



**JOHNSON CITY ENERGY AUTHORITY DBA  
BRIGHTRIDGE**

**AUDITED FINANCIAL STATEMENTS**

**2018**

**JOHNSON CITY ENERGY AUTHORITY  
DBA BRIGHTRIDGE**

**BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**For the Fiscal Year Ended June 30, 2018**

**JOHNSON CITY ENERGY AUTHORITY  
DBA BRIGHTRIDGE  
TABLE OF CONTENTS  
June 30, 2018**

---

	<u>Page Number</u>
<b>SECTION I - INTRODUCTORY SECTION</b>	
Schedule of Officials	1
<b>SECTION II - FINANCIAL SECTION</b>	
Independent Auditors' Report	2
Management's Discussion and Analysis	5
<i>Basic Financial Statements</i>	
Statement of Net Position	14
Statement of Revenues, Expenses and Changes in Net Position	16
Statement of Cash Flows	17
Notes to the Financial Statements	19
<b>SECTION III - SUPPLEMENTARY INFORMATION</b>	
<i>Required Supplementary Information</i>	
Schedule 1 - Schedule of Changes in Net Pension Liability and Related Ratios Based on Participation in the Public Employee Pension Plan of TCRS	41
Schedule 2 - Schedule of Contributions Based on Participation in the Public Employee Pension Plan of TCRS	42
Schedule 3 - Schedule of Changes in OPEB Liability and Related Ratios	43
<i>Supplementary Information</i>	
Schedule 4 - Schedule of Bond Principal and Interest Requirements - 2017 Refunding Issue	44
<i>Other Supplementary Information (Unaudited)</i>	
Schedule 5 - Changes in Statement of Net Position Accounts	45
Schedule 6 - Comparative Results of Operations	46
Schedule 7 - Selected Data and Comparisons	47
Schedule 8 - Comparative Statistical Data - BrightRidge and Other Group A Municipalities in the TVA Area	48

**JOHNSON CITY ENERGY AUTHORITY  
DBA BRIGHTRIDGE  
TABLE OF CONTENTS  
June 30, 2018**

---

	<u>Page Number</u>
<b>SECTION IV - INTERNAL CONTROL AND COMPLIANCE SECTION</b>	
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 <i>Government Auditing Standards</i>	49
Schedule of Findings and Responses	51

**SECTION I**  
**INTRODUCTORY SECTION**

**JOHNSON CITY ENERGY AUTHORITY  
DBA BRIGHTRIDGE  
SCHEDULE OF OFFICIALS  
June 30, 2018**

---

Name and Title of Official

Officers

Jeff Dykes	Chief Executive Officer
Brian Bolling	CFO and Chief Customer Officer
Connie Crouch	Chief Employee Relations Officer
Mark Eades	Chief Engineering and Technology Officer
Eric Egan	Chief Data Officer
Stacy Evans	Chief Broadband Officer
Rodney Metcalf	Chief Operations Officer

Members of Governing Board

Dr. B.J. King	Chair
Bob Cantler	Vice-Chair
Scott Bowman	
Dan Brant	
Jenny Brock	
Joe Grandy	
Dr. Hal Knight	
Robert Thomas	
Guy Wilson	

**SECTION II**  
**FINANCIAL SECTION**

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Johnson City Energy Authority dba  
BrightRidge

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Johnson City Energy Authority dba BrightRidge (BrightRidge), as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise BrightRidge's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

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

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

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

---

Johnson City	801B Sunset Drive, Johnson City, TN 37604	423.282.4511
Kingsport	1361 South Wilcox Drive, Kingsport, TN 37660	423.246.1725
Greeneville	550 Tusculum Boulevard, Greeneville, TN 37745	423.638.8516



### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Johnson City Energy Authority dba BrightRidge, as of June 30, 2018, and the respective changes in financial position and cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Changes in Net Pension Liability and Related Ratios Based on Participation in the Public Employee Pension Plan of TCRS, the Schedule of Contributions Based on Participation in the Public Employee Pension Plan of TCRS, and the Schedule of Changes in OPEB Liability and Related Ratios on pages 5 through 13 and pages 41 through 43, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise BrightRidge's basic financial statements. The introductory section, supplementary information and other supplementary information sub-sections, as detailed within the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information sub-section is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information sub-section is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section and other supplementary information sub-section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

***Change in Accounting Principle***

As described in Note 1 to the financial statements, in fiscal year 2018, BrightRidge adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other than Pensions* and Statement No. 85, *Omnibus 2017*. Our opinion is not modified with respect to this matter.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2018, on our consideration of BrightRidge's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of BrightRidge's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering BrightRidge's internal control over financial reporting and compliance.

*Blackburn, Childers and Steagall, PLLC*  
BLACKBURN, CHILDERS & STEAGALL, PLC  
Johnson City, Tennessee

November 13, 2018

**JOHNSON CITY ENERGY AUTHORITY  
DBA BRIGHTRIDGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2018**

---

Johnson City Energy Authority (JCEA), dba BrightRidge, is an energy authority created under the Municipal Energy Authority Act with the responsibility to provide electricity and related programs, services, and products. As the tenth largest of TVA's 154 local power companies, JCEA supplies electricity to around 78,700 customers over nearly 350 square miles in Northeast Tennessee. The JCEA service area includes the City of Johnson City; the Town of Jonesborough; part of the City of Kingsport; all of Washington County; and parts of Sullivan, Carter, and Greene counties.

The Management's Discussion and Analysis (MD&A) for JCEA is designed to help the reader focus on significant financial activities and identify any meaningful changes in the financial position for the fiscal year ended June 30, 2018. This MD&A is in accordance with Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. We encourage readers to consider the information presented here in conjunction with the financial statements and supporting documents taken as a whole.

### **Overview of the Financial Statements**

This discussion and analysis are to introduce the financial statements and provide an analytical overview of JCEA's financial activities for the fiscal year ended June 30, 2018. The financial statements are comprised of the basic financial statements and the notes to the financial statements which provide detailed supporting information.

### **Basic Financial Statements**

The basic financial statements should provide a broad overview of JCEA's finances like those used by a private sector business. The financial statements are prepared using the accrual basis of accounting and offer short and long-term information about financial activities.

The Statement of Net Position presents information on all JCEA's assets and deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between the two reported as net position. Net position is an indicator of financial status at a given point in time and can be tracked over time to assess whether the standing is improving or deteriorating. Net position increases when revenues exceed expenses. Improved financial position is shown by an increase to assets without an increase to liabilities, resulting in an increased net position.

The current fiscal year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. All changes in net position are reported as soon as the underlying event occurs, regardless of the timing of cash flows. The success of JCEA operations over the past fiscal year can be measured by this statement and it is useful to determine whether costs are successfully recovered through rates and other charges.

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities. This statement provides details as to the sources of cash, the uses of cash, and the change in the cash balance during the reporting period, without consideration of the timing of the event.

**JOHNSON CITY ENERGY AUTHORITY  
DBA BRIGHTRIDGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2018**

---

**Financial Analysis**

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position convey information about JCEA's activities highlighting the change in financial condition from one year to the next. Over time, increases or decreases in net position may serve as an indicator of whether the financial position of JCEA is improving or declining. Other considerations for electric distributors are the influences of non-financial indicators such as economic conditions, population growth, weather, changes in governmental legislation, and energy efficiency.

Condensed Statement of Net Position is presented below:

**SUMMARY OF STATEMENT OF NET POSITION**

	FY 2018	FY 2017	Dollar Change	% Change
<b>Assets</b>				
Current and Other Assets	64,934,819	51,622,140	13,312,679	25.8%
Restricted Assets	22,075,254	22,024,010	51,244	0.2%
Capital Assets, Net	194,067,439	189,709,825	4,357,614	2.3%
<b>Total Assets</b>	<b><u>\$ 281,077,512</u></b>	<b><u>\$ 263,355,975</u></b>	<b><u>\$ 17,721,537</u></b>	<b><u>6.7%</u></b>
<b>Deferred Outflows of Resources</b>	<b><u>\$ 4,861,023</u></b>	<b><u>\$ 4,716,979</u></b>	<b><u>\$ 144,044</u></b>	<b><u>3.1%</u></b>
<b>Liabilities</b>				
Current Liabilities	34,724,532	26,539,568	8,184,964	30.8%
Long-Term Liabilities	46,900,272	49,434,421	(2,534,149)	-5.1%
<b>Total Liabilities</b>	<b><u>\$ 81,624,804</u></b>	<b><u>\$ 75,973,989</u></b>	<b><u>\$ 5,650,815</u></b>	<b><u>7.4%</u></b>
<b>Deferred Inflows of Resources</b>	<b><u>\$ 848,811</u></b>	<b><u>\$ 878,814</u></b>	<b><u>\$ (30,003)</u></b>	<b><u>-3.4%</u></b>
<b>Net Position</b>				
Net Investment in Capital Assets	158,938,739	152,189,078	6,749,661	4.4%
Unrestricted Net Position	44,526,181	39,031,073	5,495,108	14.1%
<b>Total Net Position</b>	<b><u>\$ 203,464,920</u></b>	<b><u>\$ 191,220,151</u></b>	<b><u>\$ 12,244,769</u></b>	<b><u>6.4%</u></b>

Net position increased \$12,244,769 to \$203,464,920 in fiscal year 2018, up from \$191,220,151 in fiscal year 2017 for a 6.4% increase in total net position. The \$12,244,769 gain in net position includes the effect of a prior period restatement of (\$712,526). For fiscal year 2018, the management of JCEA implemented GASB Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*, and No. 85, *Omnibus 2017*. The net position of BrightRidge was restated to reflect the change in accounting principle. The impact of this restatement is a decrease to beginning net position of \$712,526 for the beginning OPEB liability at the June 30, 2018 measurement date.

**JOHNSON CITY ENERGY AUTHORITY  
DBA BRIGHTRIDGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2018**

Condensed Statement of Revenues, Expenses and Changes in Net Position is presented below:

**SUMMARY OF STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

	FY 2018	FY 2017	Dollar Change	% Change
Electric Sales Revenue	197,507,363	195,172,763	2,334,600	1.2%
Other Operating Revenues	4,008,314	3,850,156	158,158	4.1%
<b>Total Operating Revenues</b>	<b><u>\$ 201,515,677</u></b>	<b><u>\$ 199,022,919</u></b>	<b><u>\$ 2,492,758</u></b>	<b><u>1.3%</u></b>
<b>Operating Expenses</b>				
Purchased Power	150,890,594	149,158,111	1,732,483	1.2%
Other Operating Expenses	13,841,784	13,851,055	(9,271)	-0.1%
Maintenance Expense	8,326,145	7,737,170	588,975	7.6%
Provision for Depreciation	8,991,094	8,857,205	133,889	1.5%
Tax Equivalents	5,444,336	2,259,975	3,184,361	140.9%
<b>Total Operating Expenses</b>	<b><u>187,493,953</u></b>	<b><u>181,863,516</u></b>	<b><u>5,630,437</u></b>	<b><u>3.1%</u></b>
Nonoperating Revenues (Expenses)	(1,064,429)	(1,706,075)	641,646	-37.6%
<b>Income before Transfer</b>	<b><u>12,957,295</u></b>	<b><u>15,453,328</u></b>	<b><u>(2,496,033)</u></b>	<b><u>-16.2%</u></b>
Transfer to City of Johnson City	-	(3,016,572)	3,016,572	-100.0%
<b>Change In Net Position</b>	<b><u>12,957,295</u></b>	<b><u>12,436,756</u></b>	<b><u>520,539</u></b>	<b><u>4.2%</u></b>
Beginning Net Position	191,220,151	177,863,339	13,356,812	7.5%
Prior Period (Restatement) Adjustment	(712,526)	920,056	(1,632,582)	-177.4%
Beginning Net Position Restated	<u>190,507,625</u>	<u>178,783,395</u>	<u>11,724,230</u>	<u>6.6%</u>
<b>Ending Net Position</b>	<b><u>203,464,920</u></b>	<b><u>191,220,151</u></b>	<b><u>12,244,769</u></b>	<b><u>6.4%</u></b>

The change in net position from fiscal year 2017 to fiscal year 2018 is \$12,244,769 or 6.4%.

Operating revenues increased by \$2,492,758 or 1.3% during fiscal year 2018. Energy sold is represented in kilowatt hours (kWh). Total kWh sales for 2018 were 1,894,896,142 compared to 1,840,704,675 in 2017 which is an increase of 54,191,467 kWh or 2.94%. Weather serves an important part in determining operating revenue for any given year, and its influence is reflected in the comparison of degree days from one period to the next. Degree days are a simplified form of historical weather data and are commonly used in monitoring the relationship between energy consumption and outside air temperature. Total degree days for 2018 were 5,362 compared to 4,741 for 2017 which represents a 13.10% increase in degree days.

**JOHNSON CITY ENERGY AUTHORITY  
DBA BRIGHTRIDGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2018**

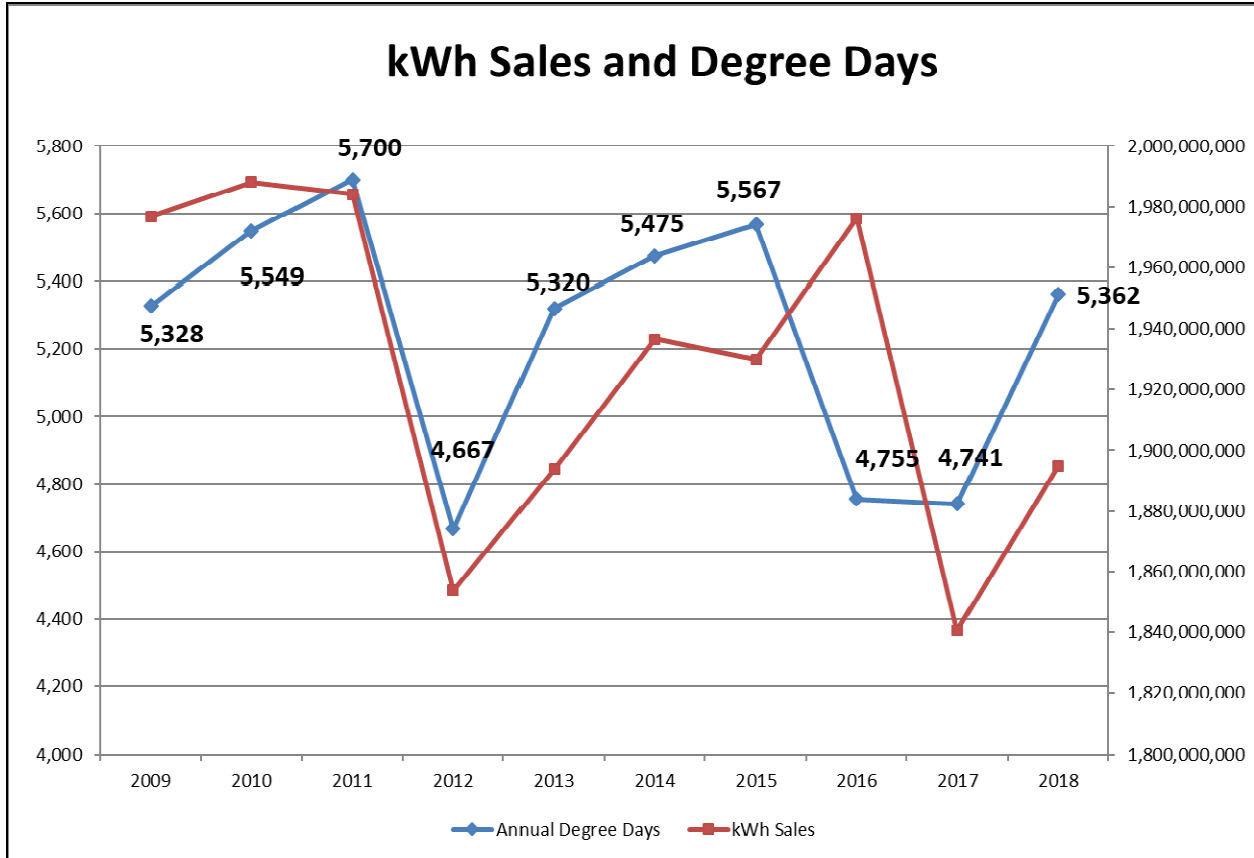
---

Total operating expenses for fiscal year 2018 are up by \$5,630,437 or 3.1% over fiscal year 2017. Operating expenses include Purchased Power, Other Operating Expense, Maintenance Expense, Depreciation Expense, and Tax Equivalents.

The primary operating expense is Purchased Power. Purchased Power was \$150,890,594 which represents 80.48% of the total operating expenses of \$187,493,953. For fiscal year 2018, this was \$1,732,483 or 1.2% more than fiscal year 2017. JCEA must purchase all its power from the Tennessee Valley Authority (TVA) under an all-requirements contract with an initial term of 20 years beginning June 30, 1985. The contract has been extended in 5-year terms beginning October 1, 1997 and requires a 5-year written notice by either party to terminate. TVA bills JCEA for wholesale electricity based on demand and energy. The demand component of the wholesale power bill drives the average cost of purchased power. Demand (kW) is determined by the highest one hour of usage in kW each month. Energy is measured in kilowatt hours (kWh). The cost of purchased power remained relatively flat from fiscal year 2017 to fiscal year 2018 even with a 1.88% wholesale rate increase by TVA in October 2017. Weather patterns during fiscal year 2018 were more favorable than the prior year. An industry standard calculation referred to as load factor is used to measure the relationship of demand to kWh. The more kWh purchased per unit of peak demand the more the load factor improves, and the ultimate result is that the average cost of power decreases. Another key driver for the cost of purchased power being flat was an average reduction in the TVA fuel cost adjustment of just under 10%. This is a pass-through from TVA to our customers which represents the variable cost of fuel for generation and off-system purchases. The average realized rate for fiscal year 2018 was \$0.075 per kWh for purchased power while fiscal year 2017 was \$0.076 per kWh for purchased power. JCEA has limited ability to control peak demands as the weather is the primary driver of consumption.

The chart on the next page visually represents the relationship between kWh (Energy) and Degree Days (Weather).

**JOHNSON CITY ENERGY AUTHORITY  
DBA BRIGHTRIDGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2018**



Other operating expenses were \$13,841,784 for fiscal year 2018 as compared to \$13,851,055 for fiscal year 2017. This is a decrease of \$9,271 or -0.1%. Other operating expenses include administrative and general, transmission, distribution, and customer service related expenses. Administrative and General Expenses for fiscal year 2018 were down \$274,850 or -0.03% due to the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*, and No. 85, *Omnibus 2017*. Transmission expenses were down \$28,142 or -13.23%. Distribution Expenses were down \$5,015 or -0.17%. Customer Service related expenses were up \$288,706 or 7.1%.

Maintenance expenses were up \$588,975 or 7.6%. Further, depreciation expense is up \$133,889 or 1.5%.

In lieu of taxes or tax equivalent payments are computed with authoritative guidance under *Tennessee Code Annotated* 7-52. Revenues, utility plant, and depreciation are all primary components of the formula. TVA, as our regulatory authority, reviews the JCEA computation of in lieu of taxes annually. Tax equivalents made to local taxing jurisdictions in our service area including the City of Johnson City were up \$167,789 or 3.18%. The total in lieu of tax payment to the City was \$4,149,145 in 2018 up \$127,049 from 2017.

**JOHNSON CITY ENERGY AUTHORITY  
DBA BRIGHTRIDGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2018**

---

In prior fiscal years, and specifically through the nine months ended March 31, 2017, the payment to the City of Johnson City was classified as Transfer to the City of Johnson City, however, the payment to the City is now classified as an operating expense due to operating as an energy authority as of April 1, 2017. JCEA pays the maximum in lieu of tax payment allowed by state law and is the City of Johnson City's largest taxpayer.

Non-Operating Revenues and Expenses for fiscal year 2018 were down \$641,646 or -37.6%. Interest income and other income was up \$47,292. Debt expense was down \$594,354, which represents interest paid on long-term debt and the amortization of the bond premium. When JCEA issued new debt on March 31, 2017, the expected annual savings in interest expense is over \$300,000 per year through 2033 due to favorable interest rates. JCEA pays bond principal and interest payments twice each year.

**Capital Assets and Debt Administration**

Condensed financial information relating to JCEA Capital Assets is presented below:

	<b>FY 2018</b>	<b>FY 2017</b>	<b>Dollar Change</b>	<b>% Change</b>
Transmission Plant	48,371,054	48,322,752	48,302	0.1%
Distribution Plant	191,788,344	187,609,363	4,178,981	2.2%
General Plant	43,620,219	42,333,136	1,287,083	3.0%
Construction Work in Progress	5,727,041	1,839,750	3,887,291	211.3%
<b>Total Capital Assets</b>	<b><u>\$ 289,506,658</u></b>	<b><u>\$ 280,105,001</u></b>	<b><u>\$ 9,401,657</u></b>	<b><u>3.4%</u></b>

JCEA transmission and distribution facilities serve around 350 square miles which includes the City of Johnson City; the Town of Jonesborough; part of the City of Kingsport; all of Washington County; and parts of Sullivan, Carter, and Greene counties. Such facilities require significant annual capital and maintenance expenditures.

The investment in utility plant, at June 30, 2018 was \$289,506,658 compared to \$280,105,001 at June 30, 2017, this includes utility plant additions of \$9,778,684 and plant retirements of \$4,264,313. JCEA's capital budget for fiscal year 2018 was \$13,355,405. Additions during fiscal year 2018 include a new Midway substation in Jonesborough for \$3,468,787 and refurbishment of substations for \$349,835. For fiscal year 2018 thirteen vehicles were purchased for \$622,911, \$329,073 was spent for metering equipment, dispatch center and heat and air improvements were made costing \$543,000 and \$112,000, respectively. Further, investments included \$197,000 for the completion of the fiber network following the conclusion of the Highway 36 State road project and 69kV pole replacement of \$162,000.

Not considering large-scale projects, JCEA's normal renewal and replacement construction projects typically cost \$6,000,000 to \$7,000,000. JCEA's fiscal year 2018 capital budget includes a five-year projection for spending.



**JOHNSON CITY ENERGY AUTHORITY  
DBA BRIGHTRIDGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2018**

---

These future capital budgets are planned to be funded out of cash and JCEA does not intend to issue new debt. The outstanding bond principal was \$32,280,000 at June 30, 2018, compared to \$34,480,000 at June 30, 2017. Note that the Bond rating for JCEA is Moody's "Aa2". JCEA's bonds are secured by the revenue of the energy authority.

More detailed information about the JCEA's assets and debt can be found in the notes to the financial statements.

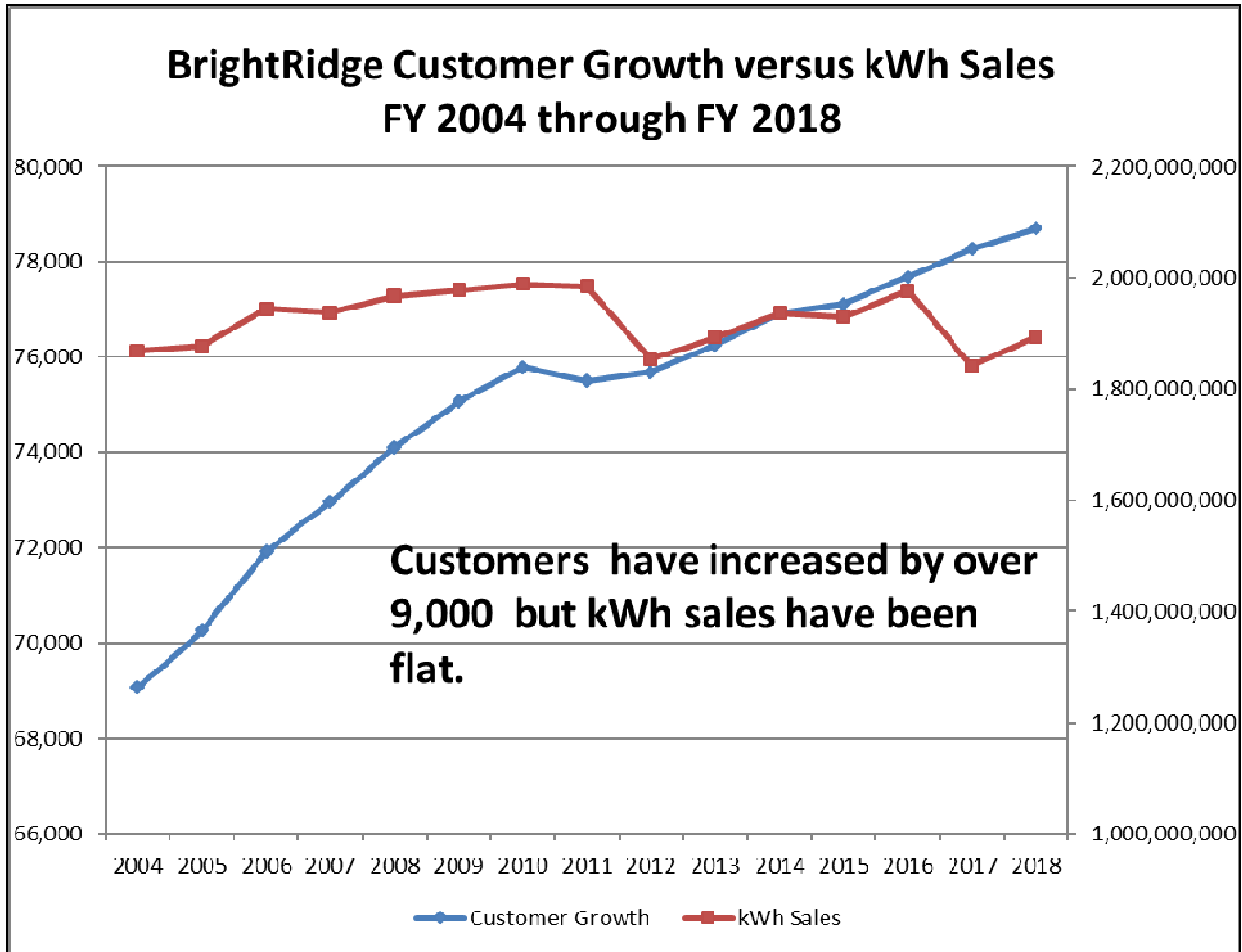
**Johnson City Energy Authority Highlights, Economic Factors, and Future**

JCEA experienced growth of 429 customers for a 0.55% overall percentage growth this year. The following chart shows the number of customers for each classification for the past two years.

	<b>2018</b>	<b>2017</b>	<b>Change</b>	<b>% Change</b>
Residential	67,562	67,223	339	0.50%
Small Commercial	9,139	9,070	69	0.76%
Large Commercial/Industrial	1,048	1,034	14	1.35%
Street and Athletic Lighting	145	144	1	0.69%
Outdoor Lighting Only	<u>809</u>	<u>803</u>	<u>6</u>	0.75%
<b>Total Customers</b>	<b><u>78,703</u></b>	<b><u>78,274</u></b>	<b><u>429</u></b>	<b><u>0.55%</u></b>

As customer growth has remained steady, energy sales have not remained on the same growth pattern. This pattern is mainly correlated to the national and local attention toward energy efficiency and conservation efforts. The chart on the next page visually represents the relationship between kWh (Energy) and Customer Growth.

**JOHNSON CITY ENERGY AUTHORITY  
DBA BRIGHTRIDGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2018**



Since fiscal year July 2009, TVA has increased wholesale rates seven times per the following: 9.00% in October 2009; 3.08% in October 2011; 2.63% in October 2013; 2.61% in October 2014; 2.28% in October 2015; 1.88% in October 2016; and 1.88% in October 2017. JCEA implemented rate increases of 1.9% in October 2015, 1.42% in October 2016, and 1.42% in October 2017, which were in addition to the TVA increases. Continued volatility on the cost of wholesale power due to demand charges necessitate the increase to stabilize margins. Beginning in October 2016, JCEA implemented a demand cost recovery adjustment referred to as “DCRA”. The DCRA is a variable charge or credit applied to residential and small commercial customers. These customer classes do not pay a demand charge. To protect margins for operational and capital spending, this adjustment was created to recover excess demand charges paid to TVA. The adjustment was also set up to pay out a credit to customers when lower demand charges are paid to TVA. JCEA based the adjustment on the recent history of our normal load factor. When the monthly load factor is better than the normal monthly load factor, customers receive a credit adjustment and when the monthly load factor is lower than the normal monthly load factor, customers receive a charge adjustment. During fiscal year 2018, the DCRA recovered \$1,314,949 to offset higher demand charges paid to TVA compared to \$2,739,192 recovered in 2017. Without the DCRA, our revenue and our margin would have been reduced by this amount.

**JOHNSON CITY ENERGY AUTHORITY  
DBA BRIGHTRIDGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2018**

---

**Financial Contact**

This discussion and analysis is designed to provide JCEA customers, investors, and other interested parties with a general overview of the financial position and results of operations. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Chief Financial Officer, Johnson City Energy Authority, 2600 Boones Creek Road, Johnson City, Tennessee 37615.

**JOHNSON CITY ENERGY AUTHORITY  
DBA BRIGHTRIDGE  
STATEMENT OF NET POSITION  
June 30, 2018**

ASSETS

CURRENT ASSETS

Cash on Hand and in Bank	\$ 34,387,387
Accounts Receivable - Customer Service, Net of Allowance for Uncollectible Accounts	21,602,349
Accounts Receivable - Rents and Other	689,263
Current Maturities of Notes Receivable	106,206
Inventories	7,353,680
Prepaid Expenses	288,434

Total Current Assets	64,427,319
----------------------	------------

CAPITAL ASSETS

Land and Land Rights	5,401,940
Construction in Progress	5,727,041
Depreciable Capital Assets	278,377,677
Less: Accumulated Depreciation	(95,439,219)

Net Capital Assets	194,067,439
--------------------	-------------

RESTRICTED ASSETS

Cash and Cash Equivalents	21,075,254
Long-Term Certificate of Deposit	1,000,000

Total Restricted Assets	22,075,254
-------------------------	------------

OTHER ASSETS

Accounts Receivable - Customers - Heat Pumps	4,246,742
Advance from Tennessee Valley Authority	(4,246,742)
Notes Receivable, Net of Current Maturities	507,500

Total Other Assets	507,500
--------------------	---------

TOTAL ASSETS	281,077,512
--------------	-------------

DEFERRED OUTFLOWS OF RESOURCES

Deferred Loss on Bond Refunding	967,969
Deferred Outflows of Resources Related to the Pension	3,893,054

TOTAL DEFERRED OUTFLOWS OF RESOURCES	4,861,023
--------------------------------------	-----------

(Continued)

**JOHNSON CITY ENERGY AUTHORITY  
DBA BRIGHTRIDGE  
STATEMENT OF NET POSITION  
June 30, 2018**

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	25,668,465
Customer Deposits	5,281,756
Accrued Interest	239,200
Accrued Salaries	261,972
Current Portion of Compensated Absences	519,041
Current Maturities of Bonds Payable	2,390,000
Current Maturities of Note Payable	76,000
Other Current and Accrued Liabilities	<u>288,098</u>

Total Current Liabilities	<u>34,724,532</u>
---------------------------	-------------------

LONG-TERM LIABILITIES

Bonds Payable, Net of Current Maturities and Unamortized Bond Premium	33,706,669
Note Payable, Net of Current Maturities	392,666
Compensated Absences, Net of Current Portion	1,970,723
Net Pension Liability	5,077,331
Other Post-Employment Benefits Liability	<u>5,752,883</u>

Total Long-Term Liabilities	<u>46,900,272</u>
-----------------------------	-------------------

TOTAL LIABILITIES	<u>81,624,804</u>
-------------------	-------------------

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows of Resources Related to the Pension	705,349
Deferred Inflows of Resources Related to Other Post-Employment Benefits	<u>143,462</u>

TOTAL DEFERRED INFLOWS OF RESOURCES	<u>848,811</u>
-------------------------------------	----------------

NET POSITION

Net Investment in Capital Assets	158,938,739
Unrestricted	<u>44,526,181</u>

TOTAL NET POSITION	<u><u>\$ 203,464,920</u></u>
--------------------	------------------------------

The accompanying notes are an integral part of these basic financial statements.

**JOHNSON CITY ENERGY AUTHORITY  
DBA BRIGHTRIDGE  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
For the Fiscal Year Ended June 30, 2018**

OPERATING REVENUES	
Sales of Electric Energy	
Residential	\$ 111,107,375
Large Lighting and Power	66,123,236
Small Lighting and Power	18,450,151
Street and Outdoor Lighting	3,528,367
Unbilled Revenue	(1,701,766)
Other Operating Revenues	<u>4,008,314</u>
Total Operating Revenues (Pledged as Security for Revenue Bonds)	<u>201,515,677</u>
OPERATING EXPENSES	
Operations	
Power Purchased from Tennessee Valley Authority	150,890,594
Other Operating Expenses	13,841,784
Maintenance	8,326,145
Provision for Depreciation	8,991,094
Tax Equivalents	<u>5,444,336</u>
Total Operating Expenses	<u>187,493,953</u>
NET OPERATING INCOME	<u>14,021,724</u>
NONOPERATING REVENUES (EXPENSES)	
Interest Income	169,950
Other Income	71,103
Interest Expense	(1,497,529)
Amortization of Bond Premium	257,303
Amortization of Deferred Loss on Bond Refunding	<u>(65,256)</u>
Total Nonoperating Revenues (Expenses)	<u>(1,064,429)</u>
CHANGE IN NET POSITION	<u>12,957,295</u>
BEGINNING NET POSITION, JULY 1, 2017	191,220,151
PRIOR PERIOD RESTATEMENT	
Implementation of GASB Statement No. 75	<u>(712,526)</u>
BEGINNING NET POSITION, JULY 1, 2017, RESTATED	<u>190,507,625</u>
ENDING NET POSITION, JUNE 30, 2018	<u><u>\$ 203,464,920</u></u>

The accompanying notes are an integral part of these basic financial statements.

**JOHNSON CITY ENERGY AUTHORITY  
DBA BRIGHTRIDGE  
STATEMENT OF CASH FLOWS  
For the Fiscal Year Ended June 30, 2018**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash Received from Electric Sales	\$ 198,037,665
Cash Received from Rentals and Other Sales	4,115,333
Cash Payments to Suppliers for Goods and Services	(154,382,720)
Cash Payments for Employee Services and Benefits	(11,557,301)
Cash Payments for Tax Equivalents	(5,444,336)
Change in Customer Deposits	<u>338,764</u>
Net Cash Provided by Operating Activities	<u>31,107,405</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Payments Received on Note Receivable Related to USDA Grant Pass-Through	76,000
Principal Paid on USDA Note Payable	<u>(76,000)</u>
Net Cash Provided by Noncapital Financing Activities	<u>0</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Payments Received on Note Receivable from Capital Contract	28,453
Acquisition and Construction of Capital Assets	(14,034,550)
Principal Paid on Capital Debt	(2,200,000)
Interest Paid on Capital Debt	(1,635,416)
Net Proceeds from Other Income	<u>71,103</u>
Net Cash Used for Capital and Related Financing Activities	<u>(17,770,410)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on Investments	169,950
Proceeds from Maturity of Restricted Long-Term Certificate of Deposit	<u>1,000,000</u>
Net Cash Provided by Investing Activities	<u>1,169,950</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	14,506,945
BEGINNING CASH AND CASH EQUIVALENTS, JULY 1, 2017	<u>40,955,696</u>
ENDING CASH AND CASH EQUIVALENTS, JUNE 30, 2018	<u>\$ 55,462,641</u>

(Continued)

**JOHNSON CITY ENERGY AUTHORITY  
DBA BRIGHTRIDGE  
STATEMENT OF CASH FLOWS  
For the Fiscal Year Ended June 30, 2018**

RECONCILIATION OF OPERATING INCOME TO  
NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating Income	\$ 14,021,724
Adjustments to Reconcile Operating Income to Net Cash Provided By Operating Activities:	
Prior Period Restatement for the Implementation of GASB No. 75 for OPEB	(712,526)
Depreciation Expense	9,676,936
Decrease in Allowance for Uncollectible Accounts	(204,908)
(Increase) Decrease in Assets:	
Accounts Receivable	637,321
Inventories	(437,745)
Prepaid Expenses	43,903
Increase in Deferred Outflows of Resources Related to the Pension	(209,300)
Increase (Decrease) in Liabilities:	
Accounts Payable	7,558,867
Customer Deposits	338,764
Accrued Salaries	28,860
Compensated Absences	202,622
Other Current and Accrued Liabilities	156,745
Net Pension Liability	(598,288)
Other Post-Employment Benefits Liability	634,433
Decrease in Deferred Inflows of Resources Related to Pension	(173,465)
Increase in Deferred Inflows of Resources Related to OPEB	143,462
	<u>143,462</u>
Net Cash Provided by Operating Activities	<u>\$ 31,107,405</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS FROM STATEMENT  
OF CASH FLOWS TO STATEMENT OF NET POSITION

Cash on Hand and in Bank	\$ 34,387,387
Restricted Assets - Cash and Cash Equivalents	<u>21,075,254</u>
Cash and Cash Equivalents at End of Fiscal Year	<u>\$ 55,462,641</u>

The accompanying notes are an integral part of these basic financial statements.



**JOHNSON CITY ENERGY AUTHORITY  
DBA BRIGHTRIDGE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2018**

---

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Johnson City Energy Authority (JCEA) was formed April 1, 2017, as a political subdivision of the State of Tennessee, and is the new legal entity which replaced the former Johnson City Power Board. The JCEA did file with the State of Tennessee to continue “doing business as” (dba) the Johnson City Power Board or JCPB through October 3, 2017, at which time the JCEA filed a new dba name of BrightRidge. BrightRidge is a local power company of the Tennessee Valley Authority (TVA), furnishing electrical power to Washington County and portions of other Upper East Tennessee counties, as purchased from TVA.

The basic financial statements of BrightRidge have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

**Basis of Accounting**

Basis of accounting refers to the timing of recognizing revenues and expenses in the basic financial statements. The accompanying basic financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets are recognized when earned, and expenses are recognized when the obligation is incurred regardless of the timing of related cash flows.

**New Accounting Pronouncements**

During the fiscal year, BrightRidge implemented GASB Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*, and No. 85, *Omnibus 2017*. The former establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. For defined benefit other post-employment benefits (OPEB), as is the case with BrightRidge, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The latter Statement addresses a variety of topics, including issues related to post-employment benefits. Specifically, as related to BrightRidge, this Statement has requirements for the presentation of payroll-related measures in required supplementary information for purposes of reporting by employers that provide OPEB. The net position of BrightRidge has been restated to reflect the change in accounting principle. The impact of this restatement is a decrease to beginning net position of \$712,526 in the Statement of Revenues, Expenses and Changes in Net Position for the beginning OPEB liability at the June 30, 2018 measurement date.

**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.

**JOHNSON CITY ENERGY AUTHORITY  
DBA BRIGHTRIDGE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2018**

---

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Deposits and Investments**

Cash on the Statement of Net Position includes cash on hand and demand deposits in a local bank. Various restrictions on deposits and investments, including repurchase agreements, are imposed by state statutes. These restrictions are summarized as follows.

DEPOSITS - All deposits with financial institutions must be insured or collateralized in an amount equal to 105% of the market value of uninsured deposits.

INVESTMENTS - BrightRidge is authorized to make direct investments in bonds, notes or treasury bills of the U.S. Government and obligations guaranteed by the U.S. Government or any of its agencies. These investments may not have a maturity greater than two years. BrightRidge may make investments with longer maturities if it follows various restrictions established by state law. It is also authorized to make investments in the State Pooled Investment Fund and in repurchase agreements. Repurchase agreements must be approved by the State Director of Local Finance and executed in accordance with procedures established by the State Funding Board.

For the fiscal year ended June 30, 2018, BrightRidge has invested certain restricted cash and cash equivalents into a restricted long-term certificate of deposit in the amount of \$1,000,000 for insurance liabilities. This investment bears interest of 1.40% over its term of 12 months, and was approved by the Board of Directors.

Securities purchased under a repurchase agreement must be obligations of the U.S. Government or obligations guaranteed by the U.S. Government or any of its agencies. When repurchase agreements are executed, the purchase of the securities must be priced at least 2% below the market value of the securities on the day of purchase. No repurchase agreements existed as of June 30, 2018.

The carrying amount of BrightRidge's deposits with financial institutions was \$55,444,541 at June 30, 2018, and the bank balance was \$55,764,751.

The insurance of bank balances is as follows:

Amount Insured by Federal Deposit Insurance Corporation (FDIC)	\$ 689,490
Amount Insured with State of Tennessee Bank Collateral Pool	<u>55,075,261</u>
	<u>\$ 55,764,751</u>

BrightRidge's policy for custodial credit rate risk on deposits is to follow state guidelines.

**JOHNSON CITY ENERGY AUTHORITY  
DBA BRIGHTRIDGE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2018**

---

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Restricted Cash and Cash Equivalents**

BrightRidge's restricted cash and cash equivalents consist of money market accounts in the amount of \$14,488,426, which are restricted for capital improvements, money market accounts in the amount of \$5,512,647, which are restricted for bond principal and interest payments, a money market account in the amount of \$1,021,035 which is restricted for insurance liabilities, and a money market account in the amount of \$53,146, which is restricted for tax equivalent payments. All of these restrictions were approved by the Board of Directors. These funds in money market accounts are considered cash equivalents for purposes of the Statement of Cash Flows.

**Inventories**

Materials and supplies inventories are stated at average cost on a per item basis using the first-in, first-out method of costing.

**Capital Assets**

Land and land rights, buildings, machinery and equipment, and electrical distribution system are stated at historical cost and are defined as assets with an initial, individual cost of \$1,000 or greater. Expenses for maintenance and repairs, which do not improve or extend the life of the asset, are charged to expense as incurred. Interest incurred during the construction of large projects is reflected in the capitalized value of the project. The assets are being depreciated on the straight-line method over the useful lives per guidelines of the TVA. 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 as per Federal Energy Regulation Commission (FERC) guidelines. Also, a disallowance of plant for rate-making purposes is recorded for the amount of capital contributions received resulting in a reduction in the cost of the related capital asset as per FERC guidelines and in accordance with guidance of the Financial Accounting Standards Board. The depreciation expense for the fiscal year ended June 30, 2018 was \$9,676,936 of which \$685,842 was charged to Other Operating Expenses.

Estimated useful lives of the various classes of depreciable capital assets are as follows:

Buildings	33 - 50 years
Office Equipment	3 - 10 years
Transportation and Equipment	3 - 8 years
Other Machinery and Equipment	8 - 25 years
Transmission and Power Distribution System	25 - 40 years

**JOHNSON CITY ENERGY AUTHORITY  
DBA BRIGHTRIDGE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2018**

---

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Deferred Outflows/Inflows of Resources**

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. BrightRidge has two items reported as deferred outflows: (1) the Deferred Loss on Bond Refunding is reported as a deferred outflow and is being amortized over the life of the refunding bonds, and (2) the Deferred Outflows of Resources Related to the Pension is related to differences between expected and actual experience and changes in assumptions, as well as BrightRidge's contributions made to the Tennessee Consolidated Retirement System (TCRS) during fiscal year 2018. The differences in experience and changes in assumptions are a result of the actuarial study for BrightRidge's agent multiple-employer pension plan through TCRS, and are being amortized over the average working lifetime of all participants. The contributions were made subsequent to the pension's measurement date of June 30, 2017, and will be recognized as a reduction to the net pension liability in the following measurement period.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. BrightRidge has two items reported as deferred inflows: (1) the Deferred Inflows of Resources Related to the Pension is related to differences between expected and actual experience and projected and actual earnings on pension plan investments. These differences are a result of the actuarial study for BrightRidge's agent multiple-employer pension plan through TCRS. The differences in experience are being amortized over the average working lifetime of all participants, and the net difference in earnings on pension plan investments is being amortized over a five-year period (staggered based on measurement year). (2) the Deferred Inflows of Resources Related to Other Post-Employment Benefits is related to the changes in assumptions for the other post-employment benefits (OPEB) liability which is a result of the actuarial study for BrightRidge's single-employer OPEB plan. These changes are being amortized over the average service of plan participants.

**Compensated Absences**

Employees earn various vacation days determined on years of service. Vacation days can be accumulated to a maximum of 40 days, which are payable upon separation of employment. Sick leave is granted after 90 days of employment. The employee earns one day for each one full month employed. Sick leave can be accumulated with no limitation as to the number of days. No obligation exists for payment of accumulated sick leave upon termination for reasons other than death or retirement. On date of retirement or death, BrightRidge is obligated for 75% of accumulated days on eligible employees.

A liability for compensated absences and related fringe benefits is reflected on the Statement of Net Position at June 30, 2018, in the amount of \$2,489,764. The portion of this liability expected to be paid within one year is classified as a current liability and the remainder as a long-term liability.

**JOHNSON CITY ENERGY AUTHORITY  
DBA BRIGHTRIDGE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2018**

---

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Net Position**

Net position is the difference between assets and deferred outflows of resources minus liabilities and deferred inflows of resources. The Net Investment in Capital Assets is calculated as capital assets, net of accumulated depreciation, plus the deferred loss on bond refunding, less any outstanding debt related to the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are legal limitations imposed on its use by external restrictions by other governments, creditors or grantors. No such restrictions existed at June 30, 2018.

**Long-Term Obligations**

In the basic financial statements, long-term debt and other long-term obligations are reported as liabilities. The bond premium is deferred and amortized over the life of the related bonds. Bonds payable are reported net of the applicable bond premium.

**Pension**

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

**Operating Revenues and Expenses**

Operating revenues and expenses generally result from providing services and producing and delivering goods. The principal operating revenues of BrightRidge are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, amortization and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**Budgets**

Under the by-laws, management must submit an annual budget to the Board of Directors for approval. BrightRidge is not required to demonstrate statutory compliance with budgets. Accordingly, budgetary data is not included in the basic financial statements. All budgets are prepared in accordance with bond covenants. Unexpended appropriations lapse at fiscal year end.

**JOHNSON CITY ENERGY AUTHORITY  
DBA BRIGHTRIDGE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2018**

---

**NOTE 2 - NOTES RECEIVABLE**

BrightRidge entered into a 10-year agreement with a local university in November 2012 for \$288,739. The note had a carrying balance at June 30, 2018 of \$151,373. The note is receivable at \$3,206 per month for 120 months. The note bears interest at a rate of 6.00% per fiscal year.

BrightRidge entered into a 10-year loan agreement with an international manufacturing company in August 2014 for \$760,000, which pertained to an equivalent note payable to the United States Department of Agriculture (USDA), Rural Economic Development from federal grant funds received for pass-through to this international manufacturing company (see NOTE 8). BrightRidge is obligated to USDA Rural Economic Development, and this international manufacturing company is obligated to BrightRidge. The note is receivable \$6,333 per month for 120 months, bearing no interest. Management deems the imputed interest due on the June 30, 2018 balance of \$462,333 to be immaterial.

In conjunction with the note receivable from an international manufacturing company above, BrightRidge was named as beneficiary in an irrevocable standby commercial letter of credit on August 21, 2014 (start of Year 1) with a current expiration date of August 21, 2018 (end of Year 4) from a local financial institution in the amount of \$760,000. This letter shall automatically renew for up to six additional consecutive one-year periods, with annual reductions in amount to coincide with the aforementioned matching note payable balance to USDA Rural Economic Development over the term of that note, being ten years, as follows:

Year 1	\$	760,000
Year 2		684,000
Year 3		608,000
Year 4		532,000
Year 5		456,000
Year 6		380,000
Year 7		304,000
Year 8		228,000
Year 9		152,000
Year 10		76,000

**NOTE 3 - RISK MANAGEMENT**

BrightRidge carries insurance coverage for cyber and privacy, directors and officers, commercial crime, property, automobiles, workman's compensation, and employee group health insurance through various external insurance carriers. There was no reduction in insurance coverage from the prior fiscal year, and BrightRidge has not had any settlements in the last three fiscal years which were not covered by insurance, other than a single instance in fiscal year 2016 for a litigation settlement.

**JOHNSON CITY ENERGY AUTHORITY  
DBA BRIGHTRIDGE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2018**

**NOTE 3 - RISK MANAGEMENT (CONTINUED)**

Since July 1, 1986, BrightRidge has been self-insured for general liability. Funds were originally set aside by the Board of Directors in the amount of \$1,000,000 and have accumulated to \$2,021,035 at June 30, 2018, \$1,021,035 of which is included in restricted cash and cash equivalents and another \$1,000,000 is included in restricted long-term certificate of deposit. For the fiscal year ended June 30, 2018, no settlements were paid from these funds.

**NOTE 4 - CAPITAL ASSETS AND DEPRECIATION**

Capital asset activity for the fiscal year ended June 30, 2018 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated				
Land and Land Rights	\$ 5,400,640	1,300	-	5,401,940
Construction in Progress	1,839,750	7,270,330	(3,383,039)	5,727,041
Total Capital Assets, Not Being Depreciated	<u>7,240,390</u>	<u>7,271,630</u>	<u>(3,383,039)</u>	<u>11,128,981</u>
Capital Assets, Being Depreciated				
Buildings	29,347,005	213,501	(209,373)	29,351,133
Office Equipment	3,311,898	779,324	(166,716)	3,924,506
Transportation Equipment	6,618,551	622,911	(313,423)	6,928,039
Other Machinery and Equipment	7,142,563	377,410	(16,556)	7,503,417
Transmission and Power Distribution System	<u>226,444,594</u>	<u>7,784,235</u>	<u>(3,558,247)</u>	<u>230,670,582</u>
Total Capital Assets, Being Depreciated	<u>272,864,611</u>	<u>9,777,381</u>	<u>(4,264,315)</u>	<u>278,377,677</u>
Accumulated Depreciation				
Buildings	(9,357,597)	(627,555)	207,558	(9,777,594)
Office Equipment	(1,630,823)	(199,835)	166,716	(1,663,942)
Transportation Equipment	(3,890,988)	(685,842)	263,461	(4,313,369)
Other Machinery and Equipment	(2,632,803)	(412,853)	16,601	(3,029,055)
Transmission and Power Distribution System	<u>(72,882,965)</u>	<u>(7,750,851)</u>	<u>3,978,557</u>	<u>(76,655,259)</u>
Total Accumulated Depreciation	<u>(90,395,176)</u>	<u>(9,676,936)</u>	<u>4,632,893</u>	<u>(95,439,219)</u>
Net Capital Assets, Being Depreciated	<u>182,469,435</u>	<u>100,445</u>	<u>368,578</u>	<u>182,938,458</u>
Net Capital Assets	<u>\$ 189,709,825</u>	<u>7,372,075</u>	<u>(3,014,461)</u>	<u>194,067,439</u>

**JOHNSON CITY ENERGY AUTHORITY  
DBA BRIGHTRIDGE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2018**

---

**NOTE 5 - PENSION PLAN**

**General Information about the Pension Plan**

*Plan Description*

Employees of BrightRidge are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the TCRS. The TCRS was created by state statute under *Tennessee Code Annotated* (TCA) Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at [www.treasury.state.tn.us/tcrs](http://www.treasury.state.tn.us/tcrs).

*Benefits Provided*

TCA Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Members are eligible to retire with an unreduced benefit at age 60 with five years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Reduced benefits for early retirement are available at age 55 and vested. Members vest with five years of service credit. In addition, per a resolution adopted by the Board of Directors of BrightRidge in March 1998, a member may retire prior to age 55 upon attaining 25 years of creditable service. In this situation, the member's benefit will be the actuarial equivalent of the benefit computation for early service retirement that the member could have received at age 55. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost-of-living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at three percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.



**JOHNSON CITY ENERGY AUTHORITY  
DBA BRIGHTRIDGE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2018**

---

**NOTE 5 - PENSION PLAN (CONTINUED)**

**General Information about the Pension Plan (Continued)**

*Employees Covered by Benefit Terms*

At the measurement date of June 30, 2017, the following employees were covered by the benefit terms:

Inactive Employees or Beneficiaries Currently Receiving Benefits	98
Inactive Employees Entitled to but not yet Receiving Benefits	191
Active Employees	<u>173</u>
Total Employees	<u><u>462</u></u>

*Contributions*

Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute five percent of salary. BrightRidge makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the fiscal year ended June 30, 2018, the employer contributions for BrightRidge were \$1,666,120 based on a rate of 13.42 percent of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept BrightRidge's state shared taxes if required employer contributions are not remitted. The employer's ADC and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

**Net Pension Liability**

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

*Actuarial Assumptions*

The total pension liability as of June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary Increases	Graded salary ranges from 8.75 to 3.45 percent based on age, including inflation, averaging 4.00 percent
Investment Rate of Return	7.25 percent, net of pension plan investment expenses, including inflation
Cost-of-Living Adjustment	2.25 percent

**JOHNSON CITY ENERGY AUTHORITY  
DBA BRIGHTRIDGE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2018**

---

**NOTE 5 - PENSION PLAN (CONTINUED)**

**Net Pension Liability (Continued)**

*Actuarial Assumptions (Continued)*

Mortality rates were based on actual experience including an adjustment for some anticipated improvement.

The actuarial assumptions used in the June 30, 2017 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012 through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

*Changes in Assumptions*

In fiscal year 2017, the following assumptions were changed: decreased inflation rate from 3.00 percent to 2.50 percent; decreased the investment rate of return from 7.50 percent to 7.25 percent; decreased the cost-of-living adjustment from 2.50 percent to 2.25 percent; decreased salary growth graded ranges from an average of 4.25 percent to an average of 4.00 percent; and modified mortality assumptions.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2016 actuarial experience study. A blend of future capital market projections and historical market returns was used in a building-block method in which a best-estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best-estimates are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.50 percent. The best-estimates of geometric real rates of return and the TCRS investment policy target asset allocation of each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation</u>
U.S. Equity	5.69%	31%
Developed Market International Equity	5.29%	14%
Emerging Market International Equity	6.36%	4%
Private Equity and Strategic Lending	5.79%	20%
U.S. Fixed Income	2.01%	20%
Real Estate	4.32%	10%
Short-Term Securities	0.00%	1%
		<u>100%</u>

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.25 percent based on a blending of the factors described above.

**JOHNSON CITY ENERGY AUTHORITY  
DBA BRIGHTRIDGE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2018**

**NOTE 5 - PENSION PLAN (CONTINUED)**

**Net Pension Liability (Continued)**

*Discount Rate*

The discount rate used to measure the total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from BrightRidge will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Changes in the Net Pension Liability**

	<b>Total Pension Liability</b>	<b>Increase (Decrease) Plan Fiduciary Net Position</b>	<b>Net Pension Liability</b>
	(a)	(b)	(a) - (b)
<b>Balance at June 30, 2016</b>	\$ 50,988,415	45,312,796	5,675,619
<b>Changes for the Fiscal Year:</b>			
Service Cost	928,967	-	928,967
Interest	3,803,875	-	3,803,875
Differences between Expected and Actual			
Experience	626,009	-	626,009
Changes in Assumptions	1,483,160	-	1,483,160
Contributions - Employer	-	1,694,199	(1,694,199)
Contributions - Employees	-	631,222	(631,222)
Net Investment Income	-	5,129,570	(5,129,570)
Benefit Payments, Including Refunds of			
Employee Contributions	(2,398,110)	(2,398,110)	-
Administrative Expense	-	(14,692)	14,692
Net Changes	4,443,901	5,042,189	(598,288)
<b>Balance at June 30, 2017</b>	\$ 55,432,316	50,354,985	5,077,331

**JOHNSON CITY ENERGY AUTHORITY  
DBA BRIGHTRIDGE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2018**

---

**NOTE 5 - PENSION PLAN (CONTINUED)**

**Changes in the Net Pension Liability (Continued)**

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate*

The following presents the net pension liability of BrightRidge calculated using the discount rate of 7.25 percent, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	<u>1% Decrease (6.25%)</u>	<u>Current Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
Net Pension Liability (Asset)	<u>\$ 12,629,843</u>	<u>5,077,331</u>	<u>(1,248,095)</u>

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

*Pension Expense*

For the fiscal year ended June 30, 2018, BrightRidge recognized pension expense of \$685,068.

*Deferred Outflows of Resources and Deferred Inflows of Resources*

For the fiscal year ended June 30, 2018, BrightRidge reported deferred outflows of resources and deferred inflows of resources related to the pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Expected and Actual Experience	\$ 929,169	694,679
Net Difference between Projected and Actual Earnings on Pension Plan Investments	-	10,670
Changes in Assumptions	1,297,765	-
Contributions Subsequent to the Measurement Date of June 30, 2017	1,666,120	(not applicable)
Total	<u>\$ 3,893,054</u>	<u>705,349</u>

**JOHNSON CITY ENERGY AUTHORITY  
DBA BRIGHTRIDGE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2018**

---

**NOTE 5 - PENSION PLAN (CONTINUED)**

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Pension (Continued)**

*Deferred Outflows of Resources and Deferred Inflows of Resources (Continued)*

The amount shown above for “Contributions Subsequent to the Measurement Date of June 30, 2017,” will be recognized as a reduction to the net pension liability in the following measurement period.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to the pension will be recognized in pension expense as follows:

<b>Fiscal Year Ended June 30:</b>	
2019	\$ (36,059)
2020	639,620
2021	257,308
2022	(59,018)
2023	192,507
Thereafter	527,227

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

**NOTE 6 - POST-EMPLOYMENT BENEFIT COMMITMENTS OTHER THAN PENSIONS (OPEB)**

**A Brief Description of the Retiree Life and Medical Insurance Plans**

BrightRidge, as a single employer, offers multiple life and medical post-employment benefits which are summarized below. These benefits are approved by the Board of Directors and require their approval for amendment. No assets are accumulated in a trust that meets the criteria in GASB Statement No. 75, paragraph 4.

*a. Plan Types:* Employees and pre-65 retirees have a bundled PPO Medical plan and a Health Reimbursement Account (HRA) plan offered through BlueCross BlueShield of Tennessee.

Effective October 25, 2016, upon reaching age 65, each retiree will be enrolled in the Retiree HRA program.

Life insurance is through MetLife.

**JOHNSON CITY ENERGY AUTHORITY  
DBA BRIGHTRIDGE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2018**

---

**NOTE 6 - POST-EMPLOYMENT BENEFIT COMMITMENTS OTHER THAN PENSIONS (OPEB)  
(CONTINUED)**

**A Brief Description of the Retiree Life and Medical Insurance Plans (Continued)**

- b. Eligibility:* 30 years of service, or age 60 with five years of service  
Early retirement – 25 years of service prior to age 55  
Early retirement – vested service at age 55  
Service-related disability for any length of service  
Non-service-related disability with five years of service
- c. Benefit/Cost Sharing:* BrightRidge pays approximately 75% of the PPO Medical plan premium for the pre-65 retirees. In addition, BrightRidge reimburses the HRA deductible for a maximum annual benefit of \$2,000 per participant. At January 1, 2018, this maximum annual benefit per participant increased to \$4,000.
- BrightRidge provides an annual HRA reimbursement of \$2,231 or \$2,434 for the post-65 retirees who were retired prior to October 25, 2016. BrightRidge provides an annual HRA reimbursement of \$1,800 for existing employees as of September 1, 2016, upon retirement and reaching age 65. Employees hired after September 1, 2016 are not eligible for the Retiree HRA Program.
- d. Spouse Benefit:* BrightRidge reimburses the HRA deductible for the retiree’s spouse, for a maximum annual benefit of \$2,000 per participant. The spouse pays 100% of the medical premium. At January 1, 2018, this maximum annual benefit per participant increased to \$4,000.
- e. Surviving Spouse Benefit:* Yes, same as spouse benefit above.
- f. Annual Medical Premium:* Effective January 1, 2017 through December 31, 2017

Plan	Premium	Retiree Contribution
Pre-65 Retiree	\$ 6,070	\$ 1,533
Pre-65 Retiree and Spouse	\$ 12,695	\$ 9,055

Effective January 1, 2018 through December 31, 2018

Plan	Premium	Retiree Contribution
Pre-65 Retiree	\$ 6,383	\$ 1,533
Pre-65 Retiree and Spouse	\$ 13,351	\$ 9,055

- g. Life:* Upon retirement, all retirees receive a \$25,000 life insurance policy.

**JOHNSON CITY ENERGY AUTHORITY  
DBA BRIGHTRIDGE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2018**

---

**NOTE 6 - POST-EMPLOYMENT BENEFIT COMMITMENTS OTHER THAN PENSIONS (OPEB)  
(CONTINUED)**

**A Brief Description of the Retiree Life and Medical Insurance Plans (Continued)**

*Employees Covered by Benefit Terms*

At the actuarial valuation date of July 1, 2017, the following were covered by the benefit terms:

Inactives Receiving Benefits	80
Inactives Not Receiving Benefits	0
Actives	174
Total	254

**Funding Policy**

The contribution requirements of plan members and BrightRidge are based on pay-as-you-go financing requirements.

**OPEB Liability**

BrightRidge's OPEB liability was measured based on an actuarial valuation performed as of July 1, 2017, with a projection to June 30, 2018, and a measurement date of June 30, 2018.

*Actuarial Assumptions*

Discount Rate                      3.58 percent as of June 30, 2017 and 3.87 percent as of June 30, 2018, based on a Bond Buyer's Bond Index

Mortality                              RP-2000 Combined Fully Generational Mortality table with projection scale BB

Termination Rates                      It was assumed that employees would terminate employment in accordance with the rates in the following two-year and ultimate table for both males and females:

Age	1st Year Employment	2nd Year Employment	Male Ultimate	Female Ultimate
30	24.30%	20.00%	9.10%	11.10%
40	20.40%	15.10%	2.50%	3.50%
45	18.50%	13.90%	2.20%	3.00%
50	16.50%	12.70%	1.90%	2.40%
55	14.60%	11.50%	1.60%	1.90%

**JOHNSON CITY ENERGY AUTHORITY  
DBA BRIGHTRIDGE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2018**

---

**NOTE 6 - POST-EMPLOYMENT BENEFIT COMMITMENTS OTHER THAN PENSIONS (OPEB)  
(CONTINUED)**

**OPEB Liability (Continued)**

*Actuarial Assumptions (Continued)*

Retirement Rates                      It was assumed that the following percentage of eligible employees would retire each year:

<u>Age</u>	<u>Rate</u>	<u>Age</u>	<u>Rate</u>
50 - 57	1.50%	67	24.40%
58	4.00%	68	22.10%
59	6.50%	69	19.80%
60	9.00%	70	17.50%
61	11.50%	71	15.20%
62	21.50%	72	12.90%
63	14.50%	73	10.60%
64	16.00%	74	8.30%
65	29.00%	75	100.00%
66	26.70%		

Health Care Trend Rates                      It was assumed that health care costs would increase in accordance with the trend rates in the following table:

<u>Year</u>	<u>Medical Rates</u>	<u>Medicare Part B Rates</u>
2017	8.00%	5.00%
2018	7.50%	5.00%
2019	7.00%	5.00%
2020	6.50%	5.00%
2021	6.00%	5.00%
2022	5.50%	5.00%
2023+	5.00%	5.00%

Percent Married                                      It was assumed that 40 percent of the male and 40 percent of the female employees who elect retiree health care coverage for themselves would also elect coverage for their spouse upon retirement. It was assumed that male spouses are three years older than their wives and female spouses are three years younger than the retiree. For current retirees, actual census information was used.



**JOHNSON CITY ENERGY AUTHORITY  
DBA BRIGHTRIDGE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2018**

---

**NOTE 6 - POST-EMPLOYMENT BENEFIT COMMITMENTS OTHER THAN PENSIONS (OPEB)  
(CONTINUED)**

**OPEB Liability (Continued)**

*Actuarial Assumptions (Continued)*

Participation Rate	It was assumed that 100 percent of the current active employees covered under the active plan on the day before retirement would enroll in the retiree medical plan upon retirement.
Administrative Expenses	Included in premiums used
Participant Salary Increases	3.50 percent annually
Payroll Growth Rate	2.50 percent annually
Rate of Inflation	2.50 percent annually
Per Capita Claims Cost	Conventional insured equivalent premiums were age-graded on the current participants in the medical plan.
Actuarial Method	Entry Age Actuarial Cost Method

**Changes in the OPEB Liability**

	<b>Increase (Decrease)</b>
	<b>Total OPEB Liability</b>
	<hr/>
<b>Balance at June 30, 2017</b>	\$ 5,830,976
<b>Changes for the Fiscal Year:</b>	
Service Cost	199,823
Interest	210,132
Changes in Assumptions	(162,797)
Benefit Payments	(325,251)
Net Changes	<hr/> (78,093) <hr/>
<b>Balance at June 30, 2018</b>	<hr/> \$ 5,752,883 <hr/>

**JOHNSON CITY ENERGY AUTHORITY  
DBA BRIGHTRIDGE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2018**

---

**NOTE 6 - POST-EMPLOYMENT BENEFIT COMMITMENTS OTHER THAN PENSIONS (OPEB)  
(CONTINUED)**

**Changes in the OPEB Liability (Continued)**

*Sensitivity of the OPEB Liability to Changes in the Discount Rate*

The following presents the OPEB liability of BrightRidge calculated using the discount rate of 3.87 percent, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.87 percent) or 1-percentage-point higher (4.87 percent) than the current rate:

	<b>1% Decrease (2.87%)</b>	<b>Current Discount Rate (3.87%)</b>	<b>1% Increase (4.87%)</b>
OPEB Liability	\$ 6,343,180	5,752,883	5,238,429

*Sensitivity of the OPEB Liability to Changes in the Health Care Trend Rate*

The following presents the OPEB liability of BrightRidge calculated using the health care trend rate of 8.00 percent decreasing to 5.00 percent, as well as what the OPEB liability would be if it were calculated using a health care trend rate that is 1-percentage-point lower (7.00 percent decreasing to 4.00 percent) or 1-percentage-point higher (9.00 percent decreasing to 6.00 percent) than the current rate:

	<b>1% Decrease (7.00% decreasing to 4.00%)</b>	<b>Current Health Care Trend Rate (8.00% decreasing to 5.00%)</b>	<b>1% Increase (9.00% decreasing to 6.00%)</b>
OPEB Liability	\$ 5,544,044	5,752,883	5,993,285

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

*OPEB Expense*

For the fiscal year ended June 30, 2018, BrightRidge recognized OPEB expense of \$323,131.

*Deferred Outflows of Resources and Deferred Inflows of Resources*

For the fiscal year ended June 30, 2018, BrightRidge reported only a deferred inflow of resources related to OPEB from a change in assumptions in the amount of \$143,462.

**JOHNSON CITY ENERGY AUTHORITY  
DBA BRIGHTRIDGE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2018**

---

**NOTE 6 - POST-EMPLOYMENT BENEFIT COMMITMENTS OTHER THAN PENSIONS (OPEB)  
(CONTINUED)**

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to  
OPEB (Continued)**

*Deferred Outflows of Resources and Deferred Inflows of Resources (Continued)*

The amount reported as a deferred inflow of resources related to OPEB will be recognized in OPEB expense as follows:

<b>Fiscal Year Ended June 30:</b>		
2019	\$	(19,335)
2020		(19,335)
2021		(19,335)
2022		(19,335)
2023		(19,335)
Thereafter		(46,787)

In the table shown above, negative amounts will decrease OPEB expense.

**NOTE 7 - DEFERRED COMPENSATION PLAN**

BrightRidge offers its employees participation in an optional deferred compensation plan, the Johnson City Energy Authority 457(b) Plan (the Plan). This Plan is available to all full-time employees. It permits all eligible employees to contribute pre-tax or post-tax dollars into the Plan, via a percentage of eligible compensation, which is defined as W-2 wages plus elective contributions, up to certain limits prescribed by the Internal Revenue Service. Elective contributions are amounts contributed by BrightRidge at the employee's election to a qualified plan. The deferred compensation is not available to employees until termination, retirement, deployment, death, or unforeseeable emergency circumstances. The Plan assets are in custodial accounts with the Trust Company and are not reflected in the assets of BrightRidge.

**JOHNSON CITY ENERGY AUTHORITY  
DBA BRIGHTRIDGE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2018**

**NOTE 8 - LONG-TERM DEBT**

Long-term liability activity for the fiscal year ended June 30, 2018 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds					
Revenue Bonds Payable	\$ 34,480,000	-	(2,200,000)	32,280,000	2,390,000
Premium	4,073,972	-	(257,303)	3,816,669	-
Total Revenue Bonds	<u>38,553,972</u>	<u>0</u>	<u>(2,457,303)</u>	<u>36,096,669</u>	<u>2,390,000</u>
Note Payable	544,666	-	(76,000)	468,666	76,000
Compensated Absences	<u>2,287,142</u>	<u>587,517</u>	<u>(384,895)</u>	<u>2,489,764</u>	<u>519,041</u>
Total Long-Term Debt	<u>\$ 41,385,780</u>	<u>587,517</u>	<u>(2,918,198)</u>	<u>39,055,099</u>	<u>2,985,041</u>

**Bonds Payable**

On March 31, 2017, BrightRidge refunded and defeased in substance the outstanding Electric System Revenue Bonds, Series 2007A and 2008, as issued in the name of the prior entity, Johnson City Power Board. On that same date, Electric System Revenue Bonds, Series 2017 were issued by the new entity, JCEA. The defeased Series 2007A bonds, with varying outstanding maturity dates at the time of refunding from May 1, 2017 through May 1, 2032, were called and redeemed on May 1, 2017 for the outstanding balance of \$18,075,000. The defeased Series 2008 bonds, with varying outstanding maturity dates at the time of refunding from May 1, 2017 through May 1, 2033, were called and redeemed on May 1, 2017 in the amount of \$910,000, leaving remaining defeased bonds of \$21,630,000, which are not included on BrightRidge's financial statements as of June 30, 2018. The remaining \$21,630,000 of defeased bonds were called and redeemed on May 1, 2018.

The advance refunding resulted in an economic loss (difference between the present values of the old and new debt service payments) of \$1,049,539, which is being amortized over the life of the bonds.

On March 31, 2017, BrightRidge issued Electric System Revenue Bonds, Series 2017, totaling \$34,480,000 with interest rates from 3.00% - 5.00% and maturity of May 2033. The interest is payable semiannually on May 1 and November 1 of each fiscal year with the principal payments due on May 1. The revenue of the system is pledged as security for the debt.

**JOHNSON CITY ENERGY AUTHORITY  
DBA BRIGHTRIDGE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2018**

---

**NOTE 8 - LONG-TERM DEBT (CONTINUED)**

**Bonds Payable (Continued)**

Debt service requirements for the fiscal years subsequent to the fiscal year ended June 30, 2018 are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2019	\$ 2,390,000	1,435,200	3,825,200
2020	2,490,000	1,339,600	3,829,600
2021	2,585,000	1,240,000	3,825,000
2022	2,685,000	1,136,600	3,821,600
2023	2,830,000	1,002,350	3,832,350
2024-2028	8,910,000	3,554,350	12,464,350
2029-2033	10,390,000	1,242,250	11,632,250
	<u>\$ 32,280,000</u>	<u>10,950,350</u>	<u>43,230,350</u>

Changes in the Deferred Loss on Bond Refunding for the fiscal year ended June 30, 2018 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Deferred Loss on Bond Refunding	<u>\$ 1,033,225</u>	<u>-</u>	<u>(65,256)</u>	<u>967,969</u>

**Note Payable**

In June 2014, BrightRidge entered into a promissory note agreement with USDA Rural Economic Development as a result of federal loan funds received in August 2014 for pass-through to an international manufacturing company for construction of their new facility in rural Piney Flats, Tennessee. This \$760,000 note payable has a term of ten years with 0% interest, with imputed interest being deemed immaterial. Principal payments of \$6,333 are due monthly. The balance at June 30, 2018 is \$468,666.

**JOHNSON CITY ENERGY AUTHORITY  
DBA BRIGHTRIDGE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2018**

---

**NOTE 8 - LONG-TERM DEBT (CONTINUED)**

**Note Payable (Continued)**

Debt service requirements for the fiscal years subsequent to the fiscal year ended June 30, 2018 are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2019	\$ 76,000	-	76,000
2020	76,000	-	76,000
2021	76,000	-	76,000
2022	76,000	-	76,000
2023	76,000	-	76,000
2024-2025	88,666	-	88,666
	<u>\$ 468,666</u>	<u>0</u>	<u>468,666</u>

**NOTE 9 - SUBSEQUENT EVENTS**

During fiscal year 2018, the Board of Directors, TVA, and the Office of the Tennessee Comptroller of the Treasury approved a business plan for a new BrightRidge division for the retail sale of broadband services. This new division is expected to start-up in fiscal year 2019. Subsequent to June 30, 2018, the BrightRidge Board of Directors passed a resolution, which was subsequently approved by TVA, approving a 3-year staggered drawdown loan agreement totaling \$35 million from the current electric division to this new broadband division.

BrightRidge has evaluated subsequent events through November 13, 2018, the date which the financial statements were available to be issued.

**SECTION III**  
**SUPPLEMENTARY INFORMATION**

**JOHNSON CITY ENERGY AUTHORITY  
DBA BRIGHTRIDGE  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS BASED ON  
PARTICIPATION IN THE PUBLIC EMPLOYEE PENSION PLAN OF TCRS  
Last Fiscal Year Ending June 30**

**Schedule 1**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
<b>Total Pension Liability</b>				
Service Cost	\$ 863,049	886,120	908,535	928,967
Interest	3,394,641	3,483,216	3,677,919	3,803,875
Differences between Expected and Actual Experience	(790,970)	667,467	(497,971)	626,009
Changes in Assumptions	-	-	-	1,483,160
Benefit Payments, including Refunds of Employee Contributions	<u>(2,152,107)</u>	<u>(2,465,462)</u>	<u>(2,460,906)</u>	<u>(2,398,110)</u>
<b>Net Change in Total Pension Liability</b>	1,314,613	2,571,341	1,627,577	4,443,901
<b>Total Pension Liability - Beginning</b>	<u>45,474,884</u>	<u>46,789,497</u>	<u>49,360,838</u>	<u>50,988,415</u>
<b>Total Pension Liability - Ending (a)</b>	<u>\$ 46,789,497</u>	<u>\$ 49,360,838</u>	<u>50,988,415</u>	<u>55,432,316</u>
<b>Plan Fiduciary Net Position</b>				
Contributions - Employer	\$ 1,574,379	1,577,102	1,594,572	1,694,199
Contributions - Employees	567,549	587,572	593,982	631,222
Net Investment Income	6,171,384	1,331,964	1,174,476	5,129,570
Benefit Payments, including Refunds of Employee Contributions	(2,152,107)	(2,465,462)	(2,460,906)	(2,398,110)
Administrative Expense	<u>(8,578)</u>	<u>(9,074)</u>	<u>(13,315)</u>	<u>(14,692)</u>
<b>Net Change in Plan Fiduciary Net Position</b>	6,152,627	1,022,102	888,809	5,042,189
<b>Plan Fiduciary Net Position - Beginning</b>	<u>37,249,258</u>	<u>43,401,885</u>	<u>44,423,987</u>	<u>45,312,796</u>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<u>\$ 43,401,885</u>	<u>\$ 44,423,987</u>	<u>45,312,796</u>	<u>50,354,985</u>
<b>Net Pension Liability - Ending (a) - (b)</b>	<u>\$ 3,387,612</u>	<u>4,936,851</u>	<u>5,675,619</u>	<u>5,077,331</u>
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	92.76%	90.00%	88.87%	90.84%
<b>Covered Payroll</b>	\$ 11,350,967	\$ 11,751,752	\$ 11,881,393	\$ 12,624,437
<b>Net Pension Liability as a Percentage of Covered Payroll</b>	29.84%	42.01%	47.77%	40.22%

**Notes to Schedule:**

*Changes in Assumptions*

In fiscal year 2017, amounts reported as changes in assumptions resulted from changes to the inflation rate, investment rate of return, cost-of-living adjustment, salary growth and mortality improvements.

GASB 68 requires a 10-year schedule for this data to be presented starting with the implementation of GASB 68. The information in this schedule is not required to be presented retroactively prior to the implementation date. Fiscal years will be added to this schedule in future fiscal years until 10 fiscal years of information is available.

See Independent Auditors' Report.



**JOHNSON CITY ENERGY AUTHORITY  
DBA BRIGHTRIDGE  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CONTRIBUTIONS BASED ON PARTICIPATION  
IN THE PUBLIC EMPLOYEE PENSION PLAN OF TCRS  
Last Fiscal Year Ending June 30**

**Schedule 2**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Actuarially Determined Contribution	\$ 1,574,379	1,577,102	1,594,572	1,694,199	1,666,120
Contributions in relation to the					
Actuarially Determined Contribution	<u>1,574,379</u>	<u>1,577,102</u>	<u>1,594,572</u>	<u>1,694,199</u>	<u>1,666,120</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Covered Payroll	\$ 11,350,967	11,751,752	11,881,393	12,624,437	12,415,203
Contributions as a Percentage of					
Covered Payroll	13.87%	13.42%	13.42%	13.42%	13.42%

GASB 68 requires a 10-year schedule for this data to be presented starting with the implementation of GASB 68. The information in this schedule is not required to be presented retroactively prior to the implementation date. Fiscal years will be added to this schedule in future fiscal years until 10 fiscal years of information is available.

**Notes to Schedule:**

*Valuation Date*

Actuarially-determined contribution rates for fiscal year 2018 were calculated based on the June 30, 2017 actuarial valuation.

*Methods and Assumptions Used to Determine Contribution Rates*

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Dollar, Closed (not to exceed 20 years)
Remaining Amortization Period	Varies by Year
Asset Valuation	10-year smoothed within a 20 percent corridor to market value
Inflation	3.00 percent
Salary Increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation
Investment Rate of Return	7.50 percent, net of investment expense, including inflation
Retirement Age	Pattern of retirement determined by experience study
Mortality	Customized table based on actual experience including an adjustment for some anticipated improvement
Cost-of-Living Adjustments	2.50 percent

See Independent Auditors' Report.

**JOHNSON CITY ENERGY AUTHORITY  
DBA BRIGHTRIDGE  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CHANGES IN OPEB LIABILITY AND RELATED RATIOS  
Last Fiscal Year Ending June 30**

---

	<b>Schedule 3</b>
	<b>2018</b>
<b>Total OPEB Liability</b>	
Service Cost	\$ 199,823
Interest	210,132
Changes in Assumptions	(162,797)
Benefit Payments	(325,251)
<b>Net Change in Total OPEB Liability</b>	(78,093)
<b>Total OPEB Liability - Beginning</b>	5,830,976
<b>Total OPEB Liability - Ending</b>	\$ 5,752,883
 <b>Covered Payroll</b>	 \$ 11,608,049
 <b>Net OPEB Liability as a Percentage of Covered Payroll</b>	 49.56%

**Notes to Schedule:**

No assets are accumulated in a trust that meets the criteria in GASB Statement No. 75, paragraph 4 to pay related benefits.

*Changes in Assumptions*

In fiscal year 2018, discount rates changes from 3.58 percent at June 30, 2017 to 3.87 percent at June 30, 2018.

GASB 75 requires a 10-year schedule for this data to be presented starting with the implementation of GASB 75. The information in this schedule is not required to be presented retroactively prior to the implementation date. Fiscal years will be added to this schedule in future fiscal years until 10 fiscal years of information is available.

See Independent Auditors' Report.

**JOHNSON CITY ENERGY AUTHORITY  
DBA BRIGHTRIDGE  
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS -  
2017 REFUNDING ISSUE  
June 30, 2018**

**Schedule 4**

<u>Fiscal Year Ending</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
6-30-2019	4.00%	\$ 2,390,000	1,435,200	3,825,200
6-30-2020	4.00%	2,490,000	1,339,600	3,829,600
6-30-2021	4.00%	2,585,000	1,240,000	3,825,000
6-30-2022	5.00%	2,685,000	1,136,600	3,821,600
6-30-2023	5.00%	2,830,000	1,002,350	3,832,350
6-30-2024	5.00%	1,635,000	860,850	2,495,850
6-30-2025	3.00%	1,710,000	779,100	2,489,100
6-30-2026	5.00%	1,765,000	727,800	2,492,800
6-30-2027	5.00%	1,850,000	639,550	2,489,550
6-30-2028	5.00%	1,950,000	547,050	2,497,050
6-30-2029	5.00%	2,045,000	449,550	2,494,550
6-30-2030	5.00%	2,150,000	347,300	2,497,300
6-30-2031	4.00%	2,255,000	239,800	2,494,800
6-30-2032	4.00%	2,340,000	149,600	2,489,600
6-30-2033	3.50%	1,600,000	56,000	1,656,000
		<u>\$ 32,280,000</u>	<u>10,950,350</u>	<u>43,230,350</u>

See Independent Auditors' Report.

**JOHNSON CITY ENERGY AUTHORITY  
DBA BRIGHTRIDGE  
CHANGES IN STATEMENT OF NET POSITION ACCOUNTS (UNAUDITED)  
June 30, 2018**

**Schedule 5**

A comparison of the Statements of Net Position at June 30, 2018 and 2017 is shown below.

	<u>2018</u>	<u>2017 (Restated)</u>	<u>Increase (Decrease)</u>
Capital Assets	\$ 289,506,658	280,105,001	9,401,657
Less: Accumulated Depreciation	<u>(95,439,219)</u>	<u>(90,395,176)</u>	<u>(5,044,043)</u>
Net Capital Assets	<u>194,067,439</u>	<u>189,709,825</u>	<u>4,357,614</u>
Plus: Other Assets	<u>22,582,754</u>	<u>22,637,715</u>	<u>(54,961)</u>
Plus: Deferred Outflows of Resources	<u>4,861,023</u>	<u>4,716,979</u>	<u>144,044</u>
Current Assets	64,427,319	51,008,435	13,418,884
Less: Current Liabilities	<u>(34,724,532)</u>	<u>(26,539,568)</u>	<u>(8,184,964)</u>
Working Capital	<u>29,702,787</u>	<u>24,468,867</u>	<u>5,233,920</u>
Less: Long-Term Liabilities	<u>(46,900,272)</u>	<u>(50,146,947)</u>	<u>3,246,675</u>
Less: Deferred Inflows of Resources	<u>(848,811)</u>	<u>(878,814)</u>	<u>30,003</u>
Net Position	<u>\$ 203,464,920</u>	<u>190,507,625</u>	<u>12,957,295</u>

See Independent Auditors' Report.

**JOHNSON CITY ENERGY AUTHORITY  
DBA BRIGHTRIDGE  
COMPARATIVE RESULTS OF OPERATIONS (UNAUDITED)  
June 30, 2018**

**Schedule 6**

The operating results for the fiscal years ended June 30, 2018 and 2017 are summarized below.

Percent of Operating Revenues			Amount		Increase (Decrease)
2018	2017		2018	2017 (Restated)	
		Operating Revenues			
98.01 %	98.07	Sales of Electric Energy	\$ 197,507,363	195,172,763	2,334,600
1.99	1.93	Other Operating Revenues	4,008,314	3,850,156	158,158
100.00	100.00	Total Operating Revenues	201,515,677	199,022,919	2,492,758
		Operating Expenses			
74.88	74.95	Power Purchased	150,890,594	149,158,111	1,732,483
11.00	10.49	Other Operation and Maintenance Expense	22,167,929	20,875,699	1,292,230
4.46	4.45	Provision for Depreciation	8,991,094	8,857,205	133,889
2.70	1.13	Tax Equivalent	5,444,336	2,259,975	3,184,361
93.04	91.02	Total Operating Expenses	187,493,953	181,150,990	6,342,963
6.96	8.98	Net Operating Income	14,021,724	17,871,929	(3,850,205)
(0.53)	(0.86)	Nonoperating Revenue (Expense)(Net)	(1,064,429)	(1,706,075)	641,646
6.43	8.12	Income Before Transfer	12,957,295	16,165,854	(3,208,559)
-	(1.51)	Transfer Out	-	(3,016,572)	3,016,572
6.43 %	6.61	Change in Net Position	\$ 12,957,295	13,149,282	(191,987)

See Independent Auditors' Report.

**JOHNSON CITY ENERGY AUTHORITY  
DBA BRIGHTRIDGE  
SELECTED DATA AND COMPARISONS (UNAUDITED)  
June 30, 2018**

**Schedule 7**

Presented below is a summary of certain changes in financial position together with selected data and comparisons.

	<u>2018</u>	<u>2017 (Restated)</u>	<u>Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
Operating Revenues	\$ 201,515,677	199,022,919	2,492,758	1%
Change in Net Position	12,957,295	13,149,282	(191,987)	-1%
Gross Plant Additions				
Less or Plus Net Salvage	14,034,550	9,280,316	4,754,234	51%
Funds for Plant Addition Provided				
Through Depreciation and Amortization	9,676,936	9,506,055	170,881	2%
Excess of Plant Expenditures over Amounts Provided by Depreciation	4,357,614	(225,739)	4,583,353	-2030%
State Sales Tax Collections	3,337,154	3,375,265	(38,111)	-1%
Average Number of Customers	78,489	77,982	507	1%
Average Use (kWh) Per Residential Customer	14,796	14,405	391	3%

See Independent Auditors' Report.

**JOHNSON CITY ENERGY AUTHORITY  
DBA BRIGHTRIDGE  
COMPARATIVE STATISTICAL DATA - BRIGHTRIDGE AND OTHER GROUP A MUNICIPALITIES IN  
THE TVA AREA (UNAUDITED)  
June 30, 2018**

**Schedule 8**

Certain revenue statistics and operating costs of BrightRidge for the fiscal years ended June 30, 2018 and 2017 are compared with the composite of Group A Municipalities in the TVA area for the fiscal year ended June 30, 2017.

	BrightRidge		2017 Composite of Group A Municipalities on TVA Area (Note 1)
	2018	2017	
Average Number of Customers	<u>78,489</u>	<u>77,982</u>	<u>14,938</u>
Electric Sales - Cents per Kilowatt Hour Sold	<u>\$ 10.42</u>	<u>\$ 10.60</u>	<u>\$ 9.42</u>
Percent of Revenue by Classes to Total Electric Sales			
Residential	56.25 %	55.16 %	43.15 %
Large Lighting and Power	33.48	34.87	44.43
Small Lighting and Power	9.34	9.39	10.71
Street and Outdoor	1.79	1.81	1.93
Unbilled Revenue - All Classes	<u>(0.86)</u>	<u>(1.23)</u>	<u>(0.22)</u>
	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>
Purchased Power - Cents Per Kilowatt Hour Purchased	<u>\$ 7.48</u>	<u>\$ 7.65</u>	<u>\$ 7.45</u>
Percent of Unaccounted for Kilowatt Hours (Distribution Losses)	<u>5.88 %</u>	<u>3.16 %</u>	<u>3.26 %</u>
Certain Expenses Expressed in Dollar per Customer			
Transmission and Distribution	\$ 140.89	\$ 134.91	\$ 167.60
Customer Accounting and Collecting	48.35	48.12	49.27
Sales Promotion	7.01	3.90	6.10
Administrative and General	<u>89.70</u>	<u>89.90</u>	<u>118.42</u>
	<u>\$ 285.95</u>	<u>\$ 276.83</u>	<u>\$ 341.39</u>
Percent of Certain Operating Expenses to Revenue from Electric Sales			
Purchased Power	76.40 %	76.42 %	79.78 %
Other Operating Expenses (Depreciation and Taxes)	<u>7.31</u>	<u>5.70</u>	<u>7.45</u>
	<u>83.71 %</u>	<u>82.12 %</u>	<u>87.23 %</u>

Note 1 - Data compiled from information set forth in "The 2017 Financial and Statistical Report for Municipal and Cooperative Distributors of TVA Power" published by the Tennessee Valley Authority. For comparative purposes, amounts for Memphis, Chattanooga, Knoxville, Huntsville and Nashville have been excluded from the Composite. The 2018 report was not available as of the date of this audit report.

See Independent Auditors' Report.

**SECTION IV**

**INTERNAL CONTROL AND COMPLIANCE SECTION**



**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**

To the Board of Directors  
Johnson City Energy Authority  
dba BrightRidge

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Johnson City Energy Authority dba BrightRidge (BrightRidge), as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise BrightRidge's basic financial statements, and have issued our report thereon dated November 13, 2018.

**Internal Control over Financial Reporting**

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

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

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether BrightRidge's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

Johnson City Energy Authority  
dba BrightRidge  
Independent Auditors' Report on Internal Control over  
Financial Reporting and on Compliance and Other Matters

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

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

*Blackburn, Childers and Steagall, P.C.*  
BLACKBURN, CHILDERS & STEAGALL, PLC  
Johnson City, Tennessee

November 13, 2018

**JOHNSON CITY ENERGY AUTHORITY  
DBA BRIGHTRIDGE  
SCHEDULE OF FINDINGS AND RESPONSES  
June 30, 2018**

---

**Current Fiscal Year Findings**

No findings reported.

**Prior Fiscal Year Findings Not Implemented**

No findings reported.

**Prior Fiscal Year Findings Implemented**

No findings reported.