			
	2004	2003 (Restated)	2002
Revenues:			
Operating revenues	\$ 57,758,354	\$ 53,346,617	\$ 49,995,435
Non-operating revenues	628,270	586,380	591,180
Total Revenues	58,386,624	53,932,997	50,586,615
Expenses:			
Purchased power	48,328,235	44,700,229	41,631,320
Operation expenses	2,742,670	2,599,092	2,412,090
Maintenance	2,634,557	2,532,830	2,319,609
Depreciation	1,897,728	1,960,025	1,917,691
Tax equivalents	212,113	205,435	195,369
Social security taxes	206,462	213,225	192,984
Interest exp on customer deposits	6,612	6,409	10,962
Total Expenses	56,028,377	52,217,245	48,680,025
Transfers out – tax equivalents to City of Bristol	(700,020)	(605,858)	(665,529)
Changes in Net Assets	1,658,227	1,109,894	1,241,061
Beginning net assets	56,753,318	55,643,424	54,402,363
Ending net assets	\$ 58,411,545	\$ 56,753,318	\$ 55,643,424

Management's Discussion and Analysis (continued)

Figure 1

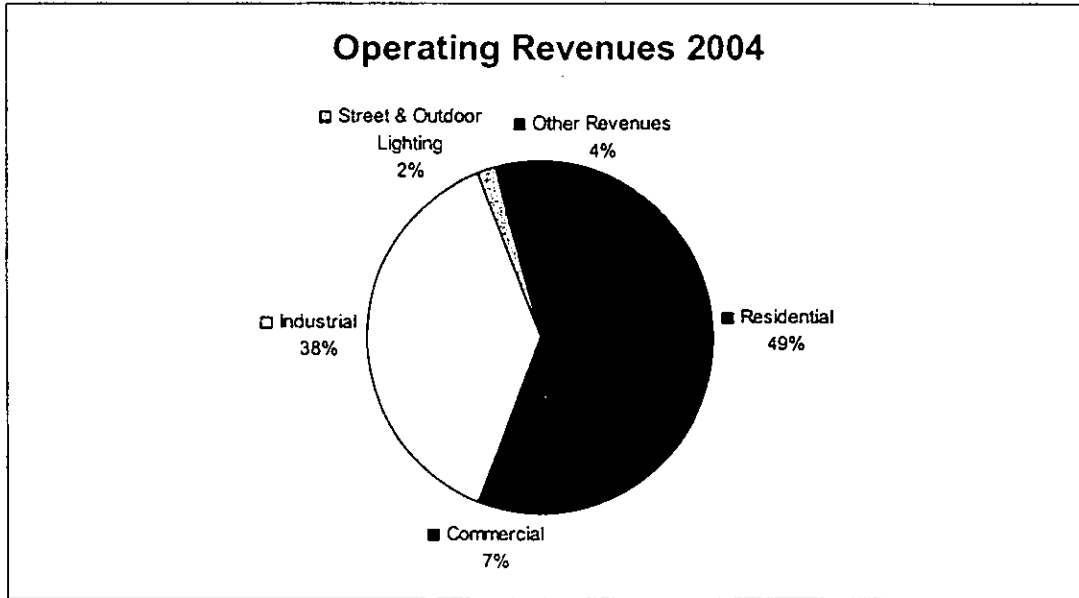
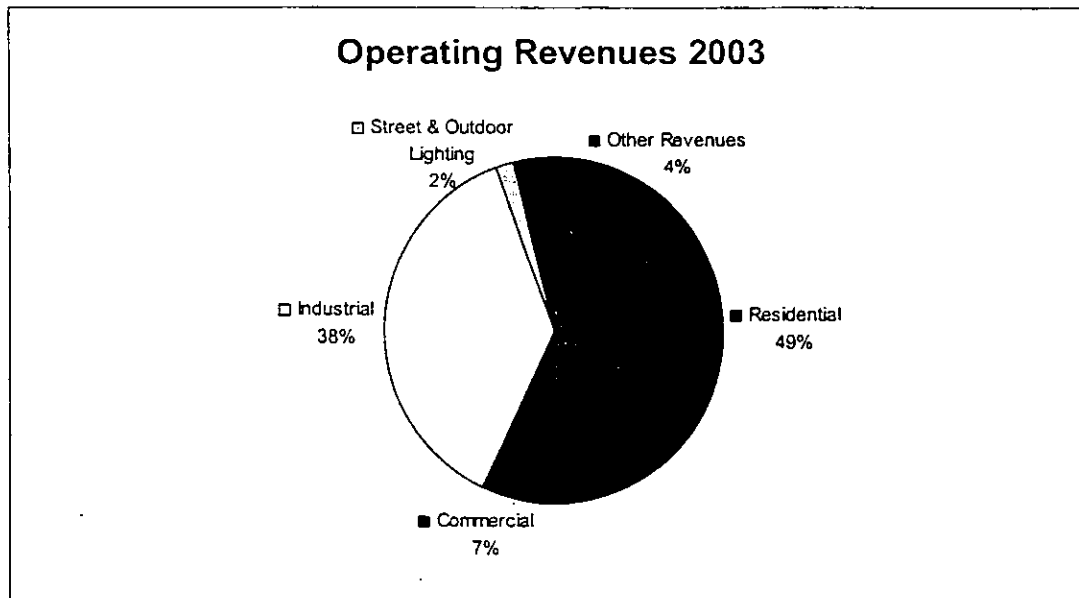
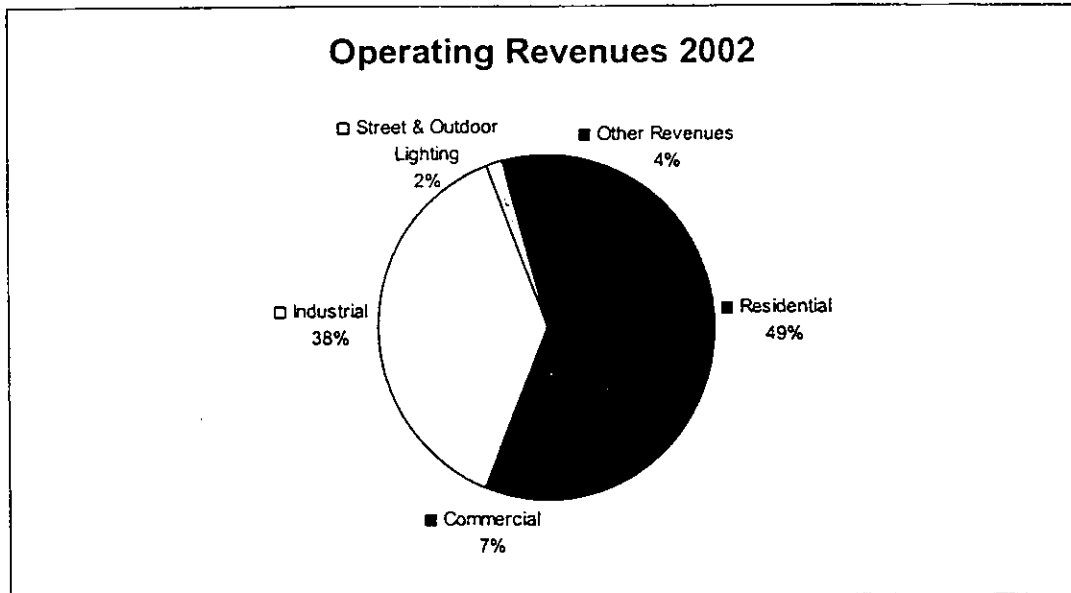


Figure 2



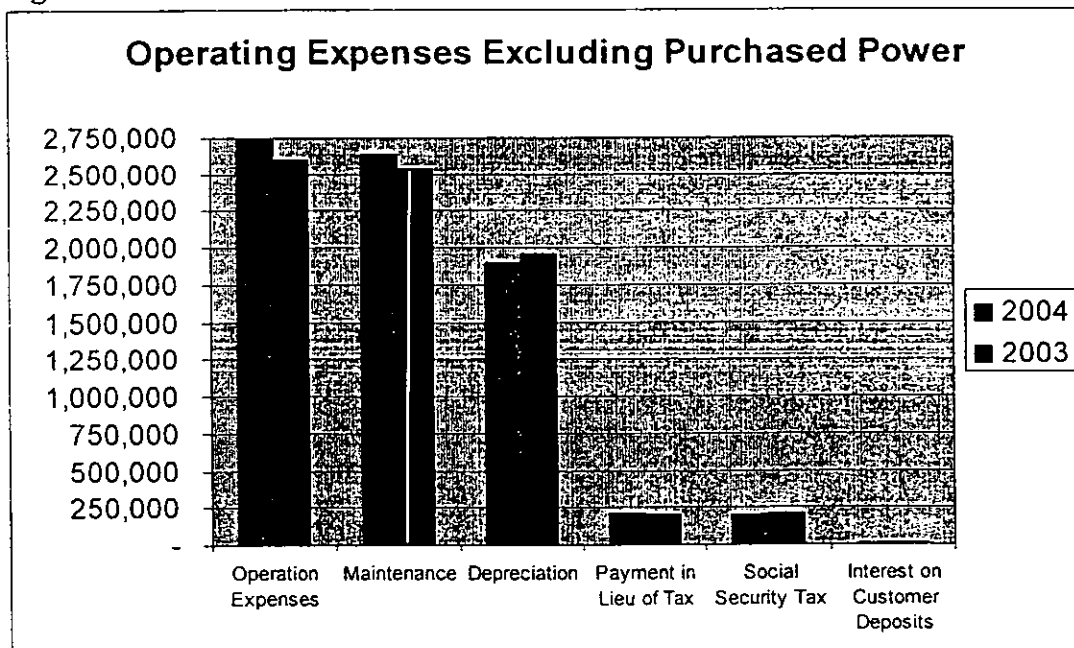
Management's Discussion and Analysis (continued)

Figure 3



Operating expenses, not including purchased power, increased from 2003 to 2004, as indicated in Figure 4. The total was \$7,700,142 in 2004 compared to \$7,517,016 in 2003, resulting in a 2.4% increase.

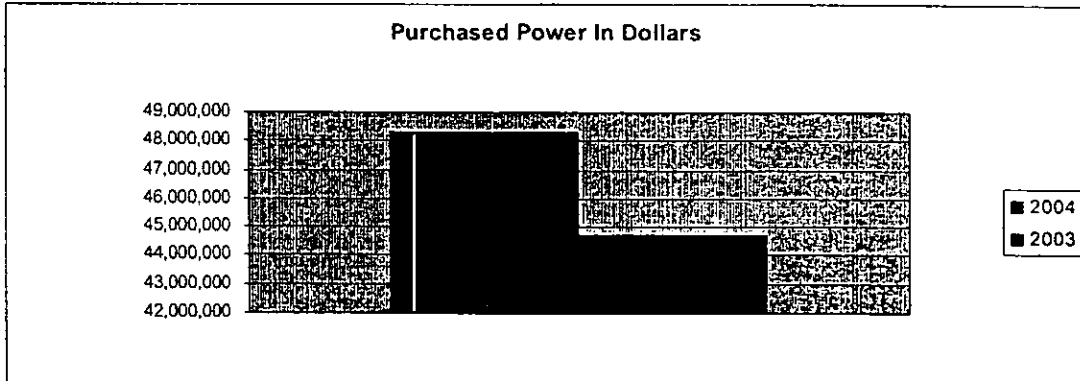
Figure 4



## Management's Discussion and Analysis (continued)

As indicated in Figure 5, purchased power costs were \$48,328,235 in 2004 as compared to \$44,700,229 in 2003, resulting in an 8.1% increase. The correlation between electric sales and purchased power and weather is clearly shown as discussed on page 5. Temperature is a main driver.

**Figure 5**



### Power Rates

The System purchases its entire year power supply requirements from Tennessee Valley Authority ("TVA"). Rate options available to the System's retail customers include firm, seasonal and interruptible service rates. The contract between TVA and the System provides for TVA regulation over retail rates to customers. The interruptible rate programs provide large commercial and industrial customers with the potential for reduced rates along with the right for TVA to interrupt service as needed.

There are four customers participating in interruptible rate programs with a combined interruptible load of 31,017 kilowatts or about 10% of the System's 2004 peak load. TVA's last curtailment of interruptible customers occurred in January 2004. Rate surveys show that the System's rates are some of the most competitive in the U.S.

### Deregulation

Over the last few years, Congress has been debating legislation to restructure the electric utility industry. Because of TVA's unique situation, deregulation and competition at both national and state levels are moving more slowly to the Tennessee Valley. Under the existing law, TVA is the exclusive supplier of power within its statutorily defined service territory, an 80,000 square-mile area that includes virtually the entire state of Tennessee and parts of Kentucky, Mississippi, Alabama, Georgia, North Carolina and Virginia. The System is shielded from competition until federal restructuring addresses the current law. The System continues to be involved in the restructuring effort individually and also as a member of the Tennessee Valley Public Power Association, the American Public Power Association, Tennessee Municipal Electric Power Association and the State of Tennessee Legislature.

## **Management's Discussion and Analysis (continued)**

### **Debt**

The System does not have bonds or notes payable for the years ended June 30, 2004 and June 30, 2003. However, the System posts interest on customer deposits on a monthly basis. The interest rate is based on the passbook savings account at local financial institutions and is reviewed from time to time. The annual interest rate for deposits was 0.6% as of June 30, 2004. The interest paid was \$6,612 for the year ended June 30, 2004 and \$6,409 for the year ended June 30, 2003. As shown in Figure 3, interest on deposits is insignificant compared to total operating expenses. The decrease in the Federal Reserve's prime rate has pushed the interest rates downward.

### **Payment In Lieu of Taxes**

The System makes an in-lieu-of-tax payment to the municipalities and counties in which it sells power and has electric utility plant. For the City of Bristol, Tennessee, City of Bluff City, Tennessee and Sullivan County, Tennessee, the in-lieu-of-tax payment is based on the formula provided by the State of Tennessee Municipal Electric System Tax Equivalent Law of 1987. The formula includes a property tax equivalency calculation plus 4% of operating revenue less power costs (three-year average). For Washington County, Virginia the in-lieu-of-tax payment is based on the real property tax rate of the electric utility plant. The total in lieu of taxes paid during the years ended June 30, 2004 and 2003 were approximately \$910,000 and \$810,000, respectively.

### **Non-Operating Revenue**

Interest from investments increased from \$586,380 in 2003 to \$628,270 in 2004, resulting in a less than 7.1% increase. As shown in Table 4, interest from investments is categorized as non-operating revenue. The System continues to look for ways to maximize their earnings, such as the TVA's Discounted Energy Units Program discussed below.

### **Discounted Energy Units (DEU) Program**

The System invested \$8,000,000 in TVA's Discounted Energy Units ("DEU") Program in December 2003. The goal of the DEU Program is to create a financial partnership between TVA and its distributors, such as the System, to help finance the re-start of the Browns Ferry Unit One power generator. This facility uses nuclear fuel to generate electricity. The potential benefits for the System are to ensure a reliable, low-cost power supply and provide a vehicle to better use operating cash and improve working capital liquidity. This program provides the System discounted monthly electric purchases that are equal to the monthly principle and interest payments. The discount rate is 5.5% and has a term of 10 years. The System may borrow against part of the DEU investment in emergency situations, if needed. During 2004 and 2003, the System recognized \$408,204 and \$233,820, respectively, in interest income from the amortization of the DEU's which is included in non-operating revenues discussed above.

# Bristol Tennessee Electric System

## Balance Sheets

June 30, 2004 and 2003

	June 30	
	2004	2003 (Restated)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 6,177,910	\$ 6,213,804
Accounts receivable:		
Trade	3,379,310	2,511,627
Other	379,053	295,518
Total accounts receivable	3,758,363	2,807,145
Accrual for unbilled revenues	2,918,421	2,116,385
Materials and supplies inventories	601,047	668,645
Prepaid power purchased from Tennessee Valley Authority	942,840	-
Current portion of customer notes receivable	675,000	625,000
Current portion of discounted energy units	671,653	635,796
Prepaid expenses and other current assets	183,141	302,930
Total current assets	15,928,375	13,369,705
Noncurrent assets:		
Capital assets:		
Capital assets in service	63,306,772	61,380,163
Less accumulated depreciation	(37,198,283)	(35,286,886)
Construction in progress	26,108,489	26,093,277
Non-utility property	4,710,427	4,406,671
Net capital assets	1,076,305	1,068,010
	31,895,221	31,567,958
Other assets:		
Customer notes receivable, less current portion	2,104,136	2,328,463
Long-term investments	8,000,000	8,000,000
Prepaid pension cost	791,151	933,077
Discounted energy units, less current portion	6,404,371	7,076,024
Other	13,556	83,394
Total other assets	17,313,214	18,420,958
Total noncurrent assets	49,208,435	49,988,916
Total assets	\$65,136,810	\$63,358,621

# Bristol Tennessee Electric System

## Balance Sheets (continued)

June 30, 2004 and 2003

	June 30	
	2004	2003
		(Restated)
<b>Liabilities and net assets</b>		
Current liabilities:		
Trade accounts payable	\$ 526,601	\$ 1,143,644
Accrual for unbilled power expense	2,510,084	1,862,321
Customer deposits and prepayments	1,943,072	1,774,042
Due to City of Bristol, Tennessee:		
Economic development funds passed through from		
Tennessee Valley Authority	811,039	944,011
Other	56,618	-
Other accrued liabilities	877,851	881,285
Total current liabilities	6,725,265	6,605,303
Net assets:		
Invested in capital assets	31,895,221	31,567,958
Unrestricted	26,516,324	25,185,360
Total net assets	58,411,545	56,753,318
 Total liabilities and net assets	 \$65,136,810	 \$63,358,621

See accompanying Notes to Financial Statements.

Bristol Tennessee Electric System  
Statements of Revenues, Expenses and Changes in Net Assets  
Years ended June 30, 2004 and 2003

	Year ended June 30	
	2004	2003
		(Restated)
Operating revenues:		
Residential	\$28,368,050	\$26,699,205
Commercial (general power - under 50 kw)	3,887,931	3,620,629
Industrial (general power - 50 kw and over)	22,143,093	20,071,592
Street and outdoor lighting	911,629	854,866
	<u>55,310,703</u>	<u>51,246,292</u>
Other revenues	2,447,651	2,100,325
Total operating revenues	<u>57,758,354</u>	<u>53,346,617</u>
Power purchased from Tennessee Valley Authority	<u>48,328,235</u>	<u>44,700,229</u>
Gross profit	<u>9,430,119</u>	<u>8,646,388</u>
Operating expenses:		
Operation expenses	2,742,670	2,599,092
Maintenance	2,634,557	2,532,830
Depreciation	1,897,728	1,960,025
Tax equivalents	212,113	205,435
Social security taxes	206,462	213,225
Interest expense on customer deposits	6,612	6,409
Total operating expenses	<u>7,700,142</u>	<u>7,517,016</u>
Operating income	<u>1,729,977</u>	<u>1,129,372</u>
Nonoperating revenue--interest income (including \$408,204 in 2004 and \$233,820 in 2003 related to amortization of discounted energy units)	<u>628,270</u>	<u>586,380</u>
Income before transfers	<u>2,358,247</u>	<u>1,715,752</u>
Transfers out--tax equivalents to the City of Bristol, Tennessee	<u>(700,020)</u>	<u>(605,858)</u>
Change in net assets	<u>1,658,227</u>	<u>1,109,894</u>
Net assets at beginning of year	<u>56,753,318</u>	<u>55,643,424</u>
Net assets at end of year	<u>\$58,411,545</u>	<u>\$56,753,318</u>

*See accompanying Notes to Financial Statements.*



Bristol Tennessee Electric System  
Statements of Cash Flows  
Years ended June 30, 2004 and 2003

	Year ended June 30 2004	2003 (Restated)
<b>Cash flows from operating activities</b>		
Cash received from customers	\$54,322,743	\$52,984,752
Cash received from City of Bristol, Tennessee	1,901,676	1,201,865
Cash paid to suppliers and vendors	(49,884,474)	(41,685,814)
Cash paid to employees for services	(2,834,374)	(2,904,642)
Cash paid to City of Bristol, Tennessee	(746,924)	(665,529)
Net cash provided by operating activities	<u>2,758,647</u>	<u>8,930,632</u>
<b>Cash flows from noncapital financing activities</b>		
Transfers to City of Bristol, Tennessee	(700,020)	(605,858)
<b>Cash flows from investing activities</b>		
Interest received on investments	220,066	353,793
Payment for discounted energy units	-	(8,000,000)
Net cash provided by (used in) investing activities	<u>220,066</u>	<u>(7,646,207)</u>
<b>Cash flows from capital and related financing activities</b>		
Net additions to property, plant and equipment	<u>(2,314,587)</u>	<u>(4,308,501)</u>
Decrease in cash and cash equivalents	(35,894)	(3,629,934)
Cash and cash equivalents at beginning of year	6,213,804	9,843,738
Cash and cash equivalents at end of year	<u>\$ 6,177,910</u>	<u>\$ 6,213,804</u>

Bristol Tennessee Electric System  
Statements of Cash Flows (continued)  
Years ended June 30, 2004 and 2003

	Year ended June 30	
	2004	2003
	(Restated)	
<b>Reconciliation of operating income to net cash provided by operating activities</b>		
Operating income	\$ 1,729,977	\$ 1,129,372
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,987,324	2,037,657
Provision for losses on accounts receivable	124,038	113,136
Redemption of discounted energy units	1,044,000	522,000
Changes in operating assets and liabilities:		
Accounts receivable	(1,075,256)	645,313
Accrual for unbilled revenues	(802,036)	(218,860)
Prepaid power purchased from Tennessee Valley Authority	(942,840)	3,022,569
Materials and supplies inventories	67,598	3,667
Customer notes receivable	174,327	82,229
Prepaid pension cost	141,926	-
Other assets	189,627	(61,154)
Trade accounts payable	(617,043)	1,142,390
Due to City of Bristol, Tennessee	(76,354)	(32,815)
Unbilled power expense	647,763	206,582
Customer deposits and prepayments	169,030	331,318
Other liabilities	(3,434)	7,228
Net cash provided by operating activities	<u>\$2,758,647</u>	<u>\$ 8,930,632</u>

*See accompanying Notes to Financial Statements.*

# Bristol Tennessee Electric System

## Notes to Financial Statements

June 30, 2004 and 2003

### 1. Significant Accounting Policies

#### General

The Bristol Tennessee Electric System (the "System") is a self-supporting enterprise fund of the City of Bristol, Tennessee (the "City"). The City is the primary reporting entity. An enterprise fund is used to account for the financing of services to the general public on a continuing basis with costs recovered primarily through user charges. The Power Board of the System is the level of responsibility that has oversight and control of the electric distribution system. The Power Board sets all policies, local rates and appoints the General Manager. The Power Board is composed of five members, one of whom is also a member of the City Council, who are appointed by the mayor and confirmed by the City Council. They serve four-year staggered terms. The System manages, operates and maintains the electric utility servicing the citizens of the City and surrounding areas. The System issues a comprehensive annual financial report which is combined in the City's comprehensive annual financial report.

The System utilizes the accrual basis of accounting whereby revenues are recorded in the period the related services are provided, and expenses are recorded in the period incurred. Accordingly, the System has recorded an estimate of unbilled revenue and unbilled power expense. The System considers all revenues and expenses to be operating, except for interest income which is classified as nonoperating.

The System applies Financial Accounting Standards Board ("FASB") pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board ("GASB") pronouncements, in which case, GASB prevails. The System has elected not to adopt the FASB Statements and Interpretations issued after November 30, 1989, in accordance with GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting".

The System applies the provisions GASB No. 34, "Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments" ("Statement 34"), as amended by GASB No. 37, "Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Government: Omnibus" ("Statement 37"). Statements 34 and 37 established standards for external financial reporting and disclosure for all state and local governmental entities, which includes a balance sheet, a statement of revenues, expenses and changes in net assets and a statement of cash flows. Statement 34 requires the classification of net assets into three components -- invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

Bristol Tennessee Electric System  
Notes to Financial Statements (continued)  
June 30, 2004 and 2003

**1. Significant Accounting Policies (continued)**

**General (continued)**

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
- Restricted – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted – This component of net assets consists of net assets that do not meet the definition of “restricted or “invested in capital assets, net of related debt.”

The System has no outstanding debt related to the acquisition, construction or improvement of capital assets nor does it have any assets restricted via constraints. Accordingly, the System's net assets are categorized as invested in capital assets and unrestricted. The unrestricted category includes a renewal and replacement fund of \$8,000,000 which was established by the Power Board to set aside funds for future construction, improvements and extensions of the System.

During 2004, the System determined that Statement 34 requires internal tax equivalent payments to the City of Bristol, Tennessee be reported as transfers. The amounts have previously been reported as an expense of the System. Accordingly, the 2003 amounts have been restated to reflect this change. The effect of this restatement was to increase the System's 2003 change in net assets by \$700,020.

**Measurement Focus**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The System's operations are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the enterprise fund are included on the balance sheet. Operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in net total assets.

**Fiscal Year-End**

The System operates on a fiscal year ending June 30. All references in these notes refer to the fiscal year-end unless otherwise specified.

Bristol Tennessee Electric System  
Notes to Financial Statements (continued)  
June 30, 2004 and 2003

**1. Significant Accounting Policies (continued)**

**Materials and Supplies Inventories**

Materials and supplies are valued at the lower of cost or market, utilizing the moving average method of determining cost.

**Capital Assets**

Capital assets are carried at historical cost, including applicable general and administrative costs and payroll related costs such as pensions, taxes and other employee benefits. Substantially all renewals and betterments are capitalized in accordance with the System's capitalization policy. When property is retired or otherwise disposed of, its average cost, together with its cost of removal less salvage, is charged to accumulated depreciation; no gain or loss is recognized.

Capital assets other than land, construction in progress and non-utility property, are depreciated using the straight-line method at rates which will amortize costs over the estimated useful lives of the assets. The estimated useful lives of depreciable capital assets are as follows:

Transmission equipment, fixtures and devices	30 to 40 years
Distribution transformers, meters, fixtures and devices	15 to 50 years
Buildings and improvements	50 years
Furniture, fixtures and equipment	5 to 25 years

The provision for depreciation does not include depreciation on transportation equipment. Those amounts are reported as operating expenses in the Statements of Revenues, Expenses and Changes in Net Assets and totaled \$89,596 in 2004 and \$77,632 in 2003. The cost of maintenance and repairs is charged to expense as incurred.

**Investments**

Temporary investments, consisting entirely of certificates of deposit, are stated at cost which approximates fair value.

**Compensated Absences**

The System recognizes the cost of vacation pay as earned. In the event of termination or retirement, an employee is reimbursed for accumulated vacation days. In general, accumulated vacation days are limited to thirty days.

**Use of Estimates**

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

Bristol Tennessee Electric System  
Notes to Financial Statements (continued)  
June 30, 2004 and 2003

**1. Significant Accounting Policies (continued)**

**Cash and Cash Equivalents and Investments**

Cash and cash equivalents include cash on hand and in demand deposits, and those investments which are generally a part of the System's short-term cash management activities. State statutes authorize the System to invest in certificates of deposit, U.S. Treasury obligations, U.S. Agency issues and the State Local Government Investment Pool.

**Reclassifications**

Certain amounts in the 2003 financial statements have been reclassified to conform with 2004 classifications.

**2. Power Contract**

The System has a power contract with the Tennessee Valley Authority ("TVA") whereby the System purchases all its electric power from TVA and is subject to certain restrictions and conditions as provided in the contract. Either party may terminate this contract at any time upon not less than five years prior written notice.

**3. Residential Energy Efficiency Program Loans**

The System provides loans to customers for heat pump and insulation costs under the System's Residential Energy Efficiency Program. The majority of these loans bears interest at rates ranging from 8% to 10.25% and has maturities of up to 10 years. Satisfactory credit reports are required prior to loan approval. Additionally, these loans are secured by a deed of trust on the property. The System recorded interest income of approximately \$237,000 in 2004 and \$270,000 in 2003 related to these loans. These amounts offset operating expenses in the Statements of Revenues, Expenses and Changes in Net Assets, since management believes this is an operating activity and the income should offset the additional expenses associated with maintaining this loan program.

**4. Concentration of Credit Risk**

The System provides electric service primarily to customers in northeastern Tennessee. Customers include residential and industrial service. Residential customers are required to have satisfactory credit reports or place deposits with the System that approximate two month's account balance. Industrial customers are generally required to either place deposits with the System that approximate two month's account balance or obtain a letter of credit or surety bond as security. Interest accrues on any deposits at the passbook interest rate of the bank where the funds are deposited and totaled \$6,611 in 2004 and \$6,409 in 2003. The System also makes and services loans to customers for heat pump and insulation costs. A subordinate deed of trust is obtained on the related property for these loans. Loss experience on accounts and notes receivable has not been significant to the System's operations.

Bristol Tennessee Electric System  
Notes to Financial Statements (continued)

June 30, 2004 and 2003

**5. Pension Plan**

**Plan Description**

Certain employees of the System are members of the Political Subdivision Pension Plan ("PSPP"), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System ("TCRS"). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with 5 years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with 5 years of service who became disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the System after July 1, 1979, become vested after 5 years of service and members joining prior to July 1, 1979, were vested after 4 years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the *Tennessee Code Annotated* ("TCA"). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as the System participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230 or can be accessed at [www.treasury.state.tn.us](http://www.treasury.state.tn.us).

**Funding Policy**

The System requires employees to contribute 5% of earnable compensation.

The System is required to contribute at an actuarially determined rate using the frozen entry age actuarial cost method; the rate for 2004 and 2003 was 5.44% of annual covered payroll. The 2004 and 2003 required contributions were determined as part of the July 1, 2001, actuarial valuation. The contribution requirements for plan members are set by state statute. The contribution requirements for the System are established and may be amended by the TCRS Board of Trustees.

Bristol Tennessee Electric System  
Notes to Financial Statements (continued)  
June 30, 2004 and 2003

**5. Pension Plan (continued)**

**Prepaid Pension Cost**

GASB Statement No. 27, "Accounting for Pensions by State and Local Governmental Employers", requires employers to record contributions to a pension plan in excess of the annual pension cost as an asset. The System has previously contributed amounts in excess of the annual pension cost to the PSPP and recorded these amounts as a prepaid pension cost. Activity in the prepaid pension cost is as follows for the years ended June 30:

	2004	2003
Balance at beginning of year	\$933,077	\$933,077
Annual pension cost:		
Annual required contribution	148,723	152,248
Interest on prepaid pension cost	(63,238)	(66,867)
Adjustment to the annual required contribution	205,164	66,867
Total annual pension cost	290,649	152,248
Contributions made	148,723	152,248
Decrease in prepaid pension cost	(141,926)	-
Balance at end of year	\$791,151	\$933,077

**Actuarial Assumptions**

Significant actuarial assumptions used in the July 1, 2001, valuation include (a) rate of return on investment of present and future assets of 7.5% a year compounded annually, (b) projected salary increases of 4.75% (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.5% annual increase in the Social Security wage base and (d) projected post-retirement increases of 3% annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the fair value of total investments over a five-year period. The System's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2001, was 14 years. An actuarial valuation was performed as of July 1, 2003, which established contribution rates effective July 1, 2004.

**Trend Information**

Year ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Prepaid Pension Cost
2004	\$290,649	51.2%	\$791,151
2003	152,248	100.0%	933,077
2002	60,625	214.6%	933,077



Bristol Tennessee Electric System  
Notes to Financial Statements (continued)  
June 30, 2004 and 2003

**5. Pension Plan (continued)**

**Required Supplementary Information**

Schedule of Funding Progress (Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/01/03	\$11,831	\$12,907	\$1,076	91.66%	\$2,584	41.64%
7/01/01	11,492	12,584	1,092	91.32%	2,465	44.30%
7/01/99	10,589	11,083	494	95.54%	2,317	21.32%

**6. 401(k) Retirement Plan**

The System administers a defined contribution plan in the form of a 401(k) plan (Bristol Tennessee Electric System 401(k) Retirement Plan) available to all employees who have completed six months of employment. During 2004, the amount of payroll covered by the plan was \$2,495,331 of total payroll of \$2,771,405. During 2003, the amount of payroll covered by the plan was \$2,579,099 of total payroll of \$2,828,368. Under the plan terms, the System will match participant contributions up to 6% of the participant's salary (3% of participant's salary prior to October 2002). Participants are not required but may contribute up to a total of 15% of their pre-tax earnings, subject to IRS limitations.

Additionally, participants may contribute up to 10% of their after-tax earnings. Participants are 100% vested in the employer contributions when they are made. During 2004 and 2003, the System contributed \$138,682 and \$119,189, respectively, to the plan which represents 5.6% and 4.6%, respectively, of the covered payroll and 100% of the required contribution for each year. During 2004 and 2003, the participants contributed \$185,780 and \$167,070, respectively, which represents 7.5% and 6.5%, respectively, of the covered payroll.

Bristol Tennessee Electric System  
Notes to Financial Statements (continued)  
June 30, 2004 and 2003

**7. Capital Assets**

The following is a summary of capital assets for the year ended June 30, 2004:

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Capital assets not being depreciated:				
Land	\$ 1,051,638	\$ 5,086	\$ (5,086)	\$ 1,051,638
Non-utility property	1,068,010	10,795	(2,500)	1,076,305
Construction in progress	4,406,671	4,466,067	(4,162,311)	4,710,427
Total capital assets not being depreciated	6,526,319	4,481,948	(4,169,897)	6,838,370
Capital assets being depreciated:				
Transmission equipment, fixtures and devices	2,254,000	568,620	—	2,822,620
Distribution transformers, meters, fixtures and devices	53,202,228	2,298,553	(1,064,192)	54,436,589
Buildings and improvements	2,016,032	202	—	2,016,234
Furniture, fixtures and equipment	2,856,265	125,926	(2,500)	2,979,691
Total capital assets being depreciated	60,328,525	2,993,301	(1,066,692)	62,255,134
Less accumulated depreciation:				
Transmission equipment, fixtures and devices				
Distribution transformers, meters, fixtures and devices	(1,036,423)	(112,818)	—	(1,149,241)
Buildings and improvements	(30,502,106)	(1,747,477)	119,854	(32,129,729)
Furniture, fixtures and equipment	(1,749,075)	(41,578)	—	(1,790,653)
Total accumulated depreciation	(35,286,886)	(2,031,251)	119,854	(37,198,283)
Net capital assets being depreciated	25,041,639	962,050	(946,838)	25,056,851
Total net capital assets	\$31,567,958	\$5,443,998	\$(5,116,735)	\$31,895,221

Bristol Tennessee Electric System  
Notes to Financial Statements (continued)  
June 30, 2004 and 2003

**8. Cash and Investments**

Cash and investments consist of the following as of June 30, 2004:

	Amount	Interest Rate	Purchase Date	Maturity Date
Renewal and replacement fund:				
Certificate of deposit	\$ 2,000,000	1.71%	4/01/04	4/15/05
Certificate of deposit	2,000,000	1.51%	1/16/04	7/16/04
Certificate of deposit	2,000,000	1.40%	4/30/04	7/30/04
Certificate of deposit	2,000,000	1.40%	4/30/04	7/30/04
Total renewal and replacement fund	<u>8,000,000</u>			
Other funds:				
Certificate of deposit	3,050,090	1.46%	1/30/04	7/30/04
Certificate of deposit	500,000	1.75%	6/23/04	12/23/04
Business money market account	2,256,005	1.29%	—	—
Cash on deposit	371,815	Various		
Total other funds	<u>6,177,910</u>			
Total cash and investments	<u>\$14,177,910</u>			

Cash and investments consist of the following as of June 30, 2003:

	Amount	Interest Rate	Purchase Date	Maturity Date
Renewal and replacement fund:				
Certificate of deposit	\$ 2,000,000	1.35%	4/16/03	1/16/04
Certificate of deposit	2,000,000	1.45%	4/30/03	7/30/03
Certificate of deposit	2,000,000	1.75%	4/30/04	10/30/03
Business money market account	2,000,000	1.35%	6/30/03	9/30/03
Total renewal and replacement fund	<u>8,000,000</u>			
Other funds:				
Certificate of deposit	3,007,274	1.45%	4/30/03	7/30/03
Certificate of deposit	500,000	1.99%	5/22/03	12/22/03
Business money market account	2,200,670	0.84%	—	—
Cash on deposit	505,860	Various	—	—
Total other funds	<u>6,213,804</u>			
Total cash and investments	<u>\$14,213,804</u>			

As of June 30, 2004, the System's deposits in financial institutions (including certificates of deposit) of \$15,251,760 were entirely insured or collateralized with securities held by the System's agent in the System's name. Carrying amounts differ from financial institution balances primarily due to outstanding checks and deposits in transit.

Bristol Tennessee Electric System  
Notes to Financial Statements (continued)  
June 30, 2004 and 2003

**8. Cash and Investments (continued)**

Purchases of certificates of deposit in the renewal and replacement fund totaled \$14,200,000 in 2004 and \$30,000,000 in 2003. Sales of certificates of deposit in the renewal and replacement fund totaled \$14,200,000 in 2004 and \$29,000,000 in 2003.

**9. Discounted Energy Units**

During 2003, the System purchased \$8,000,000 in discounted energy units from TVA which are redeemable on a straight-line basis over the next ten years. The units carry a discount of 5.5% and amounted to \$7,076,024 as of June 30, 2004.

**10. Self-Insurance Plan**

The System is self-insured for employee group health benefits. A liability is recorded for those claims incurred but not paid prior to year-end, both reported and unreported, based on prior experience and claims reported subsequent to year-end. Changes in estimates for claims incurred but not reported are recorded in the year the estimates are revised. The System's risk is \$30,000 per covered employee up to an annual maximum of \$315,779. An insurance company has insured all claims exceeding \$315,779.

Activity in the estimated liability for claims incurred but not paid is as follows for the years ended June 30:

	2004	2003
Balance at beginning of year	\$ —	\$ 19,690
Expense (benefit) recorded related to:		
Current year	193,630	213,497
Prior year	41,073	21,681
Net expense recorded	234,703	235,178
Payments related to:		
Current year	200,913	213,497
Prior year	33,790	41,371
Total payments	234,703	254,868
Balance at end of year	\$ —	\$ —

**11. Risk Management**

The System is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; natural disasters; and injuries of employees for which the System carries commercial insurance purchased from independent third parties. The System has not experienced a settlement in excess of insurance coverage in any of the past three fiscal years. The System bears the risk of loss up to the deductible amounts which are disclosed in the accompanying Statistical Section.

Bristol Tennessee Electric System  
Notes to Financial Statements (continued)  
June 30, 2004 and 2003

**12. Related Party Transactions**

As described in Note 1, the System is a self-supporting fund of the City of Bristol, Tennessee. In the normal course of operations, the System provides electrical service to the City at standard electric rates which generated revenues of \$1,894,211 in 2004 and \$1,224,533 in 2003. As of June 30, 2004 and 2003, \$88,431 and \$95,896, respectively, was receivable from the City for these revenues. Payment is due within approximately 30 days of the billing.

During 1997, the System received \$2,000,000 in purchased power credits from TVA for investments related to economic development of the City. At the City's request, the System remits these funds to the City. Remaining activity related to these funds is as follows for the years ended June 30:

	2004	2003
Balance at beginning of year	\$944,011	\$933,761
Interest accruals	9,748	10,250
Payments remitted to City	(142,720)	-
Balance at end of year	<u>\$811,039</u>	<u>\$944,011</u>

Interest accruals are netted against interest income in the accompanying financial statements.

The System made tax equivalent payments to the City of \$700,020 in 2004 and \$665,529 in 2003. These payments are based on the System's capital assets, along with average operating revenues less power costs.

**13. Postemployment Benefits**

As discussed in Note 10, the System is self-insured for employee group health benefits. The System also provides these benefits to certain retired employees, although not required by any statutory, contractual or other authority. As of June 30, 2004, there were 22 retirees eligible to receive these benefits. Benefits related to these retirees are expensed when paid and totaled approximately \$63,000 in 2004 and \$76,000 in 2003.

Additionally, the System is self-insured for certain life insurance benefits for retirees. Employees who retire with 30 years of service or age 60 with a minimum of 20 years of service receive \$5,000 in life insurance for annual salaries less than \$10,000 plus \$1,000 in life insurance for each additional \$5,000 of annual salary or fraction thereof. As of June 30, 2004, there were 11 retirees eligible to receive these benefits and, accordingly, a liability for \$117,250 has been recorded for these benefits. The System made payments of \$5,000 in 2004 related to these benefits. No such payments were made in 2003.

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Bristol Tennessee Electric System  
Statement of Revenues and Expenses (Last Ten Years)  
Fiscal Years 2004-1995 (in thousands)

	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Operating revenues:										
Residential	\$28,368	\$26,699	\$24,746	\$25,877	\$24,212	\$23,575	\$23,408	\$21,993	\$23,971	\$20,807
Commercial	3,888	3,621	3,373	3,562	3,442	3,408	3,280	3,065	3,209	2,953
Industrial	22,143	20,072	19,006	19,650	18,953	19,224	17,814	16,619	16,626	15,847
Street and outdoor lighting	911	855	852	919	844	832	815	775	734	702
Other revenues	2,448	2,100	2,018	2,023	1,919	1,844	1,807	1,648	1,698	1,429
Total operating revenues	\$7,758	\$3,347	\$9,995	\$2,031	\$9,370	\$8,883	\$7,124	\$4,100	\$6,238	\$4,738
Power purchased from Tennessee Valley Authority	48,328	44,701	41,631	43,630	41,265	40,913	39,373	36,470	38,613	34,636
Gross profit	9,430	8,646	8,364	8,401	8,105	7,970	7,751	7,630	7,625	7,102
Operating expenses:										
Operation expenses	2,743	2,599	2,412	2,339	2,213	2,128	1,975	1,955	1,917	1,987
Maintenance	2,635	2,533	2,319	2,275	2,212	2,137	2,267	2,060	2,030	1,870
Depreciation	1,898	1,960	1,918	1,863	1,814	1,765	1,655	1,390	1,308	1,188
Tax equivalents	212	206	195	857	868	913	888	858	845	844
Social security taxes	206	213	193	162	158	156	156	161	159	151
Interest on customer deposits	6	6	11	19	19	17	17	17	16	18
Total operating expenses	7,700	7,517	7,048	7,515	7,284	7,116	6,958	6,441	6,275	6,058
Operating income	1,730	1,129	1,316	886	821	854	793	1,189	1,350	1,044
Nonoperating revenue--interest income	628	587	591	1,355	1,071	918	816	875	828	748
Income before transfers	2,358	1,716	1,907	2,241	1,892	1,772	1,609	2,064	2,178	1,792
Transfers out--tax equivalents to the City of Bristol, Tennessee	(700)	(606)	(666)	-	-	-	-	-	-	-
Change in net assets	\$ 1,658	\$ 1,110	\$ 1,241	\$ 2,241	\$ 1,892	\$ 1,772	\$ 1,609	\$ 2,064	\$ 2,178	\$ 1,792

# Bristol Tennessee Electric System

## Purchased Power, Consumption and Active Service Statistics (Last Ten Years)

Fiscal Years 2004-1995

	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Purchased power from Tennessee Valley Authority (megawatt hours)	1,014,411	997,525	935,485	961,853	918,151	919,696	913,322	882,682	914,989	815,503
Consumption (megawatt hours):										
Residential	468,611	469,302	432,282	456,277	425,639	416,726	419,346	403,494	441,725	381,451
Commercial	53,344	54,335	49,880	52,200	51,351	51,337	50,391	49,241	51,811	47,725
Industrial	437,853	412,832	398,728	396,534	388,268	399,571	393,905	380,019	366,151	337,206
Street and athletic	5,164	5,255	5,209	5,086	4,973	4,936	4,908	4,783	4,506	4,313
Outdoor lighting	4,139	4,211	4,221	4,297	4,359	4,346	4,340	4,311	4,221	4,070
Internal use	-	-	-	-	-	843	901	887	952	848
Total consumption	969,111	945,935	890,320	914,394	874,590	877,759	873,791	842,735	869,366	775,613
Line losses and megawatt hours unaccounted for	45,300	51,590	45,165	47,459	43,561	41,937	39,531	39,947	45,623	39,890
Percentage of line losses and megawatt hours unaccounted for to purchased power	4.47%	5.17%	4.83%	4.93%	4.74%	4.56%	4.33%	4.53%	4.99%	4.89%
Active service (number of customers):										
Residential	27,650	27,458	27,360	27,234	26,951	26,603	26,315	25,978	25,630	25,218
Commercial	3,332	3,291	3,304	3,229	3,241	3,144	3,130	3,095	3,057	3,021
Industrial	614	591	588	584	551	543	536	510	503	490
Street and athletic	41	41	38	38	38	29	28	28	28	28
Outdoor lighting	161	160	158	161	161	155	157	158	154	147
	31,798	31,541	31,448	31,246	30,942	30,474	30,166	29,769	29,372	28,904



Bristol Tennessee Electric System  
Schedule of Property, Casualty and Other Insurance (Unaudited)  
June 30, 2004

Type of Coverage	Limits	Deductible	Period of Coverage	Company
Theft, disappearance and destruction	\$ 240,000	\$ -	12/05/03 to 12/04/04	Cincinnati Ins. Co.
Workers' compensation	500,000	-	12/05/03 to 12/04/04	Cincinnati Ins. Co.
General liability:		0 to 1,000	12/05/03 to 12/04/04	Cincinnati Ins. Co.
Products-completed operations aggregate	2,000,000			
Personal and advertising injury	1,000,000			
Each occurrence	1,000,000			
Fire damage (any one fire)	100,000			
Medical expense (any one person)	5,000			
Employee benefits:				
Each claim	1,000,000			
Aggregate	3,000,000			
Automobile policy:		100 to 1,000	12/05/03 to 12/04/04	Cincinnati Ins. Co.
Liability	1,000,000			
Comprehensive	Actual Cash Value			
Uninsured motorist	1,000,000			
Collision	Actual Cash Value			
Medical payments	5,000 per person			
Commercial umbrella liability	20,000,000	-	12/05/03 to 12/04/04	Cincinnati Ins. Co.
Fire, extended coverage & vandalism and malicious mischief:		10,000	12/05/03 to 12/04/04	Cincinnati Ins. Co.
On premise property	22,050,468			
Off premise property	250,000			
Scheduled property floater:				
Flood	2,000,000	25,000	12/05/03 to 12/04/04	Cincinnati Ins. Co.
Earthquake	10,000,000	500,000		
Directors & officers liability	10,000,000	0 to 10,000	04/28/04 to 04/28/05	Cincinnati Ins. Co.

Bristol Tennessee Electric System  
Schedule of Property, Casualty and Other Insurance (Unaudited) (continued)  
June 30, 2004

Type of Coverage	Limits	Deductible	Period of Coverage	Company
Boiler & machinery policy	\$ 500,000	\$5,000 to 50,000	12/05/03 to 12/04/04	Cincinnati Ins. Co.
Public employees blanket bond	500,000	1,000	12/05/03 to 12/04/04	Cincinnati Ins. Co.
Electronic data processing equipment and media	630,983	1,000	12/05/03 to 12/04/04	Cincinnati Ins. Co.
Mobile property - machinery	621,126	250	12/05/03 to 12/04/04	Cincinnati Ins. Co.
Employment related practices liability:		2,500	12/05/03 to 12/04/04	Cincinnati Ins. Co.
Each insured event limit	1,000,000			
Total limit	1,000,000			

Bristol Tennessee Electric System  
Schedule of Electric Rates (Unaudited)  
June 30, 2004

**Single Family Dwelling Customers**

Base Charges:

Customer charge:

\$6.29 per month

Energy charge:

First 1,000 kilowatt hours per month at 5.374 cents per kilowatt hour

Excess over 1,000 kilowatt hours per month at 5.918 per kilowatt hour

**Commercial, Industrial, Governmental and Institutional Customers**

Base charges:

1. If (a) the higher of (i) the customer's currently effective contract demand, if any, or (ii) its highest billing demand during the latest 12-month period is not more than 50 kilowatts and (b) customer's monthly energy takings for any month during such period do not exceed 15,000 kilowatt hours:

Customer charge:

\$14.00 per delivery point per month

Energy charge:

6.240 cents per kilowatt hour per month

2. If (a) the higher of (i) the customer's currently effective contract demand, if any, or (ii) its highest billing demand during the latest 12-month period is greater than 50 kilowatts but not more than 1,000 kilowatts or (b) the customer's billing demand is less than 50 kilowatts and its energy takings for any month during such period exceed 15,000 kilowatt hours:

Customer charge:

\$25.00 per delivery point per month

Demand charge:

First 50 kilowatts of billing demand per month, no charge

Excess over 50 kilowatts of billing demand per month at \$8.56 per kilowatt, plus an additional \$8.56 per kilowatt per month for each kilowatt by which billing demand exceeds the higher of 50 kilowatts or contract demand

Energy charge:

First 15,000 kilowatt hours per month at 6.194 cents per kilowatt hour

Excess over 15,000 kilowatt hours per month at 3.420 cents per kilowatt hour

Bristol Tennessee Electric System  
Schedule of Electric Rates (Unaudited) (continued)

June 30, 2004

3. If (a) the higher of the customer's currently effective contract demand, if any, or (b) its highest billing demand during the latest 12-month period is greater than 1,000 kilowatts, but not more than 5,000 kilowatts:

Customer charge:

\$25.00 per delivery point per month

Demand charge:

First 1,000 kilowatts of billing demand per month at \$8.56 per kilowatt hour

Excess over 1,000 kilowatts of billing demand per month at \$10.06 per kilowatt, plus an additional \$10.06 per kilowatt per month for each kilowatt by which billing demand exceeds the higher of 1,000 kilowatts or its contract demand:

Energy charge:

3.420 cents per kilowatt hour per month

4. If the customer's contract demand is greater than 5,000 kilowatts, but not more than 15,000 kilowatts:

Customer charge:

\$1,500.00 per delivery point per month

Demand charge:

\$10.96 per kilowatt of billing demand per month, plus an additional \$10.96 per kilowatt per month for each kilowatt, if any, of the amount by which the customer's billing demand exceeds its contract demand

Energy charge:

3.035 cents per kilowatt hour for up to 620 hours use of metered demand per month

2.477 cents per kilowatt hour for all additional kilowatt hours per month

5. If the customer's contract demand is greater than 15,000 kilowatts, but not more than 25,000 kilowatts:

Customer charge:

\$1,500.00 per delivery point per month

Demand charge:

\$11.07 per kilowatt of billing demand per month, plus an additional \$11.07 per kilowatt per month for each kilowatt, if any, of the amount by which the customer's billing demand exceeds its contract demand

Energy charge:

3.035 cents per kilowatt hour for up to 620 hours use of metered demand per month

2.477 cents per kilowatt hour for all additional kilowatt hours per month

## STATISTICS - JUNE 2004

### Bristol Tennessee Electric System

2470 Volunteer Parkway, Bristol, TN 37620

P. O. Box 549, Bristol, TN 37621

Telephone: 423-968-1526

FAX Number: 423-793-5545

Power Outage Number: 423-968-BTES (968-2837)

Total Full-Time Employees ..... 60

Part-Time Employees\* (students, etc.) ..... 8

\*Additional students are utilized in the summer and during school breaks.

Miles of Line ..... 1,226

Miles of Fiber Optic Cable ..... 69.8

### NUMBER OF CUSTOMERS

Large General Power (>50 kW)..... 614

Small General Power (<50 kW)..... 3,332

Residential ..... 27,650

Street and Outdoor Lighting ..... 202

Total ..... 31,798

Employees/1000 Customers ..... 1.9

### LARGEST CUSTOMERS (IN ORDER OF KWH USAGE)

- |                                 |                         |
|---------------------------------|-------------------------|
| 1. Exide Corporation            | 7. Amerace Corporation  |
| 2. City of Bristol, Tennessee   | 8. Bristol Metals, Inc. |
| 3. Modern Forge of Tennessee    | 9. Royal Mouldings      |
| 4. WellmontBRMC                 | 10. Seaman Corporation  |
| 5. GlaxoSmithKline Laboratories | 11. King College        |
| 6. King Pharmaceuticals         | 12. Wal-Mart            |

*Note:* Bristol Motor Speedway has the third largest peak kW demand of any customer during the August race.

**BRISTOL TENNESSEE ELECTRIC SYSTEM  
CLIMATOLOGICAL DATA  
FISCAL YEARS 2004-1995**

<b>Fiscal Year</b>	<b>Heating Degree Days *</b>	<b>Cooling Degree Days *</b>
2004	4141	1027
2003	4064	1132
2002	3921	1189
2001	4539	933
2000	4019	1082
1999	4312	951
1998	4142	904
1997	4446	749
1996	5007	1173
1995	3780	936

SOURCE: U.S. Department of Commerce, National Oceanic and  
Atmospheric Administration

\* Degree Day is a unit of measuring the extent to which the outdoor mean temperature falls below (heating) or rises above (cooling) the base of 65 degrees Fahrenheit. One degree day is counted for each degree of deficiency below (heating) or excess over (cooling) the base, for each calendar day on which such deficiency of excess occurs.

**BRISTOL TENNESSEE ELECTRIC SYSTEM  
DEMOGRAPHIC AND ECONOMIC STATISTICS  
TRI-CITIES, TENNESSEE-VIRGINIA MSA  
CALENDAR YEARS 2003-1994**

<b>Calendar Year</b>	<b>Population</b>	<b>Per Capita Income</b>	<b>Median Age</b>	<b>Unemployment Rate</b>
2003	485,884	\$23,878	39.2	5.9%
2002	485,300	\$22,302	40.2	5.3%
2001	484,900	\$22,302	39.7	5.0%
2000	480,091	\$22,119	39.7	4.5%
1999	465,700	\$21,201	39.4	4.4%
1998	464,900	\$19,896	39.1	4.4%
1997	459,963	\$19,503	37.6	4.1%
1996	458,229	\$18,932	37.8	4.7%
1995	454,056	\$18,582	38.1	5.3%
1994	450,273	\$17,622	37.8	5.3%

Information obtained from First Tennessee Development District.

Information for 2004 is not available.

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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*

Power Board  
Bristol Tennessee Electric System

We have audited the financial statements of the Bristol Tennessee Electric System (the "System"), an enterprise fund of the City of Bristol, Tennessee, as of and for the year ended June 30, 2004, and have issued our report thereon dated September 14, 2004. 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 of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

\*\*\*\*\*

This report is intended solely for the information and use of the Power Board, management and the State of Tennessee Comptroller of the Treasury and is not intended to be and should not be used by anyone other than these specified parties.

*Coulter & Justus, P.C.*

September 14, 2004

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## APPENDIX D

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## THE CITY OF BRISTOL AND SULLIVAN COUNTY GENERAL INFORMATION

The information contained in this section is included only for purposes of supplying general information regarding the City of Bristol (the "City") and Sullivan County, Tennessee (the "County"). The Series 2005 Bonds are payable solely from the sources described in this Official Statement under the heading "SECURITY AND SOURCES OF PAYMENT OF THE SERIES 2005 BONDS." Neither the full faith and credit nor the taxing power of the State of Tennessee nor any political subdivision thereof, including the City, is pledged to the payment of the Series 2005 Bonds. The Series 2005 Bonds are limited obligations and are payable solely from the Net Revenues of the System. The Series 2005 Bonds do not constitute a charge, lien or encumbrance upon any other property of the City.

### General City Information

A twin city to the City of Bristol, Virginia, the City of Bristol, Tennessee can be found at the crossroads of Southwest Virginia and Northeast Tennessee in the foothills of the Appalachian Mountains. With a population of approximately 25,000, Bristol, Tennessee is a part of a larger metropolitan statistical area known as the Tri-Cities encompassing more than 480,000 residents. The City's approximate land area is 29.6 square miles.

Bristol's industrial base includes production of batteries, electronics, pharmaceuticals, mining machinery, aluminum products, compressors, apparel, textiles, copper wire, vacuum cleaner parts and food products.

### City Government

Incorporated in 1856, the governing body for the City of Bristol, Tennessee is independent of the City of Bristol, Virginia. Each has a council-manager form of government. Both cities have planning commissions, zoning ordinances and industrial development authorities.

The City is governed by the City Council. The body consists of five members, with three members elected from districts and two members elected at-large. The boundaries for the three districts are established based on population and may be changed from time to time after first submitting any proposed change to the Planning Commission for recommendation.

### Population

The following table reflects the population of the City, Tri-Cities MSA, and the County for the years listed.

<u>YEAR</u>	<u>CITY</u>	<u>TRI-CITIES MSA</u>	<u>COUNTY</u>
1960	17,582	347,132	95,063
1970	20,064	373,591	127,329
1980	23,986	433,638	143,968
1990	23,421	436,047	143,596
2000	24,821	480,091	153,048
2003 <sup>(1)</sup>	25,021	n/a	153,050

Source: United States Bureau of Census.

<sup>(1)</sup> Estimated figures.

### Largest Employers

Set forth below is a list of the major manufacturing employers in the Bristol area and the approximate number of employees associated with each. There can be no assurance that any employer listed below will continue to be located in the area or will continue employment at the level stated. No independent investigation has been made of, and no representation can be made as to, the stability or financial condition of the companies listed below.

COMPANY	PRODUCT	EMPLOYEES
Exide Corporation	Batteries	665
King Pharmaceuticals, Inc.	Pharmaceuticals	600
Robinette Company	Printed Roll Stock	272
Aeronautical Accessories	Helicopter Components	257
GlaxoSmithKline	Pharmaceuticals	250
Gordon Garment	Women's Swimwear	250
Bristol Metals	Metal Fabricating	250
Modern Forge of Tennessee	Drop Forgings	244
Bristol Products	Athletic Sportswear	150
Seaman Corporation	Vinyl Coated Polyester Fabrics	140
Amerace Microporus Products	Battery Separators	128
Kysor Panel Systems	Walk-In Coolers	113
General Shale	Block	105
L.C. King Manufacturing	Work Clothing	89
Aurora	Wooden Caskets	86
Peerless Woodworking Company	Architectural Cabinets	80
Triad Packaging	Corrugated Packaging	72
Bristol Bag Company	Cloth Money Bags	65
Royal Mouldings	Interior and Exterior Mouldings	60
Polymer Industrial Products	Tire Bladders	57

Source: Tennessee Department of Economic and Community Development

### Unemployment Rates

Set forth below are the average annual unemployment rates for the United States, the State of Tennessee, Sullivan County and the Tri-Cities Metropolitan Statistical Area for the years 2000 through 2004.

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
United States	4.0%	4.7%	5.8%	6.0%	5.0%
Tennessee	3.9%	4.4%	5.1%	5.8%	5.0%
Sullivan County	3.6%	3.9%	4.9%	5.8%	5.0%
Tri-Cities MSA	4.0%	4.6%	5.4%	5.9%	n/a

Source: Tennessee Department of Labor and Workforce Development

### Economic Data

Set forth below are the per capita personal income figures for the State of Tennessee, Sullivan County and the Tri-Cities MSA for the years 1999 through 2003.

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Tennessee	\$24,898	\$26,097	\$26,864	\$27,678	\$28,641
Sullivan County	\$20,876	\$21,480	\$22,714	\$23,670	\$24,245
Tri-Cities MSA	\$20,293	\$21,394	\$22,270	\$22,872	\$23,260

Source: Bureau of Economic Analysis.

Set forth below are a few key social and economic characteristics for the United States, the State of Tennessee and Sullivan County.

	<u>UNITED STATES</u>	<u>TENNESSEE</u>	<u>SULLIVAN COUNTY</u>
Median Value Owner Occupied Housing	\$119,600	\$93,000	\$88,000
% High School Graduates or Higher of Persons 25 and Older	80.4%	75.9%	75.8%
% Families with Income Below Poverty Level	9.2%	10.3%	9.7%
Median Family Income	\$50,890	\$43,517	\$41,025

Source: 2000 Census of Population.

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## THE SYSTEM

The System is operated and maintained by an independent Board of Directors (the "Board") as an enterprise fund of the City of Bristol, Tennessee. The five member Board has general supervision and control of Bristol Tennessee Essential Services ("BTES") with one member serving from the City Council. Each member is appointed by the Mayor and confirmed by the City Council to staggered four-year terms of office. The Board appoints a General Manager, who is chief executive officer of the System. Set forth below are the members of the board, their principal occupations and the expiration of their terms of office.

<u>MEMBER</u>	<u>PRINCIPAL OCCUPATION</u>	<u>EXPIRATION OF TERM</u>
Patrick W. Hickie, Jr., Chairman	Certified Public Accountant	2006
Bryan K. Boyd, Vice-Chairman	Owner of computer software sales and service company	2008
Pereda R. "Pete" Paty	Volunteer/Former Teacher/Former School Board Chariman	2009
J. Scott MacMorran	Regional Executive / Area President of Bank	2007
David Shumaker	City Council Representative	2009

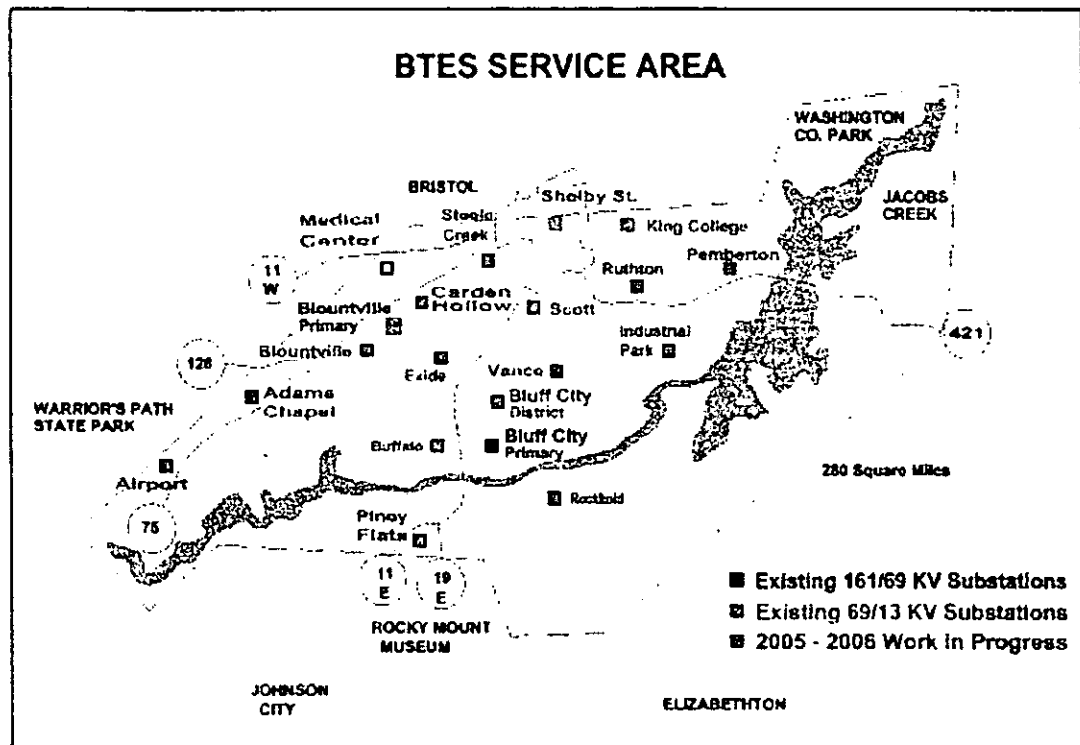
The General Manager of the system is Dr. Michael Browder, Ed.D., P.E. Mike joined BTES as director of engineering and operations in 1972, upon completing five years as superintendent of engineering at Huntsville (Alabama) Utilities. In 1977, he was named General Manager of BTES. He has served on the Tennessee Valley Public Power Association's (TVPPA) Rates & Contracts Committee since 1978. In 1990, he was chosen by his peers as chairman of this committee, a position he continues to hold today. For ten years, Mike was on the Board of Directors for the American Public Power Association (APPA), an association of over 2,000 publicly-owned electric utilities headquartered in Washington, DC. He was Chairman of the Board for APPA during 2001-2002.

### Service Area

The System serves over 32,000 customers in Bristol, Tennessee, Sullivan County and a portion of Washington County, Virginia (approximately 280 square miles of service area). Approximately 53% of the customers are inside the Bristol city limits. The customers in the City account for approximately 54% of the revenues.

Tennessee law (TCA Section 7-34-104) authorizes municipalities to operate electric systems within and outside the municipality's corporate boundaries. Tennessee municipalities may operate electric systems within the corporate boundaries of other municipalities, with those municipalities' consents. If another municipality annexes a previously unincorporated area in which a municipality provides electric service, Tennessee law provides that the annexing municipality has the right to acquire the local assets of the municipal electric provider at fair market value (TCA Section 6-51-111).





### Substations Owned and Operated by BTES

Bluff City Primary	*161/69 KV	200 MVA
Blountville Primary	*161/69 KV	200 MVA
Adams Chapel	69/13 KV	20 MVA
Airport	69/13 KV	20 MVA
Blountville	69/13 KV	25 MVA
Bluff City	69/13 KV	50 MVA
Buffalo	69/13 KV	20 MVA
Carden Hollow	69/13 KV	20 MVA
Exide	69/13 KV	40 MVA
Industrial Park	69/13 KV	20 MVA
King College	69/13 KV	20 MVA
Medical Center	69/13 KV	20 MVA
Pemberton	69/13 KV	20 MVA
Pinoy Flats	69/13 KV	20 MVA
Scott	69/13 KV	20 MVA
Shelby Street	69/13 KV	80 MVA
Steele Creek	69/13 KV	20 MVA
Ruthson	69/13 KV	10 MVA
Vance	69/13 KV	25 MVA

\*Delivery Point from TVA

#### Substations in the 2005-2006 Work Plan

Rockhold	69/13 KV	20 MVA
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### **Source of Electric Power**

The City does not generate any electric power but purchases its entire supply from the Tennessee Valley Authority ("TVA") pursuant to a power contract dated as of July 1, 1945 (the "Power Contract"). Under the Power Contract, the City agrees to purchase all of its electric power from TVA.

The cost and availability of power to the System may be affected by, among other things, factors relating to TVA's nuclear program, fuel supply, environmental considerations such as future legislation regulating the mining of coal, the construction and financing of future generating and transmission facilities and other factors relating to TVA's ability to supply the power demands of its customers, including the City. The power sold to the City is supplied from the entire TVA system and not one specific generating facility.

The Power Contract provides that TVA shall make every reasonable effort to increase the generating capacity of its system and to provide the transmission facilities required to deliver the output thereof so as to be in a position to supply additional power when and to the extent needed by the City. Neither TVA nor the City is liable for breach of contract if the availability or use of power is interrupted or curtailed or if either party is prevented from performing under the Power Contract by circumstances reasonably beyond its control. The amount of power supplied by TVA and the contractual obligation to supply such power are limited by the capacity of TVA's generating and transmission facilities.

The Power Contract specifies the wholesale purchase rates and monthly resale rates to be adhered to by the City, which may be revised periodically by TVA, through the publication of an Adjustment Addendum, to cover increased costs to TVA. See "Electric Rates."

### **The Tennessee Valley Authority**

TVA was established as a wholly-owned corporate agency and instrumentality of the United States of America by the Tennessee Valley Authority Act of 1933, as amended. The Act's objective is the development of the resources of the Tennessee Valley and adjacent areas in order to strengthen the regional and national economy and the national defense. Its specific purposes include: (1) flood control on the Tennessee River and its tributaries, and assistance to flood control on the lower Ohio and the Mississippi Rivers; (2) a modern navigable channel for the Tennessee River; (3) ample supply of power within an area of 80,000 square miles; (4) development and introduction of more efficient soil fertilizers; and (5) greater agricultural and industrial development and improved forestry in the region. All powers of TVA are vested in its board, which functions on a full-time basis and consists of three directors appointed by the President of the United States and confirmed by the United States Senate for nine-year terms, with one director's term expiring every three years.

### **Electric Rates**

The City obtains power for the System through the Power Contract. Pursuant to the Power Contract, the City has agreed to adhere to the resale rates set forth in certain schedules established by TVA. The schedules include the provision that the customer billings will be adjusted in accordance with the Adjustment Addenda published by TVA. The System is not otherwise subject to rate regulation under existing law, and the City is not aware of any pending legislation to make its electric rates subject to regulation. The Power Contract provides further that if the resale rates set forth therein do not provide sufficient revenues for the operation and maintenance of the system on a self-supporting, financially sound basis, including debt service, the City and TVA shall agree to changes in rates to provide increased revenues. In like manner, if the rates and charges produce excess revenues, the parties shall agree to rate reductions. Since the date of the Power Contract, the wholesale and resale rates have been adjusted from time to time through TVA's publication of Adjustment Addenda.

## Wholesale Rates

The rates and charges for service for wholesale power from TVA, effective October 1, 2003 are the standard rates and charges applicable to municipal and cooperative distributors of TVA power currently being entered into or renewed. Subject to certain adjustments provided for in the Power Contract, the monthly wholesale rates are as follows:

<u>CUSTOMER CLASS</u>	<u>BILLING UNIT DESCRIPTION</u>	<u>TYPE OF CHARGE</u>	<u>WHOLESALE RATE</u>
<b>Single Family</b>	<b>RS (122)</b> All kWh	Customer Energy	\$0.05028
<b>Small Commercial</b> <i>Not to exceed 50 kW or 15,000 kWh</i>	<b>GSA-1 (440)</b>	Energy	\$0.05773
<b>Large Commercial</b> <i>Greater than 50 kW up to 1,000 kW or greater than 15,000 kWh</i>	<b>GSA-2 (550)</b> First 15,000 kWh All Additional kWh 0-50 kW 51-1,000 kW	Energy Energy Demand Demand	\$0.05773 \$0.03299 No Charge \$7.99
<b>Large Commercial</b> <i>Greater than 1,000 kW up to 5,000 kW</i>	<b>GSA-3 (554, 555)</b> All kWh 0-1,000 kW 1,001-5,000 kW	Energy Demand Demand	\$0.03299 \$8.43 \$9.96
<i>Not to exceed 5,000 kW</i>	<b>MSB-1</b> First 620 kWh All Additional kWh All kWh	Energy Energy Demand	\$0.02509 \$0.02047 \$8.73
<i>Greater than 5,000 kW up to 15,000 kW</i>	<b>MSB-2</b> First 620 kWh All Additional kWh All kWh	Energy Energy Demand	\$0.02383 \$0.01945 \$8.25
<i>Greater than 15,000 kW up to 25,000 kW</i>	<b>MSC</b> First 620 kWh All Additional kWh All kWh	Energy Energy Demand	\$0.02383 \$0.01945 \$8.25

TVA has adopted a 7.5% wholesale rate increase effective October 2005 which will affect the rates above. BTES plans to pass along this rate increase to its customers.

## Residential and General Power Retail Rates

The following schedule outlines the retail electric rates charged by the City effective October 1, 2003.

<u>CUSTOMER CLASS</u>	<u>BILLING UNIT DESCRIPTION</u>	<u>TYPE OF CHARGE</u>	<u>RATE</u>
Single Family Dwelling		Customer	\$6.29 <sup>(1)</sup>
	First 1,000 kWh	Energy	\$0.05374
	All Additional kWh	Energy	\$0.05918
<b>Commercial, Industrial, Governmental, and Institutional Customers</b>			
<i>Not to exceed 50 kW or 15,000 kWh</i>		Customer	\$14.00 <sup>(1)</sup>
		Energy	\$0.06240
<i>Greater than 50 kW up to 1,000 kW or greater than 15,000 kWh</i>		Customer	\$25.00 <sup>(1)</sup>
	First 15,000 kWh	Energy	\$0.06194
	All Additional kWh	Energy	\$0.03420
	0-50 kW	Demand	No Charge
	51-1,000 kW	Demand	\$8.56
<i>Greater than 1,000 kW up to 5,000 kW</i>		Customer	\$25.00 <sup>(1)</sup>
	All kWh	Energy	\$0.03420
	0-1,000 kW	Demand	\$8.56
	1,001-5,000 kW	Demand	\$10.06
<i>Greater than 5,000 kW up to 15,000 kW</i>		Customer	\$1,500.00 <sup>(1)</sup>
	First 620 kWh	Energy	\$0.03500
	All Additional kWh	Energy	\$0.02477
	All kWh	Demand	\$10.96
<i>Greater than 15,000 kW up to 25,000 kW</i>		Customer	\$1,500.00 <sup>(1)</sup>
	First 620 kWh	Energy	\$0.03035
	All Additional kWh	Energy	\$0.02477
	All kWh	Demand	\$11.07

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<sup>(1)</sup> Per delivery point.

Rate options available to the System's retail customers include firm, seasonal and interruptible service rates. The contract between TVA and the System provides for TVA regulation over retail rates to customers. The interruptible rate programs provide large commercial and industrial customers with the potential for reduced rates along with the right for TVA to interrupt service as needed.

There are four customers participating in interruptible rate programs with a combined interruptible load of 31,017 kilowatts or about 10% of the System's 2004 peak load. TVA's last curtailment of interruptible customers occurred in January 2004. Rate surveys show that the System's rates are some of the most competitive in the United States.

### Substation, Transmission and Distribution Systems

The System is connected to the TVA transmission grid at two delivery points with a total infeed capacity of 504 MVA. The historical peak system demand of 245 MVA occurred in February 1996. The System load factor is 63%, and the System losses are 4.47% as of fiscal year 2004. The System has approximately 1,226 miles of line and 69.8 miles of fiber optic cable.

The electricity purchased from TVA is delivered at 161 kV to the two delivery points. It is stepped down to 69 kV for subtransmission to other substations and to 13.2/7.62 kV for distribution to residential, commercial and industrial customers.

### Number of Customers

Set forth below is the number of customers for the last ten years.

FISCAL YEAR	<u>RESIDENTIAL</u>	SMALL GENERAL POWER ( <u>&lt;50 kW</u> )	LARGE GENERAL POWER ( <u>&gt;50 kW</u> )	STREET AND HIGHWAY LIGHTING	<u>TOTAL</u>
1995	25,218	3,021	490	175	28,904
1996	25,830	3,057	503	182	29,372
1997	25,978	3,095	510	186	29,769
1998	26,315	3,130	536	185	30,166
1999	26,603	3,144	543	184	30,474
2000	26,951	3,241	551	199	30,942
2001	27,234	3,229	584	198	31,246
2002	27,360	3,304	588	196	31,448
2003	27,458	3,291	591	201	31,541
2004	27,650	3,332	614	202	31,798

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## Summary of Operations

Set forth below is a summary of operations for the System for the fiscal years ended June 30, 2001 through June 30, 2004. The information has been derived from the audited financial statements of the System prepared by Coulter and Justus, P.C., certified public accountants, Knoxville, Tennessee.

	2001	2002	2003 (Restated)	2004
<b>OPERATING REVENUES</b>				
Residential	\$25,954,352	\$24,746,376	\$26,699,205	\$28,368,050
Commercial	3,513,902	3,373,145	3,620,629	3,887,931
Industrial	19,698,377	19,005,890	20,071,592	22,143,093
Street and outdoor lighting	842,012	852,247	854,866	911,629
	<u>50,008,643</u>	<u>47,977,658</u>	<u>51,246,292</u>	<u>55,310,703</u>
Other Revenues	<u>2,022,872</u>	<u>2,017,777</u>	<u>2,100,325</u>	<u>2,447,651</u>
<b>TOTAL OPERATING REVENUES</b>	<u>52,031,515</u>	<u>49,995,435</u>	<u>53,346,617</u>	<u>57,758,354</u>
<b>POWER PURCHASED FROM TVA</b>	<u>43,629,827</u>	<u>41,631,320</u>	<u>44,700,229</u>	<u>48,328,235</u>
<b>GROSS PROFIT</b>	<u>8,401,688</u>	<u>8,364,115</u>	<u>8,646,388</u>	<u>9,430,119</u>
<b>OPERATING EXPENSES</b>				
Operation expenses	2,339,193	2,412,090	2,599,092	2,742,670
Maintenance	2,274,481	2,319,609	2,532,830	2,634,557
Depreciation	1,863,390	1,917,691	1,960,025	1,897,728
Tax equivalents	857,121	860,898	205,435	212,113
Social security taxes	162,343	192,984	213,225	206,462
Interest expense on customer deposits	<u>19,163</u>	<u>10,962</u>	<u>6,409</u>	<u>6,612</u>
<b>Total Operating Expenses</b>	<u>7,515,691</u>	<u>7,714,234</u>	<u>7,517,016</u>	<u>7,700,142</u>
<b>Operating Income</b>	<u>885,997</u>	<u>649,881</u>	<u>1,129,372</u>	<u>1,729,977</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Interest income	<u>1,355,425</u>	<u>591,180</u>	<u>586,380</u>	<u>628,270</u>
<b>Income before transfers</b>	<u>\$2,241,422</u>	<u>\$1,241,061</u>	<u>\$1,715,752</u>	<u>\$2,358,247</u>
Transfers out--tax equivalents to the City of Bristol, Tennessee	<u>*</u>	<u>*</u>	<u>(605,858)</u>	<u>(700,020)</u>
<b>Net Income</b>	<u>\$2,241,422</u>	<u>\$1,241,061</u>	<u>\$1,109,894</u>	<u>\$1,658,227</u>

\*Indicates difference in accounting method. For years 2001 and 2002, please see Tax Equivalents amounts under OPERATING EXPENSES.

"Unaudited"  
STATEMENT OF INCOME AND EXPENSES

for nine months ended April 30, 2005

OPERATING REVENUE	
Electric Sales	\$46,818,100
Other Electric Revenue	<u>2,096,100</u>
TOTAL OPERATING REVENUE	<u>48,914,200</u>
OPERATING EXPENSE	
Transmission and Distribution	372,900
Customer Accounts Expense	715,200
Customer Service Expense	256,500
Administrative and General	750,800
Maintenance Expense	<u>2,065,400</u>
TOTAL OPERATING AND MAINTENANCE	4,160,800
POWER PURCHASED FROM TVA	40,575,000
OTHER OPERATING EXPENSE	
Prepaid Pension Expense	46,800
Depreciation Expense	1,613,500
Taxes and Tax Equivalents	<u>1,027,200</u>
TOTAL OTHER OPERATING EXPENSE	2,687,500
TOTAL OPERATING EXPENSE	<u>47,423,300</u>
REVERSAL OF TAX ACCRUAL <sup>(1)</sup>	-722,000
TOTAL OPERATING EXPENSE WITH REVERSAL	<u>46,701,300</u>
INCOME	
Operating Income	2,212,900
Other Income	413,900
Interest from DEU	<u>314,400</u>
NET INCOME BEFORE DEBT EXPENSE	<u>2,941,200</u>
DEBT EXPENSE	
Interest on Long-Term Debt (Deposits)	6,200
NET INCOME	<u>\$2,935,000</u>

(1) Due to reversal of Payment in Lieu of Taxes to the City of Bristol, TN which increases net income by \$722,000. This reversal is a result of the changes in GASB 34.

### Debt Service Coverage

	2001	2002	2003	2004
<b>Operating Revenue:</b>				
Residential	25,954,352	24,746,376	26,699,205	28,368,050
Commercial	3,513,902	3,373,145	3,620,629	3,887,931
Industrial	19,698,377	19,005,890	20,071,592	22,143,093
Street and Outdoor Lighting	842,012	852,247	854,866	911,629
Other Operating Revenues	2,022,872	2,017,777	2,100,325	2,447,651
<b>Total Operating Revenues</b>	<b>\$ 52,031,515</b>	<b>\$ 49,995,435</b>	<b>\$ 53,346,617</b>	<b>\$ 57,758,354</b>
<b>Power Purchased from TVA</b>	<b>\$ 43,629,827</b>	<b>\$ 41,631,320</b>	<b>\$ 44,700,229</b>	<b>\$ 48,328,235</b>
<b>Gross Profit</b>	<b>\$ 8,401,688</b>	<b>\$ 8,364,115</b>	<b>\$ 8,646,388</b>	<b>\$ 9,430,119</b>
<b>Operating Expenses</b>				
Operations Expense	2,339,193	2,412,090	2,599,092	2,742,670
Maintenance	2,274,481	2,319,609	2,532,830	2,634,557
Depreciation	1,863,390	1,917,691	1,960,025	1,897,728
Tax Equivalents	857,121	860,898	205,435	212,113
Social Security Taxes	162,343	192,984	213,225	206,462
Interest Expense on Customer Deposits	19,163	10,962	6,409	6,612
<b>Total Operating Expenses</b>	<b>\$ 7,515,691</b>	<b>\$ 7,714,234</b>	<b>\$ 7,517,016</b>	<b>\$ 7,700,142</b>
<b>Operating Income</b>	<b>\$ 885,997</b>	<b>\$ 649,881</b>	<b>\$ 1,129,372</b>	<b>\$ 1,729,977</b>
<b>Add: Interest Income</b>	<b>1,355,425</b>	<b>591,180</b>	<b>586,380</b>	<b>628,270</b>
<b>Add Back: Depreciation</b>	<b>1,863,390</b>	<b>1,917,691</b>	<b>1,960,025</b>	<b>1,897,728</b>
<b>Net Revenue Available for Debt Service</b>	<b>\$ 4,104,812</b>	<b>\$ 3,158,752</b>	<b>\$ 3,675,777</b>	<b>\$ 4,255,975</b>
<b>Max Annual Debt Service</b>	<b>\$ 1,488,656</b>	<b>\$ 1,488,656</b>	<b>\$ 1,488,656</b>	<b>\$ 1,488,656</b>
<b>Debt Service Coverage</b>	<b>2.76 X</b>	<b>2.12 X</b>	<b>2.47 X</b>	<b>2.86 X</b>

### Ten Largest Electric Customers

<u>NAME</u>	<u>ANNUAL (kWh) USAGE</u>	<u>ANNUAL SALES (Dollars)</u>
Exide Corporation	91,975,125	\$3,717,663
City of Bristol, Tennessee	38,400,346	1,894,211
Modern Forge of Tennessee	24,000,216	1,096,875
WellmontBRMC	23,627,956	1,283,618
GlaxoSmithKline Laboratories	22,992,700	1,010,481
King Pharmaceuticals	17,058,828	808,620
Amerace Corporation	11,713,376	516,679
Bristol Metals, Inc.	9,271,909	513,138
Royal Mouldings	12,654,880	412,493
Seaman Corporation	5,140,128	269,700



## Personnel

Set forth below is the average number of employees working in the System for the last five fiscal years.

<u>YEAR</u>	<u>AVERAGE NUMBER OF EMPLOYEES</u>
2000	60
2001	60
2003	60
2003	60
2004	60

The System employees are provided health, dental, disability and life insurance, of which the employees share in the cost of the premiums. The System also pays a percentage of an employee's health insurance after retirement if certain conditions are met.

The System administers a defined contribution plan in the form of a 401(k) plan available to all employees who have completed six months of employment. Under the plan terms, the System will match participant contributions up to 6% of the participant's salary. Participants are not required but may contribute up to a total of 15% of their pre-tax earnings, subject to IRS limitations.

The employees receive paid vacation and sick leave.

## Electric System Capital Improvements Program

In an effort to maintain the System and to meet System demands and customer requirements, the following capital improvements and additions are planned for the next five fiscal years.

<u>FISCAL YEAR</u>	<u>AMOUNT</u>
2006	\$21,789,100
2007	4,596,000
2008	4,337,100
2009	3,250,300
2010	4,658,400

Major capital additions planned for the next five fiscal years include:

- Expanding fiber optic communications transport system to send automatic signal to dispatch when power is out at customer location. Present system will provide data at substation level. This will expand capability to customer level and increase service reliability.
- Purchase and install meters that can be read remotely over fiber.
- Build new 20 MVA substation, transmission, and distributions lines.
- Building underground electric service in new subdivisions

The capital improvements slated for fiscal years 2006 and 2007 will be financed with proceeds from the Series 2005 Bonds.

### **Loans to Broadband Telecommunications Network**

BTES also anticipates that the Electric System will make approximately \$11,000,000 of loans in the next two to three years to the BTES broadband telecommunications network (the "Broadband Network") for construction and improvements to the Broadband Network. The Broadband Network will provide cable, internet and other telecommunications services. Loans will be made only to the extent Electric System revenues are available after the payment of debt service on the Series 2005 Bonds. (See Appendix A, "Application of Revenues and Creation of Funds.") Tennessee law (TCA Section 7-52-601 et seq.) requires that the loans bear interest at a rate not less than the highest rate the Electric System earns on its investments. Revenues generated from the operation of the Broadband Network will not be available for the payment of debt service on the Series 2005 Bonds.

### **Debt Record**

There is no record of default on principal and interest payments by the City from information available.

### **Billing and Collections**

All customers are billed monthly. The bill is due 15 days after it is billed. A residential customer's service is normally disconnected if that customer is two bills past due. Depending on the residential customer's pay history, service may be discontinued after one month. If a customer is disconnected for nonpayment they must pay a \$25 trip fee plus \$25 (prior to 3pm) or \$50 (after 3 pm) to be reconnected, and possibly a deposit on their account. A commercial and industrial customer's service is disconnected if it is one bill past due. Five percent interest is charged on the amount billed.

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## APPENDIX E

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# Ambac

## Financial Guaranty Insurance Policy

Ambac Assurance Corporation  
One State Street Plaza, 15th Floor  
New York, New York 10004  
Telephone: (212) 668-0340

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.


In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

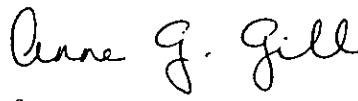
As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

  
President



  
Secretary

Effective Date:

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Form No.: 2B-0012 (1/01)

Authorized Representative

  
Authorized Officer of Insurance Trustee

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## APPENDIX F

(Form of Bond Counsel Opinion)

July 27, 2005

City Council  
City of Bristol, Tennessee

Wiley Bros.-Aintree Capital, LLC  
Nashville, Tennessee

Re: The City of Bristol, Tennessee Electric System Revenue Bonds, Series 2005

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the City of Bristol, Tennessee (the "Issuer") of \$23,910,000 Electric System Revenue Bonds, Series 2005, dated July 27, 2005 (the "Bonds"). We have examined the law and such certified proceedings and other papers as we deemed necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify such facts by independent investigation.

Based on our examination, we are of the opinion, as of the date hereof, as follows:

1. The Bonds have been duly authorized, executed and issued in accordance with the constitution and laws of the State of Tennessee and constitute valid and binding obligations of the Issuer.
2. The resolution of the City Council of the Issuer authorizing the Bonds has been duly and lawfully adopted, is in full force and effect and is a valid and binding agreement of the Issuer enforceable in accordance with its terms.
3. The principal of, premium, if any, and interest on the Bonds are payable solely from and secured by a pledge of the income and revenues to be derived from the operation of the electric transmission and distribution system of the Issuer (the "System"), subject only to the payment of the reasonable and necessary costs of operating, maintaining, repairing, and insuring the System. We express no opinion as to the sufficiency of any of such revenues for the payment of principal of, premium, if any, or interest on the Bonds.
4. Interest on the Bonds (including any original issue discount properly allocable to an owner thereof) is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, for purposes of computing the alternative minimum tax imposed on certain corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings. The opinion set forth in the preceding sentence is subject to the condition that the Issuer comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. Failure to comply with certain of such requirements could cause interest on the Bonds to be so included in gross income retroactive to the date of issuance of the Bonds. The Issuer has covenanted to comply with all such requirements. Except as set forth in this Paragraph 4, we express no opinion regarding other federal tax consequences arising with respect to the Bonds.
5. Under existing law, the Bonds and the income therefrom are exempt from all present state, county and municipal taxes in Tennessee except (a) inheritance, transfer and estate taxes, (b) Tennessee excise taxes on all or a portion of the interest on any of the Bonds during the period such Bonds are held or beneficially owned by any

organization or entity, other than a sole proprietorship or general partnership, doing business in the State of Tennessee, and (c) Tennessee franchise taxes by reason of the inclusion of the book value of the Bonds in the Tennessee franchise tax base of any organization or entity, other than a sole proprietorship or general partnership doing business in the State of Tennessee.

It is to be understood that the rights of the owners of the Bonds and the enforceability of the Bonds and the resolution authorizing the Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and that their enforcement may be subject to the exercise of judicial discretion in accordance with general principles of equity.

We express no opinion herein as to the accuracy, adequacy or completeness of the Official Statement relating to the Bonds.

This opinion is given as of the date hereof, and we assume no obligation to update or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Yours truly,

Bass, Berry & Sims PLC