GREENEVILLE LIGHT & POWER SYSTEM

Financial Statements
With Supplementary Information

Years Ended June 30, 2011 and 2010

GREENEVILLE LIGHT & POWER SYSTEM
Financial Statements
With Supplementary Information
Years Ended June 30, 2011 and 2010

Table of Contents

▪ Certified Public Accountants
▪ Business Advisors

p: 423.638.8144
f: 423.638.2979
w: rodefermoss.com
185 Serral Drive
Greeneville, TN 37745

RM
RODEFER MOSS & CO, PLLC

Independent Auditors' Report

Greeneville Power Board
Town of Greeneville, Tennessee

We have audited the accompanying financial statements of Greeneville Light & Power System as of and for the years ended June 30, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 1, the financial statements present only the Greeneville Light & Power System and do not purport to, and do not, present fairly the financial position of the Town of Greeneville, Tennessee, as of June 30, 2011 and 2010 and the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Greeneville Light & Power System, as of June 30, 2011 and 2010, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2012 on our consideration of Greeneville Light & Power System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits 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.

Our audits were conducted for the purpose of forming an opinion on the financial statements of Greeneville Light & Power System. The supplementary information listed in the table of contents is presented for purposes of additional analysis, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Rodefer Moss + Co, PLLC

Greeneville, Tennessee
January 30, 2012

This discussion presents a broad view of Greeneville Light & Power System's (GL&PS) financial position and activities for fiscal year 2011. This information is provided in compliance with Government Auditing Standards. The discussion and analysis included in this document relate to electric services provided by GL&PS.

GL&PS is owned by the Town of Greeneville, Tennessee, and provides electric service to all of Greene County, Tennessee using the best principles of public power: not-for-profit rates, local control, and responsiveness to community concerns.

"Not-for-profit rates" means that the retail price of electricity includes only the cost of procuring wholesale power from the Tennessee Valley Authority, the cost of day-to-day operations, and funding for capital improvements. There is no "profit" for distribution to private owners or shareholders. Low rates encourage economic development by helping to attract new jobs, securing existing ones, and by putting more disposable income in the hands of local consumers.

"Local control" means that those who can make decisions are readily available to those served by GL&PS. Decisions regarding GL&PS policies and rates are made by a five member Board, members of which are nominated by the mayor of Greeneville and confirmed by Greeneville's Board of Aldermen. The individuals on the GL&PS board are local people who understand and share local concerns; in fact they are subject to the same policies and pay the same electric rates as do other GL&PS Customers.

"Responsiveness to community concerns" means more than just holding rates as low as possible so Customers can save money. Cost is always important, but our Customers also place a value on safety and reliability. We're proud that our Customers rarely think about how we serve them; when they want comfort, security, entertainment, or convenience, GL&PS instantly provides it at the flip of a switch. We make every effort to be proactive in addressing Customer concerns about the quality of our service. Most of what we do focuses on maintaining an ever-growing distribution network that provides safe and reliable electric power.

GL&PS is a relatively small organization, locally owned and controlled, dedicated to meeting the needs and expectations of the citizens of Greeneville and Greene County.

Financial Statement Overview

The financial statements included in this report are comprised of the Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets, and Statement of Cash Flows for Greeneville Light & Power System. GL&PS is a proprietary fund type, and its activities are conducted on a fee for service basis in a manner as approved by TVA and operated under the guidelines of the Federal Energy Regulatory Commission (FERC).

Highlights

- Number of customers on our system decreased by 93, for a total of 37,706 customers.
- Paid to the Town of Greeneville, Tennessee a total of $1,422,916 in tax equivalent payments for fiscal year 2011.
- Normal cost for upgrades and expansions to power lines and service areas are approximately $4 million per year.

Financial Analysis of the System

Net Assets

Net assets may serve over time as a useful indicator of a governmental entity's financial position. In the case of the Greeneville Light & Power System, assets exceeded liabilities by $82.8 million at the end of the fiscal year. By far the largest portion of the System's net assets (80 percent) reflects its investment in capital assets (land, buildings, equipment, transmission and distribution systems, etc.). Because capital assets are used to provide services to customers, the assets are not available for future spending. The remaining balance of $16.6 million may be used to meet the System's ongoing obligations.

Greeneville Light & Power System's Net Assets

	2011	2010
Current assets	$ 28,459,560	$ 27,338,026
Utility plant, net of depreciation	66,239,316	65,225,435
Other assets	5,471,818	7,030,033
Total assets	100,170,694	99,593,494
Current liabilities	11,480,275	13,715,893
Long-term liabilities	5,854,594	4,375,729
Total liabilities	17,334,869	18,091,622
Invested in capital assets	66,239,316	65,225,435
Unrestricted	16,596,509	16,276,437
Total net assets	$ 82,835,825	$ 81,501,872

Changes in Net Assets

Net assets of the System increased 1.6% to $82.8 million during the fiscal year. Of that balance, $66.2 million are invested in capital assets. Therefore, $16.6 million remain to meet the System's ongoing obligations to citizens. The following is a summary of the financial activities of the System during the fiscal year ended June 30, 2011.

Greeneville Light & Power System's Changes in Net Assets
(in thousands)

	2011	2010
Operating revenues	$ 105,114	$ 91,934
Operating expenses	99,588	84,970
Operating income before depreciation	5,526	6,964
Depreciation	3,238	3,202
Operating income	2,288	3,762
Nonoperating income	149	244
Transfers out	(1,103)	(1,063)
Increase in net assets	$ 1,334	$ 2,943

Capital Assets

At the end of the fiscal year, the System had $66.2 million (net of accumulated depreciation) invested in capital assets, including land and land rights, construction in progress, buildings, equipment, and the electric distribution system. This amount represents an increase (including additions and deductions) of $1,014,000, or 1.6 percent over last year.

Greeneville Light & Power System's Capital Assets
(in thousands)

	2011	2010
Land and land rights	$ 1,375	$ 1,375
Construction in progress	267	643
Buildings and permanent improvements	1,444	1,444
Equipment and electric distribution system	109,554	105,466
Less accumulated depreciation	(46,401)	(43,703)
Total capital assets	$ 66,239	$ 65,225

Contacting the System's Financial Management

This financial report is designed to provide our customers and interested parties with a general overview of Greeneville Light & Power System's financial position, and to demonstrate accountability for the revenues it receives. Questions regarding this report or requests for additional financial information should be addressed to Greeneville Light & Power System, Post Office Box 1690, Greeneville, Tennessee 37744.

GREENEVILLE LIGHT & POWER SYSTEM
Statements of Net Assets
June 30, 2011 and 2010

ASSETS	2011	2010
Current Assets		
Cash	$ 17,015,790	$ 14,163,755
Accounts receivable, net	7,049,713	7,310,703
Unbilled revenue receivable	2,671,087	4,320,390
Materials and supplies	1,575,298	1,386,093
Prepaid expenses	146,263	155,953
Investment interest receivable	1,409	1,132
Total current assets	28,459,560	27,338,026
Non-Current Assets		
Certificates of deposit	2,073,000	3,668,000
Investments	450,000	750,000
Investment interest receivable	112,246	161,975
Designated funds		
Industrial Park fund cash	251,821	251,821
Industrial Park fund receivable	618,179	618,179
TVA Home Insulation Program accounts receivable	1,966,572	1,580,058
Total non-current assets	5,471,818	7,030,033
Electric plant, net	66,239,316	65,225,435
Total assets	$ 100,170,694	$ 99,593,494
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	$ 1,019,972	$ 949,726
Customer deposits	1,757,996	1,545,589
Accrued tree trimming	809,287	140,125
Due to TVA for power	7,070,320	9,578,527
Deferred revenues	254,813	-
Accrued wages and other accrued liabilities	567,887	1,501,926
Total current liabilities	11,480,275	13,715,893
Non-Current Liabilities		
Accrued sick leave	679,593	671,911
Net OPEB obligation	3,172,296	2,088,162
TVA Home Insulation Program	2,002,705	1,615,656
Total non-current liabilities	5,854,594	4,375,729
Total liabilities	17,334,869	18,091,622
Net Assets		
Invested in capital assets, net of related debt	66,239,316	65,225,435
Unrestricted	16,596,509	16,276,437
Total net assets	$ 82,835,825	$ 81,501,872

See accompanying notes to financial statements.

GREENEVILLE LIGHT & POWER SYSTEM
Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended June 30, 2011 and 2010

	2011	2010
Operating Revenues		
Residential electricity	$ 48,448,484	$ 42,395,430
Large lighting and power	45,355,263	37,964,107
Small lighting and power	8,274,138	7,669,312
Street lighting	1,225,767	1,216,076
Other electric income	1,810,544	2,688,756
Total operating revenues	105,114,196	91,933,681
Operating Expenses		
Purchased power	85,936,295	72,836,059
Maintenance of distribution facilities	4,870,808	3,637,849
Distribution expense	3,817,233	3,721,411
Provision for depreciation	3,238,725	3,202,090
Customer accounts expense	2,423,677	2,109,757
Administrative and general expenses	1,806,622	1,715,191
Payments in lieu of taxes	320,156	308,483
Payroll taxes	-	214,629
Sales expense	191,501	162,097
Transmission expense	125,983	142,249
Maintenance of general plant	92,004	118,866
Interest expense	3,683	3,524
Total operating expenses	102,826,687	88,172,205
Operating income	2,287,509	3,761,476
Non-Operating Revenues (Expenses)		
Contributions in aid of construction	395,449	242,937
Reduction of plant costs recovered through contributions in aid of construction	(395,449)	(242,937)
Gain on disposition	1,719	21,283
Interest on investments	95,776	173,631
Revenue from merchandising, jobbing, and contract work - net (sales $492,695 and $296,523 respectively)	51,709	48,682
Total non-operating revenues	149,204	243,596
Transfers, in lieu of taxes	(1,102,760)	(1,062,552)
Increase in net assets	1,333,953	2,942,520
Net assets, July 1, restated	81,501,872	78,559,352
Net assets, June 30	$ 82,835,825	$ 81,501,872

See accompanying notes to financial statements.

GREENEVILLE LIGHT & POWER SYSTEM
Statements of Cash Flows
Years Ended June 30, 2011 and 2010

	2011	2010
Cash Flows From Operating Activities		
Cash receipts from customers	$107,236,896	$ 90,672,997
Cash paid to suppliers for goods and services	(95,354,052)	(76,700,936)
Cash paid to employees for services	(5,474,178)	(5,100,585)
Net cash flows from operating activities	6,408,666	8,871,476
Cash Flows From Non-Capital Financing Activities		
Increase in Home Insulation Program receivables	(386,514)	(204,640)
Increase in Home Insulation Program liabilities	387,049	211,412
Transfers, in lieu of taxes	(1,102,760)	(1,062,552)
Net cash flows from non-capital financing activities	(1,102,225)	(1,055,780)
Cash Flows From Capital and Related Financing Activities		
Acquisition and construction of capital assets	(4,492,797)	(4,112,932)
Proceeds from sale of capital assets	-	21,283
Excess removal cost of plant	(55,265)	(332,956)
Net revenues from merchandising and jobbing	51,709	48,682
Net cash flows from capital and related financing activities	(4,496,353)	(4,375,923)
Cash Flows From Investing Activities		
Purchases of certificates of deposit	(1,583,000)	(1,990,000)
Maturities of certificates of deposit	3,178,000	3,638,000
Proceeds from sale/redemption of investments	300,000	300,000
Interest collected	146,947	216,630
Net cash flows from investing activities	2,041,947	2,164,630
Net increase in cash	2,852,035	5,604,403
Cash, beginning of year	14,415,576	8,811,173
Cash, end of year	$ 17,267,611	$ 14,415,576

(Continued)

GREENEVILLE LIGHT & POWER SYSTEM
Statements of Cash Flows (Continued)
Years Ended June 30, 2011 and 2010

	2011	2010
Cash Flows From Operating Activities		
Operating income	$ 2,287,509	$ 3,761,476
Adjustments to reconcile operating income to cash flows from operating activities		
Depreciation	3,534,181	3,479,943
Provision for bad debts	161,259	54,371
Decrease (increase) in:		
Accounts receivable	99,731	(1,205,446)
Unbilled revenue	1,649,304	(231,949)
Materials and supplies	(189,205)	255,677
Prepaid expenses	9,690	(27,010)
Increase in:		
Accounts payable	70,246	582,168
Due to TVA for power	(2,508,208)	424,457
Accrued wages and other accrued liabilities	1,081,752	1,655,449
Customer deposits	212,407	122,340
Net cash flows from operating activities	$ 6,408,666	$ 8,871,476

NOTE 1 - REPORTING ENTITY

Greeneville Light & Power System (the "System") is a fund of the primary government of the Town of Greeneville, Tennessee (the "Town"), and the System's financial statements are included in the Town's financial statements. The members of the Greeneville Power Board are appointed by the Board of Mayor and Aldermen of the Town.

The System's primary purpose is to provide electricity to the citizens of Greeneville and Greene County, Tennessee.

These financial statements present only Greeneville Light & Power System and are not intended to present fairly the financial position of the Town of Greeneville, Tennessee and the changes in its financial position and the cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States of America.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The System is an enterprise fund which is a proprietary type fund used to account for operations 1) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or 2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or change in net assets is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The System applies all applicable GASB standards as well as FASB Standards that do not conflict with or contradict GASB pronouncements. The System has opted not to apply FASB Standards issued after November 30, 1989.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation - Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied.

The accompanying financial statements are reported using the "economic resources measurement focus," and the "accrual basis of accounting". Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. However, the System does not accrue unbilled revenue, as discussed later in this note.

Accounting Policies - The System follows accounting policies for public electric utilities as prescribed by the Federal Energy Regulatory Commission and the Tennessee Valley Authority (TVA).

Materials and Supplies - Materials and supplies are recorded at average cost.

Cash Equivalents - The System considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

Electric Plant - Changes in electric plant are accounted for at cost. Depreciation is computed on a straight-line basis over the estimated service life.

The Federal Power Commission requires that utilities acquiring properties from another utility record such properties at original cost to the utility first devoting it to public service. If the purchase price differs from original cost less accumulated depreciation at the date of acquisition, the difference (plant acquisition adjustment) is to be charged to expense over a period of time not in excess of the remaining life of the purchased property. The System has adopted the policy of expensing in the year of acquisition all such acquisition adjustments.

Compensated Absences - The costs of vacation pay and sick leave benefits are recognized as earned by employees. In the event of termination or retirement, an employee is reimbursed for accumulated vacation days. Employees can accumulate sick leave and upon retirement or termination, are reimbursed for one-third of their accumulated sick leave benefits. Employees can apply the remaining two-thirds of unused sick leave towards service time for retirement purposes.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Accounts Receivable - are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amount through a provision for uncollectible accounts. Balances outstanding after reasonable collection efforts are written off to this allowance account. At June 30, 2011 and 2010, the balance in allowance for uncollectible accounts was approximately $147,000 and $106,000. Amounts past due 90 days or greater at December 31, 2011 and 2010 were approximately $250,000 and $220,000.

Revenues and expenses - The System distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and delivering electricity in connection with ongoing operations. The principal operating revenues of the System are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Revenues are recognized on monthly cycle billings to customers.

Date of Management's Review - Management has evaluated events and transactions occurring subsequent to the balance sheet date of June 30, 2011 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through January 30, 2012, the date these financial statements were available to be issued.

NOTE 3 - CASH AND INVESTMENTS

State statutes require that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the deposits, less amounts insured by federal deposit insurance. The collateral must be held by the System, its agent, or by the Federal Reserve, in the System's name.

Statutes also authorize the System to invest in bonds, notes, or treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations and federally chartered banks and savings and loan associations, repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities, state pool investment funds, and money market mutual funds. Statutes require that securities underlying repurchase agreements must have a market value at least equal to the amount of funds invested in the repurchase transaction.

Cash

The System's deposits at June 30, 2011 and 2010 consisted of cash and certificates of deposit at various financial institutions. At June 30, 2011, the bank balances aggregated $19,408,627 of which $1,573,000 was covered by federal depository insurance, and $17,835,627 was covered through the banks' participation in the Tennessee Bank Collateral Pool or through securities held by the System's agent in the System's name. $19,408,627 of the bank balances were in interest bearing accounts.

A summary of the carrying amount of these deposits follows:

June 30, 2011	Undesignated	Designated	Total
Cash	$ 17,015,790	$ 251,821	$ 17,267,611
Certificates of Deposit	2,073,000	-	2,073,000
	$ 19,088,790	$ 251,821	$ 19,340,611

NOTE 3 - CASH AND INVESTMENTS (Continued)

At June 30, 2010, the bank balances aggregated $18,163,531 of which $1,668,000 was covered by federal depository insurance, and $16,495,531 was covered through the banks' participation in the Tennessee Bank Collateral Pool or through securities held by the System's agent in the System's name. Also, $18,163,531of the bank balances were in interest bearing accounts. A summary of the carrying amount of these deposits follows:

June 30, 2010	Undesignated	Designated	Total
Cash	$ 14,163,755	$ 251,821	$ 14,415,576
Certificates of Deposit	3,668,000	-	3,668,000
	$ 17,831,755	$ 251,821	$ 18,083,576

Investments

Investments at June 30, 2011 and 2010 were as follows:

	June 30, 2011	June 30, 2010
TVA Deferred Electrical Units	$ 450,000	$ 750,000

The System's investments were held by the System's agent in the System's name. Market value approximated cost at June 30, 2011and 2010.

The System invested $3,000,000 with TVA in the form of Deferred Electrical Units. This investment is being repaid over 10 years with interest as a credit to the System's monthly power invoice. The System accrues interest at 5.5% that is offset as a power invoice credit each month. The balance of accrued interest at June 30, 2011 and 2010 was $112,246 and $161,975.

NOTE 4 - UNBILLED REVENUE

The financial statements for the year ended June 30, 2010 have been restated to reflect the System's accrual of unbilled revenue, and the resulting changes in revenues and expenses. During the year ended June 30, 2011, TVA implemented a new system of billing distributors which would, among other changes, charges the System at month end for power usage. To better reflect the System's income, the System determined that it would begin to recognize unbilled revenue. Previously, the System had not accrued unbilled revenues and power costs. The System retroactively applied the change in unbilled revenue effective July 1, 2009. The net effect of this change increased beginning fund balance by $841,173 and $721,802 for the years ended June 30, 2011 and 2010, respectively.

NOTE 5 - ELECTRIC PLANT

Electric plant activity for the year ended June 30, 2011 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets not being depreciated				
Land and land rights	$ 1,375,397	$ -	$ -	$ 1,375,397
Construction in progress	642,747	3,271,442	(3,646,867)	267,322
Total capital assets not being depreciated	2,018,144	3,271,442	(3,646,867)	1,642,719
Capital assets being depreciated				
Buildings and permanent improvements	1,443,628	-	-	1,443,628
Equipment and electric distribution system	105,466,577	4,869,323	(781,428)	109,554,472
Total capital assets being depreciated	106,910,205	4,869,323	(781,428)	110,998,100
Less accumulated depreciation	(43,702,914)	(3,534,181)	835,592	(46,401,503)
Total capital assets being depreciated, net	63,207,291	1,335,142	54,164	64,596,597
Total capital assets, net	$ 65,225,435	$ 4,606,584	$ (3,592,703)	$ 66,239,316

Electric plant activity for the year ended June 30, 2010 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets not being depreciated				
Land and land rights	$ 1,375,397	$ -	$ -	$ 1,375,397
Construction in progress	2,175,931	3,477,686	(5,010,870)	642,747
Total capital assets not being depreciated	3,551,328	3,477,686	(5,010,870)	2,018,144
Capital assets being depreciated				
Buildings and permanent improvements	1,443,628	-	-	1,443,628
Equipment and electric distribution system	100,787,732	5,646,116	(967,271)	105,466,577
Total capital assets being depreciated	102,231,360	5,646,116	(967,271)	106,910,205
Less accumulated depreciation	(41,523,198)	(3,479,943)	1,300,227	(43,702,914)
Total capital assets being depreciated, net	60,708,162	2,166,173	332,956	63,207,291
Total capital assets, net	$ 64,259,490	$ 5,643,859	$ (4,677,914)	$ 65,225,435

Depreciation of $3,534,181 and $3,479,943 for 2011 and 2010, respectively, was charged as $3,238,725 to income as depreciation and $295,456 through clearing accounts for 2011 and $3,202,090 to income and $277,853 through clearing accounts for 2010.

NOTE 6 - RETIREMENT PLAN

Plan Description

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

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

Funding Policy

Greeneville Light & Power System has adopted a noncontributory retirement plan for its employees by assuming employee contributions up to 5.0 percent of annual covered payroll.

Greeneville Light & Power System is required to contribute at an actuarially determined rate; the rate for the fiscal year ended June 30, 2011 and 2010 was 13.59% and 10.86%, respectively, of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Greeneville Light & Power System is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the years ending June 30, 2011 and 2010, Greeneville Light & Power System's annual pension costs of $748,408 and $519,752, respectively, to TCRS were equal to the System's required and actual contributions. The required contributions were determined as part of the July 1, 2009 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected 3.0% percent annual rate of inflation, (c) projected salary increases of 4.75 % (graded) annual rate (no explicit assumption is made regarding the portion attributable to effects of inflation on salaries), and (d) projected 3.5 percent annual increase in the Social Security wage base. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period. The Greeneville Light & Power System's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2009 was 20 years. An actuarial valuation was performed as of July 1, 2009, which established contribution rates effective July 1, 2010.

NOTE 6 - RETIREMENT PLAN (Continued)

Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2011	$ 748,408	100%	$ -
6/30/2010	$ 519,752	100%	$ -
6/30/2009	$ 514,530	100%	$ -

Funded Status and Funding Progress

As of July 1, 2009, the most recent actuarial valuation date, the plan was 76.33% funded. The actuarial accrued liability for benefits was $15.4 million, and the actuarial value of assets was $11.8 million, resulting in an unfunded actuarial accrued liability (UAAL) of $3.7 million. The covered payroll (annual payroll of active employees covered by the plan) was $4.7 million, and the ratio of the UAAL to the covered payroll was 78.42%.

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

The annual required contribution (ARC) was calculated using the aggregate actuarial cost method. Since the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose, and this information is intended to serve as a surrogate for the funded status and funding progress of the plan.

NOTE 7 - POWER CONTRACT

The System has a power contract with TVA whereby the System purchases most of its electric power from TVA and is subject to certain restrictions and conditions as provided in the contract. The System has a supplemental agreement with TVA which allows the System to purchase up to 5% of its power from other sources.

NOTE 8 - PREPAID POWER

The System has an agreement with TVA by which the System maintains an interest-earning prepaid power account for its purchases of electricity. At June 30, 2011 and 2010, the System had deposits with TVA totaling $7,604 and $28,797, and had a liability for purchased power equaling $7,070,320 and $6,099,310. The account yielded an interest rate of .006% and .141% at June 30, 2011 and 2010.

NOTE 9 - INCOME TAX STATUS

The System is a non-profit organization, and is exempt from federal income tax under Internal Revenue Code Section 501(c)(12).

NOTE 10 - TVA HOME INSULATION PROGRAM

Under a contract with the Tennessee Valley Authority, the System participated in a home insulation program providing for advances to qualified customers for installing heat pumps in their homes to TVA specifications. Funds for advances to customers were provided from financial institution advances to the System. Customer repayments are remitted to the applicable financial institution by the System.

NOTE 11 - CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject the System to concentrations of credit risk consist primarily of customer accounts receivable and cash. Management does not believe cash is subject to significant risk, as all deposits are guaranteed either by federal deposit insurance or through bank participation in the Tennessee Bank Collateral Pool. The System requires a deposit if a customer is considered a credit risk and therefore, management does not believe significant credit risk for accounts receivable exists at June 30, 2011.

NOTE 12 - RISK MANAGEMENT

The System is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The System's risks of loss are covered by its commercial package insurance policies. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

The Board has allocated $870,000 of its reserves to advance as needed to the Industrial Park Agency, the Town of Greeneville/Greene County Board which is developing Phase II of the Mt. Pleasant Industrial Park and Hardin Industrial Complex. The funds are to be repaid without interest to the System as developed property is sold or as development expenses are recovered through grant proceeds received by the Agency. As of June 30, 2011 and 2010, $618,179 of the allocation had been expended but not reimbursed, and represents a receivable due from the Industrial Park Agency.

During 2011, a series of tornadoes caused significant damage to the System's plant. The total cost of the storm damage was approximately $1 million. The System hopes to receive reimbursements of up to approximately 75% of the costs of the damage from the Federal Emergency Management Agency and then 12.5% of the costs from the Tennessee Emergency Management Agency. A receivable has not been recorded by management, as reimbursement is not certain.

In November 2010, the System, through an arbitration process, reached a settlement agreement with CenturyLink regarding disputed pole attachment fee rates. Because of the dispute, CenturyLink had withheld payment of the fees until the settlement was reached, and the exact amount due was known. GLPS received a settlement payment in November, 2010 of approximately $670,000.

NOTE 14 - POST-RETIREMENT BENEFITS OTHER THAN PENSIONS

The Governmental Accounting Standards Board (GASB) established new standards for the measurement, recognition, and reporting of other post-employment benefits (OPEB). OPEB includes post-employment benefits other than pension, which, for the System, is presently limited to post-employment health care for employees who began their employment prior to January 1, 2009 and who retire under the criteria established by the state retirement system described in Note 5. GASB requires the recognition of the accrued OPEB liability for the respective year, plus the disclosure of the unfunded liability. The System pays the costs of the plan as expenses are actually incurred. This was effective for the System for the fiscal year beginning July 1, 2008.

NOTE 14 - POST-RETIREMENT BENEFITS OTHER THAN PENSIONS (Continued)

During 2008, the System had an actuarial study performed to determine the Systems actuarial accrued liability for post-employment health care benefits. The present value of the unfunded actuarial accrued OPEB liability was approximately $18.8 million as of the actuarial valuation date, February 1, 2008.

The valuation assumed a funding interest rate of 4%; a medical trend rate of 10%; an ultimate trend rate of 5%; that the ultimate trend rate will be reached in 2012; an Entry Age Normal actuarial cost method; annual payroll growth rate of 2.5%; and a remaining amortization period of 29 years at June 30, 2008.

Currently, 31 retirees meet eligibility requirements. The System pays the cost of health care coverage for pre-Medicare retirees and their dependents. The System also pays the premium for Medicare supplemental coverage for each retiree eligible for Medicare. The System recognizes its share of the cost of health care expenses as claims are paid. During the years ended June 30, 2011 and June 30, 2010, expenditures of $293,952 and $244,616 were incurred for postretirement health care. Current year cost of approximately $1.4 million includes a net OPEB obligation liability of approximately $3.2 million at June 30, 2011.

The annual required contribution that will be reported in the next fiscal year is estimated to be $1.7 million, which includes the normal cost of the plan and the amortization over thirty years of any unfunded actuarial liability.

REQUIRED SUPPLEMENTARY INFORMATION

GREENEVILLE LIGHT POWER SYSTEM
Schedule of Retirement Plan Funding Progress (Unaudited)
Year Ended June 30, 2011

(Dollar amonts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage Of Covered Payroll ((b-a)/c)
July 31, 2009	$ 11,788	$ 15,444	$ 3,656	76.33%	$ 4,662	78.42%
July 31, 2007	$ 11,805	$ 13,797	$ 1,992	85.56%	$ 4,418	45.09%

The Governmental Accounting Standards Board (GASB) requires the plan to prepare the Schedule of Funding Progress using the entry age actuarial cost method. The requirement to present the Schedule of Funding Progress using the Entry Age actuarial cost method went into affect during the year of the 2007 actuarial valuation, therefore only the two most recent valuations are presented.

GREENEVILLE LIGHT POWER SYSTEM
Schedule of Post-Retirement Welfare Plan Funding Progress (Unaudited)
Year Ended June 30, 2011

(Dollar amonts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage Of Covered Payroll ((b-a)/c)
February 1, 2008	$ -	$ 18,812	$ 18,812	0%	$ 4,300	438%

SUPPLEMENTARY INFORMATION

GREENEVILLE LIGHT & POWER SYSTEM
Schedules of Insurance Coverage and Customer Data
June 30, 2011

Insurance Coverage

	Expiration Date	Coverage Amount
Property	10/01/11	$39,609,830
General liability	10/01/11	250,000/750,000
Auto liability	10/01/11	1,000,000
Medical payments		2,000
Uninsured motorists		1,000,000
Workers compensation	10/01/11	1,000/1,000/ 1,000,000
Excess liability	10/01/11	750,000/2,250,000/ 10,000,000
Public officials D&O	10/01/11	1,000,000
Boiler and machinery	10/01/11	10,000,000/ $1.50 per KVA
Commercial crime	10/01/13	200,000
Pollution liability		
Per accident	6/30/11	750,000
Aggregate	6/30/11	34,500,000

Customer Data

	2011	2010	Decrease
Number of customers served in the month of June	37,706	37,799	93

See accompanying independent auditors’ report.

	Customer Charge	Energy Charge (Per kWh)
Residential rate -	$11.11	$.08666

General power rate - Schedule GSA

Base Charges

A. This rate shall apply to the firm power requirements (where a customer's contract demand is 5,000 kW or less) for electric service to commercial, industrial, and governmental customers, and to institutional customers including, without limitation, churches, clubs, fraternities, orphanages, nursing homes, rooming or boarding houses, and like customers. This rate shall also apply to customers to whom service is not available under any other resale rate schedule.

1. If the higher of (i) the customer's currently effective contract demand, if any, or (ii) its highest billing demand during the latest 12-month period is not more than 50 kW:

   Customer Charge: $15.50 per delivery point per month

   Energy Charge: $0.09837 per kWh per month

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

   Customer Charge: $30.00 per delivery point per month

   Demand Charge: First 50 kW of billing demand per month, no demand charge

   Excess over 50 kW of billing demand per month, at $11.33 per kW

   Energy Charge: First 15,000 kWh per month at $0.09914 per kWh

   Additional kWh per month at $0.06078 per kWh

3. If (a) the higher of the customer's currently effective contract demand or (b) its highest billing demand during the latest 12-month period is greater than 1,000 kW but not more than 2,500 kW:

   Customer charge: $200.00 per delivery point per month

   Demand Charge: First 1,000 kW of billing demand per month, at $10.40 per kW

   Additional kW of billing demand per month at $10.51 per kW

   Energy Charge: $0.06288 per kWh per month

(Continued)

4. If (a) the higher of the customer's currently effective contract demand or (b) its highest billing demand during the latest 12-month period is greater than 2,500 kW but no more than 5,000 kW:

Customer charge:	$325.00 per delivery point per month
Demand Charge:	First 1,000 kW of billing demand per month, at $10.40 per kW
	Additional kW of billing demand per month, at $10.51 per kW
Energy Charge:	$0.06288 per kWh per month

B. This rate shall apply to the firm electric power requirements where a customer's currently effective contract demand is greater than 5,000 kW but not more than 15,000 kW.

Customer Charge:	$1,500 per delivery point per month
Demand Charge:	$14.89 per kW of billing demand per month, plus an additional
	$14.89 per kW per month for each kW, if any, of the amount by which the customer's billing demand exceeds its contract demand
Energy Charge:	$0.04132 per kWh for up to 620 hours use of metered demand per month
	$0.03372 per kWh for all additional kWh per month

C. This rate shall apply to the firm electric power requirements where a customer's currently effective contract demand is greater than 15,000 kW but not more than 25,000 kW.

Customer Charge:	$1,500 per delivery point per month
Demand charge:	$14.89 per kW of billing demand per month, plus an additional
	$14.89 per kW per month for each kW, if any, of the amount by which the customer's billing demand exceeds its contract demand
Energy Charge:	$0.04312 per kWh for up to 620 hours use of metered demand per month
	$0.03372 per kWh for all additional kWh per month

D. This rate shall apply to the firm electric power requirements where a customer's currently effective contract demand is greater than 25,000 kW.

Customer Charge:	$1,500 per delivery point per month
Demand Charge:	$18.24 per kW of billing demand per month, plus an additional
	$18.24 per kW per month for each kW, if any, of the amount by which the customer's billing demand exceeds its contract demand
Energy Charge:	$0.03314 per kWh per month

▪ Certified Public Accountants
▪ Business Advisors

p: 423.638.8144
f: 423.638.2979
w: rodefermoss.com
185 Serral Drive
Greeneville, TN 37745

RM
RODEFER MOSS & CO, PLLC

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*

Greeneville Power Board
Town of Greeneville, Tennessee

We have audited the financial statements of Greeneville Light & Power System as of and for the years ended June 30, 2011 and 2010, and have issued our report thereon dated January 30, 2012. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered Greeneville Light & Power System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Greeneville Light & Power System's internal control over financial reporting.

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 the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Greeneville Light & Power System's financial statements are free of 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 audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Rodefer Moss + Co, PLLC

Greeneville, Tennessee
January 30, 2012