

**WEAKLEY COUNTY
MUNICIPAL ELECTRIC SYSTEM**

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

JUNE 30, 2009 AND 2008

**WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
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INTRODUCTORY SECTION

WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM DIRECTORY

Board of Directors

Jerry Brigance
Larry McCartney
Terry Oliver
Joseph D. Porter
Johnny Vincent
Derrick Wills
Jimmy Westbrook
Bob Wray

Key Personnel

Faron Collins – General Manager
Thomas Brewer – Accounting Manager

Independent Certified Public Accountants

Alexander Thompson Arnold PLLC

FINANCIAL SECTION



Certified Public Accountants

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Independent Auditor's Report

Board of Directors
Weakley County Municipal Electric System
Martin, Tennessee

We have audited the accompanying financial statements of the Weakley County Municipal Electric System, an enterprise fund of Weakley County, Tennessee, as of and for the years ended June 30, 2009 and 2008, 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 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 Weakley County Municipal Electric System enterprise fund and are not intended to present fairly the financial position of Weakley County, Tennessee, and the results of its operations and its cash flows of its proprietary fund types 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 Weakley County Municipal Electric System as of June 30, 2009 and 2008, and the results of operations and its cash flows 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 December 17, 2009, on our consideration of the Weakley County Municipal Electric 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 audit.

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Dyersburg, TN
Fulton, KY
Henderson, TN
Jackson, TN
Martin, TN

McKenzie, TN
Milan, TN
Murray, KY
Paris, TN
Trenton, TN
Union City, TN

Board of Directors
Weakley County Municipal Electric System

Management's discussion and analysis on pages 4 through 9 and the schedule of funding progress on page 21 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on Weakley County Municipal Electric System's basic financial statements. The introductory section and the other supplementary information section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules of operation expense, maintenance expense, additions and retirements to utility plant, and utility rates in force have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and summary of comparative information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Alexander Thompson Arnold PLLC

Union City, Tennessee
December 17, 2009

Management's Discussion and Analysis

As management of the Weakley County Municipal Electric System (the System), we offer the readers of the System's financial statements this narrative overview and analysis of the financial activities of the System for the fiscal year ended June 30, 2009. All amounts, unless otherwise indicated, are expressed in actual dollars.

Financial Highlights

Management believes the System's financial condition is strong. The following are key financial highlights.

- Total assets at year-end were \$41,485,706 and exceeded liabilities of \$9,288,736 in the amount of \$32,196,970 (i.e. net assets). Total assets increased by 10.52% during the year while total liabilities increased 40.43%.
- Net assets increased \$1,273,827 during the current year.
- Operating revenues increased \$5,410,057 due to increased retail rates.
- Operating expenses increased \$95,147 primarily due to increases in uncollectable accounts and overhead cost.
- Total expenses were \$43,949,802 an increase from fiscal year 2008 by \$4,968,965.
- The net income for FY 2009 was \$1,273,827 as compared to FY 2008 of \$904,533.
- Interest income decreased from \$257,992 to \$124,264 with interest rates becoming lower.
- The System had four rate adjustments, an increase in July 2008, an increase in October 2008, a decrease in January 2009 and a decrease in April 2009. These adjustments were a pass-thru rate adjustment by TVA.

Overview of the Annual Financial Report

Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with, the financial statements and supplementary information. The MD&A represents management's examination and analysis of the System's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the system's strategic plan, budget, and other management tools were used for this analysis. The Annual Financial Report is made up of three sections: 1) the financial section, 2) the statistical and other supplementary information section, and 3) the internal control and compliance section. The financial section includes the MD&A, the independent auditor's report, and the financial statements with accompanying notes. The statistical and other supplementary information section includes selected financial and operational information. The internal control and compliance section includes the report on internal control and compliance. These sections make up the financial report presented here.

Required Financial Statements

A Proprietary Fund is used to account for the operations of the System, which is financed and operated in a manner similar to private business enterprises where the intent is that the costs of

providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

The financial statements report information about the System, using accounting methods similar to those used by private sector companies. These statements offer short and long term financial information about its activities.

The *Statement of Net Assets* presents the financial position of the System on a full accrual historical cost basis. The statement of net assets includes all of the System's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the System's creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the System, and assessing the liquidity and financial flexibility of the System.

The *Statement of Revenues, Expenses, and Changes in Net Assets* presents the results of the business activities over the course of the fiscal year and information as to how the net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement measures the success of the System's operations and can be used to determine whether the System has successfully recovered all of its costs. This statement also measures the System's profitability and credit worthiness.

The *Statement of Cash Flows* presents changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipt and cash disbursement information, without consideration of the earnings event, when an obligation arises.

The *Notes to the Financial Statements* provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the System's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

Financial Analysis

One of the most important questions asked about the System's finances is "Is the System, as a whole, better off or worse off as a result of the year's activities?" The *Statement of Net Assets* and the *Statement of Revenues, Expenses, and Changes in Net Assets* report information about the System's activities in a way that will help answer this question. These two statements report the net assets of the System and the changes in net assets. Net assets are one way to measure the financial health or financial position of the System. Over time, increases or decreases in the System's net assets are an indicator of whether its financial health is improving or deteriorating. However, you will need to also consider other non-financial factors such as changes in economic conditions, customer growth, and legislative mandates.

The System's total net assets increased by \$1,273,827 and \$904,533 for the fiscal years ended June 30, 2009 and 2008, respectively. The analysis below focuses on the System's net assets (Table 1) and changes in net assets (Table 2) during the year.

Table 1A				
CONDENSED STATEMENT OF NET ASSETS				
	June 30, 2009	June 30, 2008	Increase (Decrease)	
Current and other assets	\$ 8,732,980	\$ 11,339,423	\$ (2,606,443)	-22.99%
Capital assets	32,752,726	26,198,403	6,554,323	25.02%
Total assets	41,485,706	37,537,826	3,947,880	10.52%
Long-term liabilities	3,229,056	740,000	2,489,056	336.36%
Other liabilities	6,059,680	5,874,683	184,997	3.15%
Total liabilities	9,288,736	6,614,683	2,674,053	40.43%
Invested in capital assets	30,263,670	26,198,403	4,065,267	15.52%
Unrestricted	1,933,300	4,724,740	(2,791,440)	-59.08%
Total net assets	\$ 32,196,970	\$ 30,923,143	\$ 1,273,827	4.12%

Table 1B				
CONDENSED STATEMENT OF NET ASSETS				
	June 30, 2008	June 30, 2007	Increase (Decrease)	
Current and other assets	\$ 11,339,423	\$ 10,088,755	\$ 1,250,668	12.40%
Capital assets	26,198,403	25,874,190	324,213	1.25%
Total assets	37,537,826	35,962,945	1,574,881	4.38%
Long-term liabilities	740,000	-	740,000	100.00%
Other liabilities	5,874,683	5,944,335	(69,652)	-1.17%
Total liabilities	6,614,683	5,944,335	670,348	11.28%
Invested in capital assets	26,198,403	25,874,190	324,213	1.25%
Unrestricted	4,724,740	4,144,420	580,320	14.00%
Total net assets	\$ 30,923,143	\$ 30,018,610	\$ 904,533	3.01%

The increase in capital assets was funded by long-term debt, operations and the use of unrestricted fund balance. The increase in long-term liabilities is from the building loan for our new facility. The overall increase in total net assets for the period indicates that cash flows from operations continue to be adequate to support the capital projects undertaken by the System. Changes in the System's net assets can be determined by reviewing the following condensed *Statement of Revenues, Expenses, and Changes in Net Assets* for the years.

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS				
	June 30, 2009	June 30, 2008	Increase (Decrease)	
Operating revenues	\$ 44,268,691	\$ 38,858,634	\$ 5,410,057	13.92%
Non-operating revenues	954,938	1,026,736	(71,798)	-6.99%
Total Revenues	45,223,629	39,885,370	5,338,259	13.38%
Power cost	37,057,246	32,086,457	4,970,789	15.49%
Operations expense	3,548,311	3,453,164	95,147	2.76%
Maintenance expense	1,082,835	1,226,775	(143,940)	-11.73%
Depreciation expense	1,403,553	1,381,133	22,420	1.62%
Taxes and tax equivalents	764,865	764,475	390	0.05%
Interest and amortization	92,992	68,833	24,159	35.10%
Total expenses	43,949,802	38,980,837	4,968,965	12.75%
Change in net assets	1,273,827	904,533	369,294	40.83%
Beginning net assets	30,923,143	30,018,610	904,533	3.01%
Ending net assets	\$ 32,196,970	\$ 30,923,143	\$ 1,273,827	4.12%

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS				
	June 30, 2008	June 30, 2007	Increase (Decrease)	
Operating revenues	\$ 38,858,634	\$ 36,754,020	\$ 2,104,614	5.73%
Non-operating revenues	1,026,736	1,329,821	(303,085)	-22.79%
Total Revenues	39,885,370	38,083,841	1,801,529	4.73%
Power cost	32,086,457	30,323,446	1,763,011	5.81%
Operations expense	3,453,164	3,424,979	28,185	0.82%
Maintenance expense	1,226,775	1,052,663	174,112	16.54%
Depreciation expense	1,381,133	1,339,096	42,037	3.14%
Taxes and tax equivalents	764,475	744,921	19,554	2.62%
Interest and amortization	68,833	84,213	(15,380)	-18.26%
Total expenses	38,980,837	36,969,318	2,011,519	5.44%
Change in net assets	904,533	1,114,523	(209,990)	-18.84%
Beginning net assets	30,018,610	28,904,087	1,114,523	3.86%
Ending net assets	\$ 30,923,143	\$ 30,018,610	\$ 904,533	3.01%

Operating revenues showed a 5.73% increase from 2007 to 2008 and showed an increase of 13.92% from 2008 to 2009. This is not unusual in the industry since sales are directly related to weather patterns with one year being warmer or cooler than average and the resulting sales being higher or lower than normal. Non-operating revenues decreased by \$71,798 from 2008 to 2009 with most of the decrease attributed to the falling interest rates on investments.

Operations expense increased \$95,147 from 2008 to 2009 due to increases in uncollectable accounts and overhead cost. The majority of the increase in operations expense from 2007 to 2008 was due to increases in overhead cost. Maintenance expense decreased from 2008 to 2009 by \$143,940 or 11.73%. Maintenance expense increased from 2007 to 2008 by \$174,112 or 16.54%. The majority of the decrease came from the retirement of an employee and the increased work on our facility.

Capital Assets and Debt Administration

At the end of fiscal year 2009, the System had \$32,752,726 (net of accumulated depreciation) invested in a broad range of utility capital assets. This investment includes land, buildings, transmission and distribution systems and their related equipment, and various other types of equipment and vehicles. Based on the uses of the aforementioned assets, they are classified for financial purposes as transmission plant, distribution plant, and general plant. This investment represents an overall increase (net of increases and decreases) of \$6,554,323 or 25.02% for fiscal year 2009 above fiscal year 2008 and an increase of \$324,216 or 1.25% for fiscal year 2008 above fiscal year 2007.

The following tables summarize the System's capital assets, net of accumulated depreciation, and changes therein, for the fiscal years ended June 30, 2009 and 2008, respectively.

Table 3A				
CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION				
	June 30, 2009	June 30, 2008	Increase (Decrease)	
Transmission plant	\$ 1,841,614	\$ 1,857,253	\$ (15,639)	-0.84%
Distribution plant	21,643,108	22,035,065	(391,957)	-1.78%
General plant	1,352,849	1,291,898	60,951	4.72%
Construction in progress	7,589,373	649,677	6,939,696	1068.18%
Unamortized acq. adj.	325,782	364,510	(38,728)	-10.62%
Capital assets, net of acc deprec	<u>\$ 32,752,726</u>	<u>\$ 26,198,403</u>	<u>\$ 6,554,323</u>	<u>25.02%</u>

Table 3B				
CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION				
	June 30, 2008	June 30, 2007	Increase (Decrease)	
Transmission plant	\$ 1,857,253	\$ 1,898,878	\$ (41,625)	-2.19%
Distribution plant	22,035,065	22,078,074	(43,009)	-0.19%
General plant	1,291,898	1,067,758	224,140	20.99%
Construction in progress	649,677	426,239	223,438	52.42%
Unamortized acq. adj.	364,510	403,238	(38,728)	-9.60%
Capital assets, net of acc deprec	<u>\$ 26,198,403</u>	<u>\$ 25,874,187</u>	<u>\$ 324,216</u>	<u>1.25%</u>

The System continues to upgrade various substations. The system has begun a building project for a new office facility. This accounts for the increase in general plant and work in progress for fiscal year 2009.

Debt Administration

The System has incurred long-term debt of \$2,489,056 in fiscal year 2009. The debt was obtained from First State Bank for construction of our new facility.

Economic Factors and Next Year's Budget and Rates

The System's electric supplier, TVA, increased rates in July and October 2008, decreased rates in January and April 2009. The System passed the reduction of costs and additional costs to our customers. The Board of Directors approved the System's fiscal year 2010 budget at its meeting in June.

The System continues to enjoy a stable industrial, commercial and residential customer base.

Contacting the Authority's Financial Management

This financial report is designed to provide a general overview of the System's finances for all those with an interest in the System's finances and to demonstrate the System's accountability for the money it receives. Questions concerning any information provided in this report or requests for any additional information should be directed to the Manager of Accounting at Weakley County Municipal Electric System.

**WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
STATEMENTS OF NET ASSETS
JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
ASSETS		
Current assets:		
Cash and working funds	\$ 2,681,485	\$ 2,186,891
Accounts receivable - consumers, net	2,357,299	2,505,487
Accounts receivable - other	64,616	118,270
Rents receivable	105,466	104,807
Materials and supplies	492,860	424,493
Prepayments	<u>69,012</u>	<u>81,340</u>
Total current assets	<u>5,770,738</u>	<u>5,421,288</u>
Non-current assets:		
Renewal and replacement funds	5,557	2,976,590
Revolving loan fund	739	738
Prepaid purchased power - TVA	467,625	598,125
Conservation loans receivable	1,388,321	1,242,680
Note receivable - grant funds	360,000	360,000
Note receivable - USDA intermediary loan	740,000	740,000
Capital assets		
Electric plant in service - at cost	49,915,768	49,363,493
Work in progress	7,589,373	649,678
Electric plant acquisition adjustment	325,782	364,510
Less: accumulated depreciation	<u>(25,078,197)</u>	<u>(24,179,277)</u>
Net capital assets	<u>32,752,726</u>	<u>26,198,404</u>
Total non-current assets	<u>35,714,968</u>	<u>32,116,537</u>
Total assets	<u>41,485,706</u>	<u>37,537,825</u>
LIABILITIES		
Current liabilities:		
Accounts payable	2,990,540	2,989,489
Customer deposits	890,606	864,296
Accrued salaries and leave	508,755	529,978
Other current and accrued liabilities	139,262	70,835
Current portion of long-term note payable	<u>283,828</u>	<u>-</u>
Total current liabilities	<u>4,812,991</u>	<u>4,454,598</u>
Non-current liabilities:		
Note payable, net of current portion	2,205,228	-
USDA loan payable	740,000	740,000
Conservation loans payable	1,412,765	1,272,120
Interest payable - conservation loans	8,462	8,173
Deferred interest income	<u>109,291</u>	<u>139,791</u>
Total non-current liabilities	<u>4,475,746</u>	<u>2,160,084</u>
Total liabilities	<u>9,288,737</u>	<u>6,614,682</u>
NET ASSETS		
Invested in capital assets, net of related debt	30,263,670	26,198,404
Unrestricted	<u>1,933,299</u>	<u>4,724,739</u>
Total net assets	<u>\$ 32,196,969</u>	<u>\$ 30,923,143</u>

The notes to the financial statements are an integral part of this financial statement.

**WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>Percent</u>	<u>2008</u>	<u>Percent</u>
Operating revenues				
Sales of electric energy				
Residential and rural	\$ 25,382,337	56.38	\$ 22,255,944	56.20
Small commercial	4,161,466	9.24	3,695,732	9.33
Large commercial	13,474,992	29.93	11,885,132	30.01
Street and outdoor lighting	<u>1,176,140</u>	<u>2.61</u>	<u>996,530</u>	<u>2.52</u>
Total sales of electric energy	<u>44,194,935</u>	<u>98.16</u>	<u>38,833,338</u>	<u>98.06</u>
Other electric revenues				
Consumer forfeited discounts	311,931	0.69	269,815	0.68
Rent from electric property	357,227	0.79	349,826	0.88
Service charge - meter sets	90,301	0.20	97,626	0.25
Miscellaneous	<u>62,479</u>	<u>0.16</u>	<u>51,477</u>	<u>0.13</u>
Total other electric revenues	<u>821,938</u>	<u>1.84</u>	<u>768,744</u>	<u>1.94</u>
Total operating revenues	<u>45,016,873</u>	<u>100.00</u>	<u>39,602,082</u>	<u>100.00</u>
Operating expenses				
Purchased power	37,057,247	82.32	32,086,457	81.02
Operation expense	3,474,555	7.72	3,427,868	8.66
Maintenance expense	1,082,835	2.41	1,226,775	3.10
Depreciation and amortization	1,442,281	3.20	1,419,861	3.59
Tax equivalent	109,953	0.24	107,568	0.27
Payroll taxes	<u>78,924</u>	<u>0.18</u>	<u>75,871</u>	<u>0.19</u>
Total operating expenses	<u>43,245,795</u>	<u>96.07</u>	<u>38,344,400</u>	<u>96.83</u>
Operating income	<u>1,771,078</u>	<u>3.93</u>	<u>1,257,682</u>	<u>3.17</u>
Non-operating revenues (expenses)				
Income from investments	124,264	0.28	257,992	0.65
Miscellaneous non-operating income	8,737	0.02	-	-
Interest on long-term debt	(44,058)	(0.10)	-	-
Other interest expense	<u>(10,207)</u>	<u>(0.02)</u>	<u>(30,105)</u>	<u>(0.08)</u>
Total non-operating revenues (expenses)	<u>78,736</u>	<u>0.18</u>	<u>227,887</u>	<u>0.57</u>
Transfers				
Transfer to General Fund	<u>(575,988)</u>	<u>(1.28)</u>	<u>(581,036)</u>	<u>(1.47)</u>
Change in net assets	<u>1,273,826</u>	<u>2.83</u>	<u>904,533</u>	<u>2.27</u>
Net assets, beginning of year	<u>30,923,143</u>		<u>30,018,610</u>	
Net assets, end of year	<u>\$ 32,196,969</u>		<u>\$ 30,923,143</u>	

The notes to the financial statements are an integral part of this financial statement.

**WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

	2009	2008
Cash flows from operating activities		
Cash received from customers	\$ 45,244,366	\$ 39,334,084
Cash payments to suppliers for goods and services	(38,641,924)	(33,723,434)
Cash payments to employees for services	(2,915,436)	(2,791,094)
Net cash advanced on conservation loans receivable	(145,641)	(21,565)
Net cash proceeds from conservation loans payable	140,645	30,969
Net cash provided by operating activities	3,682,010	2,828,960
Cash flows from non-capital financing activities		
Interest paid	(9,918)	(30,008)
Transfer to General Fund	(575,988)	(581,036)
Miscellaneous non-operating income	8,737	-
Net cash used by non-capital financing activities	(577,169)	(611,044)
Cash flows from capital and related financing activities		
Additions to plant	(5,551,451)	(1,680,207)
Removal cost	(110,034)	(154,808)
Interest paid on long-term debt	(44,058)	-
Net cash used by capital and related financing activities	(5,705,543)	(1,835,015)
Cash flows from investing activities		
Interest received	124,264	257,992
Net increase (decrease) in cash and cash equivalents	(2,476,438)	640,893
Cash and cash equivalents - beginning	5,164,219	4,523,326
Cash and cash equivalents - ending	\$ 2,687,781	\$ 5,164,219
 <i>Cash and cash equivalents are presented in the balance sheet as follows:</i>		
Cash and working funds	\$ 2,681,485	\$ 2,186,891
Revolving loan fund	739	738
Renewal and replacement funds	5,557	2,976,590
	\$ 2,687,781	\$ 5,164,219
 Noncash capital and related financing activities		
Plant purchased with note proceeds	\$ 2,489,056	

**WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities		
Operating income	\$ 1,771,078	\$ 1,257,682
<i>Adjustments to reconcile net operating income to net cash provided by operating activities:</i>		
Depreciation and amortization	1,549,493	1,438,660
Amortization of prepaid purchased power	130,500	130,500
Change in:		
Accounts receivable	201,842	(316,609)
Rents receivable	(659)	(729)
Material and supplies	(21,641)	62,517
Transportation clearing	-	134
Prepayments	12,328	348,119
Conservation loans receivable	(145,641)	(21,565)
Accounts payable	1,051	(74,609)
Customer deposits	26,310	49,340
Accrued salaries and leave	(21,223)	8,508
Other current and accrued liabilities	68,427	(53,457)
Conservation loans payable	140,645	30,969
Deferred credits	(30,500)	(30,500)
	<u>\$ 3,682,010</u>	<u>\$ 2,828,960</u>
Net cash provided by operating activities		

**WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

NOTE 1 - Significant Accounting Policies

A. Reporting Entity

These are proprietary fund financial statements and include only the financial activities of Weakley County Municipal Electric System. The TCA code section 7-52-117(c) states "Subject to the provisions of section 7-52-132, the superintendent with the approval of the supervisory body, may acquire and dispose of all property, real and personal, necessary to effectuate the purpose of this part. The title of such property shall be taken in the name of the municipality" (county). Therefore, Weakley County Electric System does not possess sufficient corporate powers that distinguish it as a legally separate entity and is considered a proprietary fund of Weakley County, Tennessee.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The System's financial statements are presented on the full accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. GASB Statement No. 20 gives governments the option of applying all Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989, to its proprietary funds, unless they conflict with or contradict GASB pronouncements. The County has elected not to implement FASB statements and interpretations issued thereafter, unless they are adopted by GASB.

The books of account are kept in accordance with the provisions of the power contract between the Weakley County Municipal Electric System and the Tennessee Valley Authority (TVA) and meet the requirements of the Federal Power System chart of accounts.

The System recognizes income based on cycle billings. This results in recognizing as income the energy usage through each respective cycle each month, which may not coincide with the last day of the fiscal year. Non-recognition of unbilled income from energy sales as a result of cycle billing is a common industry practice.

The cost of purchased power is accrued based on the final meter reading of the fiscal year. This may result in unrecognized expense for the period between the final billing and the end of the fiscal year. This practice is consistent with TVA guidelines and does not differ significantly from generally accepted accounting principles.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the System are charges to customers for sales and service. Operating expenses for the System include the cost of purchased power, operation expenses, maintenance expenses, amortization of plant acquisition adjustment, property tax equivalent, payroll taxes, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

C. Assets, Liabilities, and Net Assets

Deposits and investments

Cash and cash equivalents on the statements of cash flows include cash on hand, demand deposits at financial institutions, and funds held in the State of Tennessee Local Government Investment Pool. The funds held in the State of Tennessee Local Government Investment Pool mature every 30 days.

Accounts receivable

Trade receivables result from unpaid billings for electric service to customers and from unpaid billings related to work performed for or materials sold to certain entities. The System uses the direct write-off method of uncollectible accounts, rather than an estimated allowance for uncollectible accounts. This method, though not recognized by generally accepted accounting principles, does not distort the presentation by a material amount.

Operating revenues are reported net of bad debt expense. Bad debt expense for the years ended June 30, 2009 and 2008 was \$73,756 and \$25,296, respectively.

Inventories

The System uses a perpetual inventory system and has actual physical counts every six months. Inventories are stated at cost, using an average costing method.

Capital assets

Capital assets include property, plant and equipment, work in progress and an electric plant acquisition adjustment. Such assets are stated substantially at original cost. The System capitalizes interest costs as part of the cost of construction when the construction period covers more than twelve months. For the year under examination, there was no interest costs capitalized. The System provides for depreciation on a straight-line basis at rates recommended by the Tennessee Valley Authority. These rates purport to depreciate the property over its estimated useful life. Depreciation for the year ended June 30, 2009, consisted of \$1,403,553 charged to depreciation expense and \$107,212 cleared through other accounts, for a total of \$1,510,765. Depreciation for the year ended June 30, 2008, consisted of \$1,381,133 charged to depreciation expense and \$18,799 cleared through other accounts, for a total of \$1,399,932. The electric plant acquisition adjustment represents the cost of acquiring existing plant from neighboring systems over the book value of the plant purchased. This amount is amortized over a 10-year period as prescribed by state statutes. Amortization for the years ended June 30, 2009 and 2008 was \$38,728 per year.

Leases

The System leases attachment space on joint use poles to and from telephone companies and various cable television companies. These leases are accounted for as operating leases. Rent expense for the years ended June 30, 2009 and 2008, was \$20,030 and \$19,634, respectively.

Compensated absences

Employees are entitled to paid vacation and sick days depending on length of service and other factors. An accrual for compensated absences has been made which includes accumulated vacation leave and one-half of accumulated sick leave.

**WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

Net assets

Equity is classified as net assets and displayed in the following components:

- Invested in capital assets, net of related debt – consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any payables that are attributable to the acquisition, construction, or improvement of those assets

- Unrestricted – all other net assets that do not meet the description of the above categories

Comparative data

Comparative data for the prior year has been presented in order to provide an understanding of the changes in financial position and operations.

NOTE 2 – Detailed Notes on All Accounts

A. Deposits and Investments

Custodial Credit Risk – The System's policies limit investments to those instruments allowed by applicable state laws as described in Note 1. State statutes require that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the value of uninsured deposits. The deposits must be collateralized by federal depository insurance or the Tennessee Bank Collateral Pool, by collateral held by the System's agent in the System's name, or by the Federal Reserve Banks acting as third party agents. State 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, the state pooled investment fund, and mutual funds. Statutes also require that securities underlying repurchase agreements must have a market value of at least equal to the amount of funds invested in the repurchase transaction. As of June 30, 2009 and 2008, all bank deposits were fully collateralized or insured.

B. Prepayments

The System elected to participate in a Discounted Energy Units (DEU) Program offered by TVA. This program allowed the Company to purchase DEUs in \$1 million increments, which entitles them to a 2.5 cent per kwh program discount on a specified quantity for a specified term. The System's agreement is for a period of 10 years, and amounts will be amortized over the 10 year period. For the years ended June 30, 2009 and 2008, the System received credits of \$130,500 per year for prepaid purchased power.

C. Interfund Activity

A transfer is made each year from the Weakley County Municipal Electric System to the General Fund of Weakley County for an in-lieu-of-tax payment. The transfer amount for the years ended June 30, 2009 and 2008, was \$575,988 and \$581,036 respectively. This amount was included in operating expenses in the System's books of account.

**WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

D. Capital Assets

Description	Balance at June 30, 2008	Additions	Disposals and Other	Balance at June 30, 2009
Capital assets, not being depreciated				
Transmission plant	\$ 100,307	\$ --	\$ --	\$ 100,307
Distribution plant	111,975	--	--	111,975
General plant	306,131	--	--	306,131
Construction work in progress	649,678	6,939,695	--	7,589,373
Total capital assets not being depreciated	<u>1,168,091</u>	<u>6,939,695</u>	<u>--</u>	<u>8,107,786</u>
Capital assets, being depreciated				
Transmission plant	4,834,579	31,475	--	4,866,054
Distribution plant	39,686,617	883,575	(548,536)	40,021,656
General plant	4,323,884	185,761	--	4,509,645
Electric plant acquisition adjustment	364,510	--	(38,728)	325,782
Total capital assets being depreciated	<u>49,209,590</u>	<u>1,100,811</u>	<u>(587,264)</u>	<u>49,723,137</u>
Less accumulated depreciation				
Transmission plant	3,077,632	47,114	--	3,124,746
Distribution plant	17,763,529	1,338,842	(611,845)	18,490,526
General plant	3,338,116	124,809	--	3,462,925
Total accumulated depreciation	<u>24,179,277</u>	<u>1,510,765</u>	<u>(611,845)</u>	<u>25,078,197</u>
Total capital assets being depreciated, net	<u>25,030,313</u>	<u>(409,954)</u>	<u>24,581</u>	<u>24,644,940</u>
Total capital assets, net	<u>\$ 26,198,404</u>	<u>\$ 6,529,741</u>	<u>\$ 24,581</u>	<u>\$ 32,752,726</u>

E. Notes Payable

Two notes were executed during the current year with First State Bank to assist in financing the cost of capital assets. Two draw-down lines of credit were established for \$2,000,000 each. The draw-down feature expires after six months, and during this period, monthly interest-only payments are due. The amounts outstanding will then be repaid through monthly payments of principal and interest. Both notes are unsecured and have a fixed interest rate. Details of the two notes are as follows:

Loan No.	Loan Date	Maturity Date	Interest Rate	Monthly Payment	Outstanding Balance
82112076	11/17/2008	11/17/2020	4.45%	\$18,607	\$1,989,056
92112453	04/28/2009	04/24/2012	3.30%	\$19,635	500,000
					<u>\$2,489,056</u>

**WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

Amounts due on notes payable for the next five years and to maturity are shown below.

Year Ending	Principal	Interest
June 30, 2010	\$ 283,828	\$ 96,541
June 30, 2011	370,020	88,888
June 30, 2012	274,086	75,573
June 30, 2013	156,047	67,242
June 30, 2014	163,235	60,055
June 30, 2015 – 2019	935,998	180,452
June 30, 2020 – 2021	305,842	10,486
Total	<u>\$2,489,056</u>	<u>\$579,237</u>

Changes in long-term debt during the year ended June 30, 2009, are summarized as follows:

	Balance 7/1/08	Proceeds	Payments	Balance 6/30/09	Due within one year
Note No. 82112076	\$ --	\$1,989,056	\$ --	\$1,989,056	\$ 136,335
Note No. 92112453	--	500,000	--	500,000	147,493
Total	<u>\$ --</u>	<u>\$2,489,056</u>	<u>\$ --</u>	<u>\$2,489,056</u>	<u>\$ 283,828</u>

NOTE 3 – OTHER INFORMATION

A. Pension Plan

Employees of Weakley County Municipal Electric 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 statutes 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 Weakley County Municipal Electric 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/>.

**WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

Funding Policy

Weakley County Municipal Electric System requires employees to contribute 5.0 percent of earnable compensation.

Weakley County Municipal Electric System is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2009, was 18.86% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Weakley County Municipal Electric System is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ending June 30, 2008, Weakley County Municipal Electric System's annual pension cost of \$502,885 to TCRS was equal to the System's required and actual contributions. The required contribution was determined as part of the July 1, 2007 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% per year compounded annually, (b) projected salary increases of 4.75% (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), and (c) projected 3.5% 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 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, 2007 was 14 years. An actuarial valuation was performed as of July 1, 2007, which established contribution rates effective July 1, 2008.

Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/09	\$502,885	100.00%	\$0
6/30/08	\$525,393	100.00%	\$0
6/30/07	\$527,358	100.00%	\$0

Funded Status and Funding Progress

As of July 1, 2007, the most recent actuarial valuation date, the plan was 64.01% funded. The actuarial accrued liability for benefits was \$8.30 million, and the actuarial value of assets was \$5.31 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$2.98 million. The covered payroll (annual payroll of active employees covered by the plan) was \$2.61 million, and the ratio of the UAAL to the covered payroll was 114.36%.

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.

**WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

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.

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)- Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/01/07	\$5,311	\$8,297	\$2,986	64.01%	\$2,611	114.36%

B. Risk Management

It is the policy of the System to purchase commercial insurance for the risks of losses to which it is exposed. These risks include general liability, property and casualty, worker's compensation, employee health and accident and employee and officer liability and dishonesty. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

REQUIRED SUPPLEMENTARY INFORMATION

**WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS**

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)- Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/01/07	\$5,311	\$8,297	\$2,986	64.01%	\$2,611	114.36%

The Governmental Accounting Standards Board 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 was made during the year of the most recent actuarial valuation date, and therefore, only the most current year is presented.

OTHER SUPPLEMENTARY INFORMATION SECTION

**WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
SCHEDULES OF OPERATION EXPENSE
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>Percent</u>	<u>2008</u>	<u>Percent</u>
Transmission expense				
Overhead wire expense	\$ 362	-	\$ 4,134	0.01
Station expense	<u>24,777</u>	<u>0.06</u>	<u>25,458</u>	<u>0.06</u>
Total	<u>25,139</u>	<u>0.06</u>	<u>29,592</u>	<u>0.07</u>
Distribution expense				
Supervision and engineering	135,759	0.30	125,834	0.32
Station expense	33,070	0.07	24,393	0.06
Overhead line expense	500,438	1.11	483,743	1.22
Underground line expense	90,493	0.20	55,556	0.14
Street lighting and signal systems	8,928	0.02	12,969	0.03
Removing and resetting meters	305,993	0.68	298,298	0.75
Services on customers' premises	45,974	0.10	44,322	0.11
Miscellaneous distribution expense	20,523	0.05	18,587	0.05
Rents	<u>20,030</u>	<u>0.04</u>	<u>19,634</u>	<u>0.05</u>
Total	<u>1,161,208</u>	<u>2.57</u>	<u>1,083,336</u>	<u>2.73</u>
Customer accounts expense				
Supervision and accounting	17,131	0.04	15,526	0.04
Meter reading	221,130	0.49	215,891	0.55
Records and collection	<u>659,225</u>	<u>1.46</u>	<u>658,719</u>	<u>1.66</u>
Total	<u>897,486</u>	<u>1.99</u>	<u>890,136</u>	<u>2.25</u>
Customer service and sales expense				
Supervision	11,452	0.03	10,371	0.03
Customer assistance	33,228	0.07	32,803	0.08
Miscellaneous sales expense	<u>110,470</u>	<u>0.25</u>	<u>109,085</u>	<u>0.28</u>
Total	<u>155,150</u>	<u>0.35</u>	<u>152,259</u>	<u>0.39</u>
Administrative and general expense				
Salaries	291,571	0.65	280,192	0.71
Office supplies and expense	114,285	0.25	106,292	0.27
Outside services	18,201	0.04	12,591	0.03
Insurance	40,400	0.09	41,868	0.11
Injuries and damages	155,333	0.35	176,509	0.45
Employee pension and benefits	581,835	1.29	594,470	1.50
Duplicate miscellaneous credits	(34,678)	(0.08)	(28,295)	(0.07)
Dues	37,516	0.08	35,634	0.09
Miscellaneous	<u>31,109</u>	<u>0.08</u>	<u>53,284</u>	<u>0.13</u>
Total	<u>1,235,572</u>	<u>2.75</u>	<u>1,272,545</u>	<u>3.22</u>
Total operation expense	<u>\$ 3,474,555</u>	<u>7.72</u>	<u>\$ 3,427,868</u>	<u>8.66</u>

**WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
SCHEDULES OF MAINTENANCE EXPENSE
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>Percent</u>	<u>2008</u>	<u>Percent</u>
Transmission maintenance				
Station equipment	\$ 11,191	0.02	\$ 2,138	0.01
Overhead lines	<u>27,171</u>	<u>0.06</u>	<u>31,892</u>	<u>0.08</u>
Total	<u>38,362</u>	<u>0.08</u>	<u>34,030</u>	<u>0.09</u>
Distribution maintenance				
Supervision and engineering	936	0.00	-	-
Station equipment	36,290	0.08	47,073	0.12
Overhead lines	801,000	1.78	904,385	2.28
Underground lines	6,303	0.01	11,815	0.03
Line transformers and devices	45,285	0.10	28,361	0.07
Street lights and signal systems	14,989	0.03	21,144	0.05
Meters	34,667	0.08	41,911	0.11
Security lights	27,151	0.06	41,237	0.10
Miscellaneous distribution maintenance	<u>2,546</u>	<u>0.02</u>	<u>1,071</u>	<u>0.01</u>
Total	<u>969,167</u>	<u>2.16</u>	<u>1,096,997</u>	<u>2.77</u>
Administrative and general maintenance				
Structures and improvements	63,653	0.14	82,059	0.21
Communications equipment	<u>11,653</u>	<u>0.03</u>	<u>13,689</u>	<u>0.03</u>
Total	<u>75,306</u>	<u>0.17</u>	<u>95,748</u>	<u>0.24</u>
Total maintenance expense	<u>\$1,082,835</u>	<u>2.41</u>	<u>\$1,226,775</u>	<u>3.10</u>

**WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
SCHEDULE OF ADDITIONS AND RETIREMENTS TO UTILITY PLANT
FOR THE YEAR ENDED JUNE 30, 2009**

<u>Major Classes</u>	<u>Balance July 1, 2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2009</u>
Transmission plant	\$ 4,934,886	\$ 31,475	\$ -	\$ 4,966,361
Distribution plant	39,798,592	883,575	548,536	40,133,631
General plant	4,630,015	185,761	--	4,815,776
Electric plant in service	<u>\$ 49,363,493</u>	<u>\$ 1,100,811</u>	<u>\$ 548,536</u>	<u>\$ 49,915,768</u>

WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
SCHEDULE OF DEBT SERVICE REQUIREMENTS
BY INDIVIDUAL ISSUE
June 30, 2009

<u>Year Ending June 30,</u>	<u>Note #82112076</u>		<u>Note #92112453</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2010	\$ 136,335	\$ 86,955	\$ 147,493	\$ 9,586	\$ 380,369
2011	142,616	80,674	227,405	8,214	458,909
2012	148,983	74,307	125,102	1,266	349,658
2013	156,048	67,242	--	--	223,290
2014	163,235	60,055	--	--	223,290
2015	170,755	52,535	--	--	223,290
2016	178,500	44,790	--	--	223,290
2017	186,843	36,447	--	--	223,290
2018	195,448	27,842	--	--	223,290
2019	204,452	18,838	--	--	223,290
2020	213,848	9,442	--	--	223,290
2021	91,993	1,044	--	--	93,037
	<u>\$ 1,989,056</u>	<u>\$ 560,171</u>	<u>\$ 500,000</u>	<u>\$ 19,066</u>	<u>\$ 3,068,293</u>

**WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
SUMMARY OF COMPARATIVE INFORMATION - UNAUDITED**

	FOR THE YEARS ENDED JUNE 30,		
	2009	2008	2007
Revenue			
Residential	\$ 25,308,581	\$ 22,230,648	\$ 20,622,931
Small commercial lighting	4,161,466	3,695,732	3,445,635
Large commercial lighting	13,474,992	11,885,132	11,683,064
Street and athletic lighting	374,101	299,758	276,735
Outdoor lighting	802,039	696,772	681,644
Other electric revenue	821,938	768,744	1,039,166
Interest and other income	133,001	257,992	290,655
	45,076,118	39,834,778	38,039,830
Expense			
Electric power costs	37,057,247	32,086,457	30,323,446
Other operating expenses	4,483,634	4,629,347	4,439,608
Depreciation and amortization	1,442,281	1,419,861	1,377,823
Taxes and tax equivalent	764,865	764,475	744,921
Interest and other expense	54,265	30,105	39,509
	43,802,292	38,930,245	36,925,307
Change in net assets	\$ 1,273,826	\$ 904,533	\$ 1,114,523
Capital assets			
Plant in service (at original cost)	\$ 49,915,768	\$ 49,363,493	\$ 48,424,394
Power in use - KWH			
Residential	272,800,322	287,992,611	278,668,821
Small lighting	36,756,273	38,693,051	37,674,267
Large lighting	148,087,636	156,029,366	161,100,883
Street and athletic lighting	4,213,513	3,930,708	3,831,700
Outdoor lighting	6,735,885	6,347,196	6,244,708
Total	468,593,629	492,992,932	487,520,379
Number of customers			
Residential	16,509	16,537	16,542
Small lighting	3,486	3,508	3,459
Large lighting	277	274	274
Street and athletic lighting	87	86	81
Outdoor lighting	96	97	88
	20,455	20,502	20,444
Line Loss	5.44%	5.31%	5.65%

**WEAKLEY COUNTY MUNICIPAL ELECTRIC SYSTEM
SCHEDULE OF UTILITY RATES IN FORCE
JUNE 30, 2009**

Residential Rates

Customer Charge - per month less \$1.71 Hydro allocation credit	\$10.59
Energy Charges - per kwh per month	
First 800 kwh	\$0.07539
Additional kwh	\$0.07458

General Power Rates

GSA Part 1

Customer Charge - per delivery point per month	\$15.74
Energy Charge - per kwh per month	\$0.08418

GSA Part 2

Customer Charge - per delivery point per month	\$81.34
Demand Charge - per kw per month	
First 50 kw	--
Additional kw	\$12.07
Energy Charge - per kwh per month	
First 15,000 kwh	\$0.08537
Additional kwh	\$0.04470

GSA Part 3

Customer Charge - per delivery point per month	\$204.68
Demand Charge - per kw per month	
First 1,000 kw	\$11.67
Additional kw	\$13.49
Energy Charge - per kwh per month	\$0.04539

GSB

Customer Charge - per delivery point per month	\$1,500.00
Demand Charge - per kw per month	\$13.60
Energy Charge - per kwh per month	
First 620 kwh	\$0.03791
Additional kwh	\$0.03094

GSC

Customer Charge - per delivery point per month	\$1,500.00
Demand Charge - per kw per month	\$13.70
Energy Charge - per kwh per month	
First 620 kwh	\$0.03791
Additional kwh	\$0.03094

GSD

Customer Charge - per delivery point per month	\$1,500.00
Demand Charge - per kw per month	\$16.77
Energy Charge - per kwh per month	\$0.03040

Outdoor Lighting Rates

Customer Charge	\$13.15
Energy Charge - per kwh per month	\$0.05515

INTERNAL CONTROL AND COMPLIANCE SECTION



Certified Public Accountants

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**Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Board of Directors
Weakley County Municipal Electric System
Martin, Tennessee

We have audited the financial statements of the Weakley County Municipal Electric System, an enterprise fund of Weakley County, Tennessee, as of and for the year ended June 30, 2009, as listed in the table of contents and have issued our report thereon dated December 17, 2009. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Weakley County Municipal Electric 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 the System's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the System's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the System's financial statements that is more than inconsequential will not be prevented or detected by the System's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the System's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

Board of Directors
Weakley County Municipal Electric System

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Weakley County Municipal Electric 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 audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of directors, management, regulatory agencies and the State of Tennessee Comptroller's Office and is not intended to be and should not be used by anyone other than these specified parties.

Alexander Thompson Arnold PLLC

Union City, Tennessee
December 17, 2009